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Hossein Askari

POLITICAL
ECONOMY
OF ISLAM

IDEAL ISLAMIC ECONOMY

An Introduction



Political Economy of Islam

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All Middle Eastern countries, with the exception of Israel and Lebanon, profess Islam as their state religion. Islam, whether simply in words or in fact, is woven into the fabric of these societies, affecting everything from the political system, to the social, financial and economic system. Islam is a rules-based system, with the collection of rules constituting its institutions in the quest to establish societies that are just. Allah Commands mankind to behave in a fair and just manner to protect the rights of others, to be fair and just with people, to be just in business dealings, to honor agreements and contracts, to help and be fair with the needy and orphans, and to be just even in dealing with enemies. Allah Commands humans to establish just societies, rulers to be just and people to stand up for the oppressed against their oppressors. It is for these reasons that it said that justice is at the heart of Islam. In the same vein, the state (policies) must step in to restore justice whenever and wherever individuals fail to comply with divine rules; government intervention must enhance justice. This series brings together scholarship from around the world focusing on global implications of the intersections between Islam, government, and the economy in Islamic countries.

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Ideal Islamic Economy

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palgrave
macmillan

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Political Economy of Islam

ISBN 978-1-137-54035-5

ISBN 978-1-137-53727-0 (eBook)

DOI 10.1057/978-1-137-53727-0

Library of Congress Control Number: 2017939339

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Printed on acid-free paper

This Palgrave Macmillan imprint is published by Springer Nature

The registered company is Nature America Inc.

The registered company address is: 1 New York Plaza, New York, NY 10004, U.S.A.

To the one (as) waiting and awaited

FOREWORD

It is difficult to conceive of a more timely and apposite book on the foundations of economic transactions in Islam than the one that Hossein Askari and Abbas Mirakhor have written. It is a profound exposition on the principles, purposes and meanings of economic transactions in Islam. It puts to shame the trite and false commonplaces that pass for authoritative in the sad and troubled world of “Islamic” economics and banking. For the authors have situated the entire world of production, exchange, consumption and finance, as perceived and acted upon by Muslims, squarely within the moral sphere where it must belong.

The decoupling of the study and practice of economics from its moral rooting, something which Adam Smith was very wary of, began in the nineteenth century and relentlessly turned the discipline into a pseudo-science that mimics the natural and physical sciences. The purported axioms and value-free propositions of economics had to be adjusted to accommodate concerns of distribution, inequalities, and externalities but these had to be fitted inside a methodology that overwhelmingly privileges the understanding of economics through technical relationships. The fragmentation of the discipline into myriad sub-branches also increased the authority of the ‘expert,’ squeezing out even further the functions of the philosopher, the historian or the jurist in influencing the parameters of the debate. There is a reaction developing to this unsatisfactory state of affairs but the most dismal of ironies is that while voices in the west are rising to question the foundations of their economic order, the Islamic world has done precisely the opposite.

The various “consensuses” that have driven western economic policy prescriptions for developing countries over the past decades all have had their advocates in the Muslim countries. It has become almost an article of faith that the eradication of poverty, improvement in levels of incomes and the provision of employment opportunities are all predicated on the integration of the Muslim world into the global economy and the adoption of domestic economic policies that fit into comprehensible categories. Never mind that these very same set of proposals are frequently the subject of contentious debates in the west itself, but they assume a measure of finality as they achieve the status of conventional wisdom or “best international practice.”

This relentless process of ‘agenda-setting’ dominates the way in which the debate on economic futures unfolds and makes it well nigh impossible to seriously posit any alternative to the prevailing orthodoxy. Thus, the notion of free markets, property rights, the rule of law, competition, limited state interference, good “governance” become integral to the idea of a dynamic economy that can ensure prosperity and welfare for its people. It is assumed almost in the same breath, that only societies based on western capitalism, or a variant thereof, have been able to generate these necessary preconditions, basically eliminating the possibility of similar initial conditions being generated in different forms in non-western societies.

Islam though is pre-eminently a civilisation that is singularly bound by its adherence to law. But none of the champions of the rule of law as an essential component of a successful economy would ever extend the definition to comprise Islamic law. Excluding Islamic law from the constellation of “acceptable” laws automatically eliminates the possibility that Islamic countries can reconstruct their economic relations on the basis of Islamic law rather than the conventional understanding of law. Islam’s views on property rights, individual ownership, regulations of the marketplace and so on become an irrelevance or worse, part of the conspiracy to revive “medieval” laws and institutions. Similarly, the idea of the “market” is strictly derived from the almost sacred and wondrous market of the “invisible” hand at whose altar globalisation’s advocates worship. The underpinnings of functioning markets are automatically assumed to be limited to the experience of the western world. Only these markets are able to generate mutual trust, openness and transparency and a fair and level element of competition to ensure their proper functioning. Enlightened self-interest manifested through individuals and corporations is assumed to lead to the desired social end of maximising of output and

incomes. Market failures and manipulations, monopolistic practices, and the periodic financial panics and bank runs that grip markets are aberrations that do not dent in any significant way the creed of the market fundamentalists.

Well-intentioned Muslims have fallen into a carefully constructed trap, when confronted with the system of modern economics, business and finance. The trap is primarily epistemological. Knowledge of the social sciences is admitted to be of exclusively western origin, at least what is “useful” of it. In this sense, the terminologies and theories of modern economics and finance are so thoroughly entrenched within the framework of the western system that it is impossible to approach the problem except within this internally defined process. The accretion of knowledge and information is all one-sided—in fact, this system does not recognise the validity of any other world-view. Any person seeking an alternative to the prevailing wisdom is at a loss to find the appropriate modes of expression within a sufficiently contemporary understanding of what constitutes acceptable Islamic practice. This is why any critique of the system always appears to be hopelessly archaic or cranky. Even in the heyday of Marxism, there was at least an attempt to consider the validity of their peculiar theories within a special subset of economics and finance, usually related to development economics, planning and operations research. In this sense, the nascent ‘discipline’ that passes for Islamic economics has suffered from two incurable ailments. The first is that its original exponents were untutored in the ways of the modern world and approached the problem mainly through a jurisprudential construct, with little regard for the changed circumstances of the world. The second is that they began to address these issues well after the supremacy of the western economic model became established.

There is no doubt that the ethos of globalisation, especially as it is formulated in the language of individual economic rights and freedoms, is antithetical to the fundamental features of an Islamic economic and social order. Liberal capitalism is predicated on the individual actor driven by self-interest (or greed) and constrained only by law. The entire scaffolding of the modern capitalist era presumes the individual as the irreducible actor. The ideas of duty, charity, solidarity, and self-sufficiency do not sit well with the premise that it is only through cultivating and channelling selfishness and greed that economic activity can be optimised or maximised. The assumption is made that man by nature is acquisitive and predatory, and that the functions of a well-ordered economy are to direct

these energies and drives into a socially productive direction. This of course does not square well with the idea that humans can perfect—or at least aspire to perfect—their qualities and that a moral imperative should underlie human action. Islam does not deny the follies and greed of human beings but these must always be tempered by a constant questioning of the purposes of human action. Wealth-creation is a by-product of moral action and not the purpose of work.

The last twenty-five years have seen a powerful push to universalise the ‘benefits’ of globalisation and the liberal capitalist order. The push is championed not only by the major western economic powers but also by the international financial institutions that frequently act as their proxies on the world stage. They have had a significant impact on the world of Muslims, and not only in negative ways. A great deal of work had to go to undo the decades of *dirigiste* economic management that denied the role of the individual in the economic life of societies. These centralised policies of state-ownership and control were frequently applauded by the very same institutions that would now turn against them. The Muslim world swung from state-controlled and managed economies to a patchwork dismantling of the control structures of the command economy, only to hand over huge swathes of the now-privatised economies to cronies and protégées of the ruling cliques. Huge fortunes were made either from abuse of licensing power or by the knocked down purchases of state assets and land by well-connected individuals. Privatisation, de-regulation, licensing of monopolies, all played their part in the shift of economic power from a poorly managed and frequently corrupt state sector to a better managed but predatory form of liberal capitalism. The whole process was applauded by the “international community” as signalling the entry of the Islamic world into the new era of globalisation and free markets. Of course, this process further distanced the Muslim world from the possibility of regenerating the bases of an Islamic economic order.

In reality, the order can only be reborn if certain fundamental reforms—in fact, fundamental paradigm shifts—are undertaken. The axes of the modern economy are so distant from the moral economy of Islam that nothing short of a spectacular break would suffice to bring the pendulum back into some form of equilibrium. The main features of an Islamic economy have been eroding for several centuries so that most are merely religious vestiges of a long-forgotten past. The role of the wealth tax, *zakat*, in the public finance of Islamic states, or the structuring and formulation of economic and financial transactions in which the use of interest

is simply unimaginable had been long superseded by economic models that draw their outlines from the conventional world of business and banking. By the time of the 1970s, the elements of an Islamic economy were simply theoretical constructs that may have featured in the education of seminarians—but had no place in the modern economy. Only a few countries maintained a *zakat* collection department as part of the public finance architecture of the state. The vast majority of Muslim countries had relegated the use of Islamic taxes to voluntary religious tithes, leaving public finance to the usual array of revenue-generating taxes and duties—on incomes, sales, customs and so on. Agricultural taxes that were essential to the functioning of the rural economy in Islam also vanished, replaced by modern equivalents that had no echo in Islam's past. The use of paper currency issued by a central bank and “backed” by foreign exchange reserves also became widespread in the nineteenth century, gradually decoupling the classical forms of the Islamic unit of exchange, the gold-based dinar and the silver-based dirham, from its historic association with bullion. The unit of exchange in the world of Islam, allowing for the fact that it had atrophied and been allowed to debase over the centuries, was definitively terminated with the rise of modern central banking.

The weakening in the average Muslim's commitment to the idea of the moral imperative as the main driver of economic dealings is mirrored by the loss of charitable giving that lies at the heart of Islamic redistributive justice. It has become almost commonplace to bemoan the unwillingness of the wealthy in the Muslim lands to share their wealth through charitable acts and the endowment of foundations. The pages of the world's business weeklies, glossies and websites are crammed with the faces of the new plutocracy of the Muslim world, most connected in one way or another to the explosion in oil wealth and the massive transfer of the world's savings to the oil producing countries. Most of this wealth continues to be concentrated in so-called sovereign wealth funds, but a great deal of it has cascaded down to various princes and potentates and the cronies and fixers who feed on the public trough. These are the new Muslim super wealthy class. A few of course are genuine businessmen who have made their fortunes by dint of hard work, entrepreneurship and the nurturing of markets; but most have achieved it by the tried and true methods of being proximate to power.

Nevertheless, the Muslim World's wealthy are notorious for their private indulgences and excesses, and their lack of any public spiritedness. There are no major research foundations, universities, hospitals or educational

trusts that are funded by large charitable donations. The scale and scope of the philanthropic work of the modern west—especially the US’s—is inconceivable amongst the Muslim rich, even though their individual fortunes also run into the billions of dollars. Where charitable donations continue to have an impact are amongst the middle classes in the poor to middling income Muslim countries. It is salutary to see the extent to which civic groups in poor Muslim lands are increasingly taking on the responsibility of providing essential services to the public, in the light of the decay, inefficiency and often near-collapse of governmental services in education, health care and disaster relief.

This type of service-based charitable work is an essential element of the Islamic economy, weaving as it were, and religious obligations with a strong sense of social justice and moral responsibility. The pious foundations—the *Awqaf* were the historical institutions which provided these services but these have also atrophied with the passage into modernity. The endowment of large public buildings and social institutions by the rich and powerful is no longer a practice amongst the plutocrats of the Muslim World. The *Awqaf* have turned into bureaucratic, and often venal organisations, managing specific mosques and their attached properties and answerable to a government agency. The old *Awqaf* institution was far more central to the life of Muslim society, for it grouped mosques with markets, hospitals, caravanserais, soup kitchens and schools, the living commercial and spiritual heart of Muslim cities. No wonder that one of the first acts of “modernising” governments—be they colonial powers such as the French in Algeria or military-bureaucratic rulers such as in Turkey and Egypt—has been to smash the independence of these pious foundations. It is quite ironic to compare the fixation of present day reformers in the Muslim world with “civil society” institutions, when authentic Islamic models, honed over centuries of service, have been systematically undermined and destroyed.

It will be of course impossible to reconstruct the basis of an Islamic economy without tackling the “problem of interest”. It is uncontested that Islam imposes an absolute prohibition on *riba*, commonly understood as interest, and the problem this raised to the introduction of modern financial institutions in the Muslim world. For centuries no scholar of any note would question the prohibition on usury, as it clearly was one the absolutely reprehensible acts condemned in the Qur’an. However, the dam was breached when one of the early pioneers of Islamic “modernism”, Sheikh Muhammad Abduh of Egypt, authorised the payment of interest

to savers in the Egyptian Post Office Bank. The argument that he advanced—which has formed the basis of all subsequent justifications for decoupling ‘permissible’ from ‘impermissible interest’—was that the Qur’anic prohibition on *riba* was limited to a specific form of usurious lending that was prevalent in pagan Arabia. The practice in effect led to the multiplication of the debt in the event of late payment, effectively enslaving the debtor to the creditor. Thus ‘reasonable’ interest, which is more a charge or rent for the use of money, is an acceptable practice if it does not lead to injustices in the creditor-debtor relationship.

Of course, Abduh’s *fatwa* on *riba*/interest did not single-handedly open up the Islamic economic system to conventional banking and finance, but it was a major breach in the ramparts of Islamic orthodoxy on a central aspect of what constitutes legitimate financial dealings in Islam. Banks not only proliferated in the Muslim world, but governments began to routinely issue and deal in interest-bearing instruments, such as bonds, that collectively changed the financial landscape of Muslim countries. In time the practice of receiving and paying interest, a hitherto furtive exercise whose practitioners were socially ostracised, became commonly accepted in the Muslim world. The boundaries of the fixed and the changeable in Islam were once again radically shifted in order to accommodate to the exigencies of the times. Finance capital, and an ever-growing financial sector which is the hallmark of modern economies, became established in a part of the world, which could, conceivably, have developed alternative systems of financing production and investment and securing the savings of people.

But the capitulation to the world of modern finance was not complete. The fact remained that the utilitarian and historic justification for reconsidering the identity between *riba* and interest was not entirely convincing to a large number of scholars. The common person was also suspicious of such self-serving arguments and the attraction of interest-bearing deposits was still often outweighed by powerful religious scruples. The rise of the Islamic banking movement was primarily driven by the continuing public suspicions of interest-bearing accounts and the work of commercial banks. It is thus doubly incongruous, even disturbing, that after waiting for nearly a century to produce financial practices and institutions that reflect the teachings of Islam, the Islamic banking movement, which was this very outcome, was in turn subverted to the purposes of global finance capital.

In the realm of technological development, a disruptive event is one that undermines and then supplants a prevailing pattern or process in technology. It is destabilising, disturbing and often resisted at great cost and

sacrifice. Nevertheless, markets do ultimately respond to such disjuncture. Similarly for long-run historical processes, what the historian Fernand Braudel termed *La Longue Duree*. Accumulation of small, and not so small changes in the underlying structures of societies and economies produce a complete shift in perspectives and values, heralding the birth of a new consciousness. It is in this category that I put Askari and Mirakhor's work. It is part of a process that could, over a period of time, engender the necessary change in perspectives and values that ultimately could shift the consciousness of Muslims towards finding a new identity in the authentic roots of their civilisation. This requires two fundamental shifts in their cognition. The first is part of a worldwide phenomenon of questioning and challenging the conventional verities that have underpinned the legitimisation of late capitalism. This will bracket Muslims with the growing global band of dissenters who call out the monstrous side effects of the dominant economic culture, even as it seems to be an unstoppable machine that produces a never-ending cornucopia of goods and services.

The second shift is precisely what Askari and Mirakhor are proposing. A decisive leap in the cognitive framework of contemporary Muslims that leads them to redefine the meaning and purpose of economic transactions. They rightly start with the Quran, the bedrock of a Muslim's engagement with life and the hereafter, and they rightly lament the abandonment of the Quran as the supreme moral arbiter for the economic conduct of Muslims. They then meticulously set out the outlines of a new order, one that in effect replaces 'economics' with '*mu'amallat*'—or legitimate transactions and engagements between individuals, groups, institutions and states that are morally charged and bounded by rules that are transcendental in their origin and yet uniquely pertinent to the human condition.

Askari and Mirakhor have produced a pioneering work that is on a different plane altogether from the arid and inferior works produced by the army of mediocrities who speak on behalf of 'Islamic economics.' This book must be part of a long, herculean process whereby Muslims take stock of their condition and begin to rebuild the scaffolding of a new world view from the wreckage of the past centuries; and fashion a way of escaping from the clutches of an amoral, hegemonic, economic engine. If Muslims prevail in this process, they can then rightly act as a guide and beacon to the rest of humanity. Not only would they have propounded a different way of organising the world's economy, they actually would have made it work and succeed. But for that to happen they would need to shed centuries of accretions to their understanding of the world. They would have to

re-interpret terms such as markets, exchanges, risk, money, accumulation, distribution, consumption, institutions and a myriad others that define modern *homo economicus*.

Askari and Mirakhor have taken what can only be described literally as a leap of faith. They are two wise and prescient authors who have seen through the false promises of hyper-capitalism and decided to find lasting solutions elsewhere to the problems of poverty and injustice, of alienation and ennui, of discrimination and exclusion. One can only hope that the reader will be inspired to look beyond what they have so brilliantly started and continue in this heroic path of imagining, conceiving and then building a new world economic order.

London, UK
January 2017

Ali Allawi

ACKNOWLEDGEMENTS

We are once again indebted to Dr. Ali Allawi, a renowned scholar and policymaker, for contributing a Foreword to another modest contribution. Thanks are also due to Dr. Sayyid Kazem Sadr for his diligent reading of the manuscript and for his extensive helpful comments and suggestions; with gratitude to him, we recommend his recently published book (2016) as an excellent companion to our book. We thank Dr. Alaa Alaabed for her research support. As always, the hard work of the editors at Palgrave Macmillan has improved the manuscript. Finally, we thank our families for their love and support.

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Introduction

Our intention in this book is to provide an introduction to the vision of an economic system based completely on the Holy Qur'an—a system defined as a collection of institutions, representing rules of behavior, prescribed by Allah (swt) for humans, and the traditions of the Messenger (sawa). We firmly believe in the divine source of the Qur'an, its validity and applicability temporally and spatially. The system thus derived from the Qur'an constitutes a Metaframework for an economy envisioned in Islam. Moreover, we also believe the Prophet Mohammad (sawa), the Messenger, operationalized this framework in Medina.¹ The Messenger's implementation of the Qur'anic vision for the economy constitutes an Archetypal Model—how an Islamic economic system is designed and is to be operationalized in any age, *appropriately adapted to the prevailing conditions*. We also believe that the main reason for the economic underperformance of Muslims countries and their economies over the last centuries has been *non-compliance* with the prescribed rules of behavior. Rule non-compliance has been chiefly due to the failure of Muslims to comprehend the Metaframework and the Archetype Model, and interpret and operationalize their institutional scaffolding in ways *compatible with their own generation and time*. History is clear on how rule violation became the norm as the Messenger lay on his deathbed and how path dependency progressed and Muslims moved away from both the Metaframework and the Archetype Model, which then generated a truly “Long Divergence.”²

To put the Qur'anic representation of an Islamic economic system in context, we begin our endeavor in this chapter by investigating the

defective basis for the contemporary onslaught on the entire social, political, cultural and economic spectrum of Islamic belief. We follow this discussion with an examination of capitalism, an economic system and mindset that some have compared to the Islamic vision. We then outline the paradigm of the economy as envisioned in the Qur'an, a paradigm that is a Creator-centered conceptualization of reality. We then move onto what the economics profession today sees as the institutional structure of a sound economy, a view that is represented by the New Institutional Economics (NIE), advocating that, in addition to factor endowment, human capital, investment and technological progress, the "institutional scaffolding" of a society plays a significant role in its economic performance. After these contextual discussions, in the following two chapters, we deduce the rules of an Islamic economy from the Qur'an and present its main operational features. We believe that these rules (institutions), properly adapted to prevailing conditions, present both the Qur'an's vision and what we consider as an ideal economic system. We then investigate whether Muslims and Muslim countries have adopted the recommended institutions and operationalized them. Finally, given our representation of the ideal Islamic economic system and the clear underperformance of Muslim economies, we explore the reasons for this dichotomy and ask how Muslims can achieve a fruitful turnaround.

Thus, we begin this introductory chapter by examining the contemporary onslaught on the social, political, cultural and economic spectrum of Islamic belief. To Muslims who are aware of the long history of anti-Islamism, the dawning of the "age of unreason" of "West against Islam" in the twenty-first century's global village is baffling. While aware of misrepresentation of Islam by writers such as Bernard Lewis and his "native informant" followers, until recently Muslims did not take these writings sufficiently serious to motivate a response. This silence left the field wide open for the liberal secular Orientalist missionaries to spread their anti-Islam rhetoric. The task of unmasking their "charlatanism" was left to the Christian-born Palestinian-American Edward Said whose book *Orientalism* has deservedly become a classic.³

The essence of Said's thought is that these "Charlatans," unable or unwilling to understand the Islam of the Qur'an, create a fictitious Islam, an Ersatz Islam, with its own equally fictitious "Islamic law" as a straw man. It is this Ersatz Islam, or what Khalid Abou El Fadl calls "vulgarization of Islam," which becomes the subject of their robust criticism.⁴ Said

argues that the term “Islam” in the Orientalist discourse is part fiction, part ideological label, and part minimal designation of a religion called Islam.⁵ To erect the Ersatz Islam, only to be knocked down, Lewis, Kuran and their ilk pluck a few political, social, economic and cultural low-hanging fruits from “Islamic law,” which they often conflate with Islam to serve their agenda. For Lewis, these include terms such as “*fitna*” and “*bid’a*,”⁶ and for Kuran they are the inheritance law, *wagf*, “Islamic contract law” and others such as *zakat*.

This deconstruction of few institutions of what is referred to as “Islamic law” serves their mission of proving how “Islam” inhibits economic development and why “Islam” and its “myth of timeless perfection” is responsible for the long divergence of Muslim economies from capitalism as developed in the West.⁷ The field of empirics is equally selective and limited, mostly, anecdotal evidence from Muslim history under the Ottoman Empire. Contrary empirical evidence that demonstrates otherwise has been largely ignored, as have many writings of Muslim scholars providing an alternative explanation for the economic underperformance of Muslim countries.⁸ The advocates of the thesis that “Islam is the problem” find contradictory empirical research inconvenient for their agenda.⁹ Evidence that the economic performance of Muslim countries has not been so remarkably poor in comparison to the rest of the world to warrant extra-political economy variable, such as religion, undermines their conclusion. Namely, that unless Muslims divest themselves of some of the most essential institutions of the Islam of the Qur’an, such as inheritance laws, designed to serve the socio-economic justice objective of Islam, they are doomed to their suffering from the “Long Divergence.”

ORIENTALISM AND ERSATZ ISLAM

It can be argued that the anti-Islam rhetoric of Orientalism dates back to almost the very origin of Islam.¹⁰ In every age, its essential message reappears in different guises repeating the same arguments but in narratives appropriate for the times. Abou El Fadl argues that Orientalist “Islam-hating enjoys a long and established pedigree” dating back to the period of when Islam first challenged the Persian and Byzantium super-powers.¹¹ From that time, Abou El Fadl argues, “Islam has become the object of highly motivated socio-cultural processes that were hate filled and hate promoting.”¹² In its current manifestation (what is referred to as the

new-Orientalism), anti-Islam bigotry has been aided and abetted by “the opportunistic and parasitical celebration and promotion of so-called native informants—people who fit the Muslim ethnic and cultural profile.” In academic journals, in media, and in the public arena, these folks are held up as “archetypal Muslim who gazes in the mirror only to discover his/her hideous ugliness (contrasted, of course, to the beauty of the non-Muslim other) and then, overcome by tragic destiny, plunges into cathartic self-flagellation (or, more precisely, Islam-flagellation), which ends with entirely predictable realization that all the ugliness in the mirror, after all, is Islam’s fault.”

The exposition of Orientalism owes much to Said (1979), who defined it as a systematic structure by which European culture was able to produce the identity of the “Orient” wherein a few categorical attributes end up defining a collective identity for a whole people. These generalizations, Said argued, provide a common understanding that is logically convenient while supplying an efficient means of dominating targeted cultures. In essence, Said’s conception of Orientalism is misrepresentation and anecdotal stereotyping of other cultures and people to serve a particular agenda. It is a mode of knowledge production supported by powerful organizations, experts, academics and media. In the context of Islam, the objective is to manufacture an image of Muslims trapped in static, archaic, frozen history and irrationality dangerous to Western civilization.

Edward Said (1979) and (1997) makes a distinction between the classical or old Orientalism and the post-modern or new Orientalism. In the context of our effort, the classical Orientalist tradition seldom concerned itself with issues of political economy and the social structure. In contrast, the new Orientalism, as evidenced in the writings of academics such as Bernard Lewis and Timur Kuran, is deeply concerned with social, political, cultural and economic social structure of the fictitious artifact of the Ersatz Islam. For example, in a book published in 2002, Lewis identifies several institutional, cultural, and intellectual factors that he alleges led to endemic problems that prevented Muslims from adopting the Western democratic political system and its cultural, social and economic institutions.¹³ Edward Said referred to this book as “an intellectual and moral disaster ...completely removed from any direct experience of Islam, rehashing and recycling tired Orientalist half (or less than) half truths...mischievous ideological fiction that pseudo-experts like Bernard Lewis trade in.”¹⁴ In the same way, and complementing Lewis’ views, Kuran produced a book (2011), to which Said’s description also applies; Kuran also identifies

several economic institutions that made his version of “Islam” a hindrance to development of Muslim economies along the lines of Western capitalism.

Another major difference between the old and the new Orientalism’s approach to Islam and Muslims is that while both share an incredulous attitude toward the divine source of the Qur’an, Islam and the mission of the Messenger (saw), the old Orientalism nevertheless engaged with the Qur’an and the transcendental dimension of Islam, including the earliest history of Islam. And it did so, often with dignity and sensitivity. Examples are the works of scholars such as Montgomery Watt and, the contemporary scholars with the old Orientalist attitudes, such as Marshal Hodgson and Bishop Kenneth Cragg. The latter, while deeply committed to his own faith, as would be expected, was remarkably and ingeniously engaged with the Qur’an. Like other Orientalist, his views were anchored on the superiority of the ideology of Western Christianity, but this did not blind him to the transcendental dimension of Islam.¹⁵

WEBER, NEW-ORIENTALISM AND ERSATZ ISLAM

The new Orientalists’ intellectual pedigree, supporting the view that Islam inhibits economic development, dates all the way to the writings of Max Weber and his attempt to demonstrate that capitalism could develop only in the West within the Christian tradition of Calvinist Puritanism. Weber’s narrative represents a confluence of secularism, liberalism and Protestantism. Weber’s main postulate is that only the West could have provided the fertile environment for the rise of capitalism. To Weber, that environment is composed of a whole host of cultural phenomena, all of which owe their existence to “Western rationalism,” “a uniquely progressive development of thought and action that entailed systematic self-control as well as methodical and systematic use of variety of logical operations that clearly were intended to arrive at a more accurate and more efficient outcome.”¹⁶ The central and necessary element that gave rise to capitalism, according to Weber, was the teaching of Protestantism, specifically puritan Calvinism and particularly the latter’s world-denying asceticism.

In his book *General Economic History* (1961), Weber adds a number of other factors to asceticism as prerequisites of capitalism including the free market, rational (calculable) law, free labor market, entrepreneurs’ ability to appropriate means of production, and commercialization (commodification) of life.¹⁷ Fundamental to Weber’s notion of “rational law” is the

independence of law from religion. Weber asserts that this independence happened only in Europe. Laws in other parts of the world, even if systemized, were not free from “extra legal” influences. Such a law, even if rule based, was not “rational” and that is one reason, Weber claims, why capitalism did not develop in places other than in Europe. In other places where legal systems were not separated from religion, law becomes a barrier to emergence of capitalism. This is a central theme of Kuran’s argument that Islam inhibits economic development, a proto-Weberian position.

Crone argues that Weber does not define “exactly what rationality is... one gathers that it has to do with being rule-bound, secular, impersonal, disenchanted...”¹⁸ Hence, Crone concludes that Weber’s idea of rationality is “too untidy concept to serve as a tool of analysis” because Weber in practice “treats it both as cause and effect, with the result that he tends to argue in circles: Rationality caused rationality to prevail in Europe whereas traditionalism prevented it from emerging elsewhere.” Ultimately, however, Crone agrees with Weber that “Islamic law” and European law are “polar opposites” and that the former inhibits the rise of capitalism because it is “highly protective” as there is no “freedom of contract,” no freedom to engage in risky business because in risky transactions, “Islamic law” does not provide the required freedom “enabling one party to extract unearned profit from another.” Additionally, “Islamic law “does not permit the charging of interest, does not recognize “juristic persons” or corporations, no future contracts and no contracts involving “uncertainty.”

Contemporary Orientalists repeat Weber’s claim that “Islamic law” is the fundamental reason that capitalism and its precondition (secularism) did not develop in the Muslim world. In defending Weber against critics who charge him with bias and misrepresentation of “Islam” and “Islamic law,” Rodinson¹⁹ and Duff²⁰ perpetuate, as do Crone, Lewis and Kuran, the myth of “Islamic law” as the main cause of Muslim economic underperformance. Duff argues “Islamic law” lacked “a whole range of legal concepts and forms of agency.” The generalization is narrowed to alleged absence of corporate law and identity. The central characteristic, disguised within convoluted arguments, of the Weberian Orientalist writing is that “Islamic law:” “lacked the principle of jurisdiction and most important of all, the separation of sacred and secular...” Weber, according to Duff (1999, p. 39), articulated “the fundamental civilizational problem: Why in fact did capitalism triumph in modern times in Europe and not in Muslim countries (among others)?” Weber’s answer is, in the final analysis, the

separation of the “sacred and secular.” In other words, secularism, which is at the heart of the Enlightenment project, is the key to development of capitalism and its “triumph.” Hence, Kuran,²¹ for example, argues that “the identifiable handicaps” created by “Islamic law” for “investors, merchants, artisans, or money lenders,” is in short, the reason why capitalism did not develop in Muslim countries—could have been “circumvented” by secularization of “commerce and finance.” The message is clear: secularism led to the rapid development of Europe and its absence to the backwardness of Muslim societies. Consequently, there is no hope for Muslims to exit their wretched economic backwardness unless they secularize. There is “good news” in that Muslims have been borrowing “key institutions of modern capitalism” and disguising them so that they become “culturally acceptable, even to self-consciously anti-modern Islamist.” Muslims can then secularize by stealth without “opposing Islam as a religion, or even dealing with it.”²² In summary, the solution for Muslims is to secularize public life and privatize religious life.

SECULARISM AND THE NEW-ORIENTALISM

According to Francis Robinson, “Weber’s process of secularization is a unique Western development, its roots deep in ancient Judaism, and its trunk in Protestantism and in the growth of capitalism.”²³ Weber’s theory of secularization is a historic process that inevitably pushes human understanding and the society into fragmentation, functionally differentiated by its individual segments and increasingly toward disenchantment of humans with the sacred. Religion becomes privatized and increasingly irrelevant to public life.²⁴ In an essay, Robert Bellah argues that Weber, unlike his contemporary new Orientalist followers, was not dismissive of transcendental or the sacred and not enchanted by the outcome of the secularization process that accompanies the emergence and growth of capitalism.²⁵ In fact, Bellah shows that Weber was quite concerned with markets without ethics and morality.²⁶

Secularism is a crucial element of the narrative of new Orientalist’s Ersatz Islam and the inhibitor and cause of economic backwardness of Muslims. It is also central to presupposition of “Islam against the West” that the new Orientalism promotes. For example in a recent book, Larry Siedentop argues that Western liberal secularism was promoted by Christian moral beliefs and urges the people of the West, those “who live in the nations once described as part of Christendom” and who “seem to

have lost their moral bearing” to “look at the West against a global background” to see “that we are in a competition of belief, whether we like it or not.” As an obvious example, he offers Islam as a “worldview in which religious law excludes a secular sphere.”²⁷

Orientalism inherited its anti-Islam ideology from the Enlightenment’s focus on secularism, with its rhetoric going back to the anti-Islam polemics of the Middle Ages and even further back to the origin of Islam.²⁸ Jakobsen and Pellegrini (2008, p. 2) suggest that the notion “that Islam is responsible for the problem of violence in today’s world is deeply indebted to the fact that the idea of secularism, with its claim of universal reason, is accepted as common sense powerful protection against Islam.” In the Enlightenment narrative, “reason progressively frees itself from the bonds of religion.” The resulting secularism is claimed to be, like reason itself, universal. There is, however, a contradiction here. If, as Siedentop claims, Christianity is the source of liberal secularism located in the West (specifically Europe), and then secularism is linked to a particular religion, a particular geographic location, and maintained through a particular set of puritanical Calvinist practices, how then can universality be claimed for secularism?²⁹

Discussion of these non-universal and particular characteristics of secularism and their link to a particular culture is a significant contribution of Weber in his classic book, *The Protestant Ethic and the Spirit of Capitalism*. Weber claims that a major contribution of secularism “was not only freedom from religion but also freedom for the market.” However, Jakobsen and Pellegrini argue that the latter “was not fully secular but was, in fact, tied to a specific form of religious activity-reformed Protestantism.” Weber singled out the practice of what he called “worldly asceticism,” practice of self-control against worldly passions, as the most important characteristic of Calvinism that contributed to the emergence and growth of capitalism. In its market form, Jakobsen and Pellegrini note, the practice of worldly asceticism, while engaging in market activities, was the demonstration of “an already achieved salvation promised in Calvinistic predestination. Thus, it could form a practice at once secular and religion...hence secularism remains tied to a particular religion, just as the secular calendar remains tied to Christianity.” They then ask if the secularism’s attraction and “moral import” are supposed to be due to its appeal to “reason” and to “its promise of universality,” then “what does it mean that this universalism and the rationality that it embodies are actually particular (to European history) and religious (Protestant) in form?”

The main objective of liberal secularism is to marginalize and privatize religion by banning it altogether from public life. The hegemonic nature of this system of thought genuinely believes that any resistance to it would be futile. Talal Asad suggests that the liberal secularism of the new-Orientalists has a mission: remaking Islamic traditions “in the image of liberal protestant Christianity.”³⁰ Joseph Massad³¹ argues: “This act of proselytizing aims to convert Muslims and Islam to Western Liberalism and its value system as the only just and sane system to which the entire plant must be converted.”³² And, only “a barbarian, a despot, an irrational psychopath, a totalitarian, an intolerant brute, a misogynist, a homophobe, in short, a Muslim” chooses to reject or resist this act of proselytizing. According to Asad³³: while the European Enlightenment’s “secular redemptive politics” condemns religious forms of violence, pain, and suffering as non-emancipatory of sinners, “there is readiness to cause pain to those who are to be saved by being humanized.” To achieve this objective, all options are on the table. In short, Islam, which according to Kuran is a “religion now widely viewed as a source of backwardness, ignorance and oppression,” has become the antonym for the liberal secularist West, one from which Muslims must be rescued and one which must be “vanquished” as it “threatens a core value of liberalism, namely its universality and the necessity of its universalization as globalization.”³⁴ The core paradigm of this system of thought in terms of economic, social, political and cultural framework is that of Weber.

Like his present day followers, however, Weber had only limited knowledge of Islam and of Muslim history. Nehemia Levtzion believes that: “Much of what Weber wrote about Islam is unacceptable to contemporary scholarship on Islam.”³⁵ This, Levtzion argues, include Weber’s assertion that Islam “was obviously not a universalistic salvation religion,” his emphasis on the materialistic character of Islam and his claim that Arab warriors shaped Islam. Similarly, Eisenstadt³⁶ points out that Weber’s view on Islam is incomplete and fragmentary and wrong on many issues. Ira Lapidus also sees Weber’s views as being “inadequately developed and by themselves misleading caricatures of Islamic society and religion.”³⁷ Weber set out to demonstrate that Islam was a polar opposite of Puritan Calvinism by mischaracterizing Islam as a purely hedonistic religion without “an ascetic ethic of world-mastery.” Weber believed that “the prophetic monotheism of Muhammad at Mecca” was usurped and refashioned by Arab warriors to suit their own lifestyle.³⁸ In Turner’s view “Weber’s view of Islamic society comes very near to being a comprehensive summation of

all streams of analysis—history, economics, religious studies, sociology—which constitute the Orientalist conception of the Middle East.”

In his writings, especially in his *Economy and Society*, Weber argues that four elements constituted the main reason why Islam was inimical to development and progress of Muslim economies toward capitalism. These were (1) lack of rational law; (2) “Sultanism;” (3) lack of worldly asceticism, and, (4) inflexibility of Islam. For the most part, Kuran agrees with Weber and Crone and expands on the inflexibility factor by interpreting it as “the myth of timeless perfection” which he explains, using Bernard Lewis’ argument of the doctrine of *Bid’a* as evidence that Islam opposes any kind of innovation. This misuse of the concept of *Bid’a*, interpreted as a barrier to technological innovation, has since been resonating in other writings.³⁹ In this context, Kuran argues, “Islam promotes the view that the Qur’an...embodies the unaltered words of God. By implication, it outlines a way of life that cannot possibly be improved upon. This presumption of perfection may serve, and has served, as a rationale for immobility: in an already flawless social order, innovation cannot yield benefits and may well do harm” (Kuran 2007, p. 20). This is the context within which the Orientalists apply their “decline thesis” maintaining that because of “the myth of timeless perfection,” the birth of Islam is also the genesis of its decline (Bernard Lewis 1964).⁴⁰ The end state is total failure unless Muslims choose to adopt secularism and reform “Islamic law.” Thus, Huff asserts: “One thing is evident: those Muslim countries (both with or without massive oil reserves) which seek to embark upon the path of economic development have to jettison virtually all aspects of Islamic law that relate to business and commercial activities.”⁴¹

Kuran (2011) adopts the Ersatz Islam paradigm and accepts the liberal secular position of Weber, Lewis, and Crone, and their identification of factors that inhibited Muslim adoption of “democratic capitalism”⁴² and stresses that secularism is a precondition for capitalism.⁴³ Kuran adds two other key factors to “Islamic law” to the list of factors identified by Weber, Crone and Lewis as being collectively the cause economic backwardness of Muslim countries: (1) the law of inheritance which constrains accumulation of wealth and capital; and (2) the institution of *waqf*, which led to sequestering of large amount of wealth and barring it from being invested in capital accumulation. But yet again, Kuran’s bias comes shining through. France arguably has inheritance laws (before and after revision in 2002) that are more distributive (inheritance for all children, current and former spouses, and a very high tax rate) but does not appear to have been

left far behind other Western countries. Did Kuran look at the inheritance laws of non-Muslim countries before reaching his conclusion? Moreover, recent economic research does not support the blanket notion that unequal wealth distribution enhances growth.

ERSATZ ISLAM, “ISLAMIC LAW,” SHARI’AH, AND ISLAMIC JURISPRUDENCE (*FIQH*)

A chief facet of Orientalism is the remarkable and willful ignorance of the Qur’an and the social, political, cultural, and economic system it envisions for humanity and its operationalization by the Messenger (sawa) in Medina. As Abou El Fadl observes, there appears to be “a state of determined ignorance...it is as if there is an epistemic block.” It is this apparent “epistemic block” that leads the Orientalists to an Ersatz Islam. The “Islam” they deal with and the “Islamic law” that corresponds to it is far from the reality presented in the Qur’an and is fundamentally fictitious. In the works of new Orientalists, like Weber, Lewis, Crone, and Kuran and their ilk, the term “Islamic law” is used extensively without recognizing that this term is alien to the Islam of the Qur’an. In the literature of new Orientalism, a number of terms such as “Shari’ah,” “the sacred law,” “Islamic Jurisprudence,” “Holy Law of God,” “the Muslim law” and other terms are used interchangeably and are, often, conflated with “Islam” itself.

Khalid Abou El fadl,⁴⁴ a Muslim legal scholar observes that Shari’ah has been the subject of many “mischaracterizations and stereotyping.” For this reason, he devotes a whole chapter of his book to clarifying the difference between Shari’ah, jurisprudence (*fiqh*), Muslim law and “Islamic law.” The origin of the term Shari’ah is in the Qur’an Verse 48: Chap. 5 in which Allah (swt) declares that for all humans He has provided Shari’ah and *Minhaj*. The latter is the plural of *Manhaj*, which is a clear pathway to “well-being, goodness and thriving existence,” while the former constitutes the network of rules of treading the path. All humans have been guided to such paths. For Muslims, the Qur’an specifies the *Manhaj* and Shari’ah given to the Messenger (sawa) for implementation (see Verse 18, Chap. 45). Together the *Manhaj* and the Shari’ah provide “God’s eternal and immutable law—the way of truth, virtue and justice. In essence, Shari’ah is the ideal law in an objective and non-contingent sense, as it ought to be in the divine realm. As such, Shari’ah is often used to refer to universal, innate, and natural law of goodness.”⁴⁵ Often the word

“Shari’ah” is used to refer to both the *Manhaj* and Shar’iah together, as does Abou El Fadl in his book. In what follows, Shari’ah is used in the same sense.

It is the acceptance of the *Manhaj* and the Shari’ah of the Qur’an as explained, implemented and practice by the Messenger of Allah and compliance with them that makes one a Muslim.⁴⁶ Bernard Weiss observes that the Shari’ah “constitutes an entire way of life. It embraces right ways of worshipping God, of interacting with fellow human beings, of conducting one’s personal life. The concept of Shari’ah is the most comprehensive concept in Islam.”⁴⁷ Noting that Islam means submission to the Will of Allah (swt), Weiss states “Shari’ah is the divine delineation of the life of submission. To submit to God is to follow the path that God has ordained, nothing more and nothing less.” The obligation to abide by the Shari’ah through compliance with its rules issues from the primordial covenant between the Creator and humans explained in the Verse 172 of Chap. 7 according to which humans acknowledged that full sovereignty belongs to Allah (swt). Weiss observes that, according to the Verse, the Creator Asks “Am I not your Lord?”⁴⁸ With the rational powers gifted to them by the Creator, the response elicited from human consciousness is to acknowledge that full Sovereignty belongs to Allah and to Him only.

Weiss suggests that by that acknowledgement, humans experience two moments of realization: “...a moment of realization that the Creator exists as a living presence before whom all human kind stands and a moment of realization that the creator alone is sovereign and humans are his subordinates...the overarching term of the covenantal relationship is obedience that the humans are to render to God as Lord.” It is from here that all rules derive their authority. “The covenant” says Weiss “is the bedrock of legal obligation and responsibility.”⁴⁹ Abou El Fadl (2014, pp. xl–lv) makes a sharp distinction between Islamic Shari’ah and Islamic Jurisprudence (*fiqh*). While the first is Qur’anic, and thus infallible and immutable, the second is fallible human attempt to apply the Shari’ah. *Fiqh* “refers to the cumulative body of legal determinations and system of jurisprudential thought of numerous interpretive communities and schools of thought, all of which search the divine will and its relation to the public good.” Abou El Fadl goes on to make clear that the “conceptual distinction between Shari’ah and *fiqh* was the result of recognition of the limitation of human agency and also reflection of the Islamic dogma that perfect belongs only to God. While Shari’ah was seen as absolute ideal, every human effort at understanding this ideal was considered necessarily imperfect...In the Islamic

legal traditions, there is only one Shari'ah (Shari'at Allah), but there are a number of competing schools of *fiqh* (*madhahib fiqhiyyah*)."

To summarize, there is a vast and fundamental difference between Shari'ah and Islamic jurisprudence (*fiqh*) and between them and the Orientalists conception of a fictitious "Islamic law," often conflated with Islam. To call attention to the fact that the willful ignorance of these differences produces an Ersatz Islam renders the Islam of the Qur'an mischaracterized, a caricature, and repulsively mistreated is often considered apologetic obfuscation of anti-West Islamists.⁵⁰ It is worth noting that of all the perceived shortcomings of "Islamic law" identified by Weber-Lewis-Crone-Kuran that are used to support the thesis that "Islam inhibits development," only two, the law of inheritance—considered by Kuran as a constraint on wealth and capital accumulation—and prohibition to charging of interest have roots in the Shari'ah of the Qur'an, the rest are outside of the framework of the Qur'an. Even here, to make his case, Kuran has to pluck both rules out of their Qur'anic mooring which, which along with other institutions prescribed by the Qur'an, establishes a network of dos and don'ts intended to fight poverty, destitution, vast inequalities of income and wealth, in short, to serve social and economic justice. To Kuran Islamic inheritance laws and the prohibition of interest show how Islam constrains economic growth. But to do that, he has to tear it away from its roots in the Qur'an transplant the rule in the capitalist, neo-liberal paradigm that has led to obscene levels of income and wealth inequality, poverty, destitution and environmental disasters.⁵¹

Recalling that Kuran has been spewing his myth of "Long Divergence," it is perplexing that all the research evidence on causes of high levels of inequality, slow growth, poverty and environmental degradation as well as empirical econometric results that challenge his and other of his fellow Orientalist travellers are ignored. For example, the research by Thomas Piketty and his colleagues on inequality that culminated in Thomas Piketty's book (*Capital in the Twenty First Century*, 2014)—in which inheritance is identified as one of the most important causes of emergence of extremely high levels of wealth and income—is totally ignored, as is research on the question of inheritance with a long and distinguished history.⁵² Given that all except one, inheritance law, of factors attributed to Islam as inhibitor of economic development are not directly Qur'anic, the most that can be said is that generations of past Muslims failed to implement the institutions (rules) prescribed in the Qur'an that assure a society of a dynamic and growing economy. Moreover, as mentioned earlier,

Kuran does not report the arguably more distributive inheritance laws of countries such as France, their economic performance and more generally the recent research on the impact of income and wealth distribution on growth. It is simply absurd to attribute this failure to “Islam” or to “Islamic law” as inhibitor of development. Recently, there have been a number of Muslim responses to Kuran’s assertions and claims.⁵³ The upshot of these discussions is that no Muslim who is aware of the Islam of the Qur’an would or could accept the Ersatz Islam of the Orientalists.

ERSATZ ISLAM AND THE MARXIST PARADIGM⁵⁴

Weberian Orientalists are not the only ones that avail themselves of a fictitious Islam and “Islamic law.” However, whereas the Weberian Orientalists rely on a multi-factor explanation, Marxists analysts in search of causes of “long divergence” have a one-factor explanation. Their paradigm is of historical materialism and economic determinism consistent with proto-Marxism. These writers reject the Weberian assertion that Islam inhibited the emergence of capitalism but refuse to accept the divine origin and the transcendental dimension of Islam and the divine appointment of its Messenger (sawa). Asaf Hussain⁵⁵ argues that despite pretensions to objectivity, Orientalist’s “deep-seated prejudices could not remain hidden.” One example is Maxime Rodinson who, while criticizing Weber’s point that Islam is hostile to capitalism, rejects the divine source of the Qur’an and considers it as a “poem of the prophet’s unconscious mind.”⁵⁶ Hussain observes that the objectivity of the Orientalists is deceptive since their position starts “with an a priori assumption that the Qur’an was not revealed by God but was the work of a man. But any scientific method must take the claim of the subject of the study, for example that the Qur’an is a revelation of God, and then prove that it is not.”⁵⁷ In the case of Kuran, objectivity would have meant that the vision of an economy in the Qur’an would have to be explored comprehensively to see whether that vision would indeed lead to a dynamic and prosperous, and just economy before deciding that Islam inhibits economic development. But Kuran takes it as a priori that it does, and then writes about how it does. This is one reason why the deception of Orientalist writings against Islam with claims of “dispassionate” and “objective” stance are so deeply offensive and repugnant, hence, unacceptable to Muslims familiar with the Islam of the Qur’an.

Marxist-based writings consider Islam as a valid ideological struggle toward socialism with merchant capitalism developing in Arabia before Islam. According to this view, the appearance of the Messenger (sawa) was basically to advance the cause of merchant capitalism that had a long history in all of Arabia and especially in Mecca with its clever merchants who used Ka'aba and other pagan religious symbols to promote their own commercial interests. As the wealth and power of merchant capitalists of Mecca grew, a myriad of social conflicts began to threaten the interests and "aspirations of Meccan merchants." According to this view, it is at this time and in this "milieu" that "Muhammad appeared" with an "ideology" and "an institutional framework relevant to the solution of social, political and economic problems that impeded the progress of Mecca's merchants."⁵⁸

As in all Orientalist encounters with Islam and its social, cultural, political and economic institutions, this view also rejects the transcendental and divine origin of Islam since this system of thought was "founded by Muhammad" who "built on what his predecessors had constructed." He used his ingenuity and exploited the "divine sanction" to reinvigorate and add to the accomplishment of the previous generation. His "founding" of Islam was intended only to help merchant capitalists to reinvigorate "the ideological and institutional superstructure," already established by the merchant capitalists in Mecca by previous generations. The revamped ideology helped merchant capitalists to address the "social, political, and economic demands that were conditioned by the development of merchant capital and that Meccan merchants confronted at the turn of the seventh century."⁵⁹ Similarly, Koehler suggests that "Muhammad," with "his distinguished ancestral dynasty of entrepreneurs" and "thirty years of business experience" managed to "cast rules for trade and taxes, in the process of reforming many pre-Islamic commercial practices."⁶⁰ It is not the Islam of the Qur'an and its divine transcendental source that 'cast' rules (institutions) but "Muhammad" and his "thirty years of experience as a businessman." The foundation of Islamic society, in this view, owed much to "the historical continuity conditioned by the demands of merchants and merchant capital."⁶¹

In a dialectic framework, Ibrahim sees developments in the nascent Islamic society after the messenger (sawa) as the result of the rise of class conflict between powerful traditional merchants that had "appropriated Islamic ideology" and quickly dominated the state immediately after the Messenger (sawa) and the staunch believers in the divine message and its egalitarian objectives. The former group defeated the latter and

strengthened the incentive structure for fortifying the rule of merchant capital through the use of full force of state apparatus. Hence, “during the first two centuries, when merchants were the dominant social force, they successfully appropriated institutional belief within Islam to advance their interest.”

A reasonable question is why Islamic merchant capitalism did not develop into a full-fledged industrial capitalism? The Marxist response is that unlike Europe wherein feudalism preceded merchant capitalism, in Islam the process was reversed. Maxime Rodinson (1973), whose view on this question was adopted by Ibrahim (1990), argues that the early history of Islam was a stage in the long march of capitalism and, contrary to Weber’s assertion, Islam is not responsible for non-emergence of industrial capitalism in the Muslim world. Not only did Islam not hinder capital accumulation but encouraged it through many of its institutions. Industrial capitalism did not develop in the Muslim world because of social, political and economic factors. Most important factor among these was the fact that the merchant capitalism of the first two centuries of Muslim history deviated from its “natural course” of developing into industrial capitalism and regressed into feudalism. This happened because the emergence of feudalism was supported by military classes, which had developed in response to military challenges (for example from the Mongols) to the Muslim state, dominated by the landed aristocracy that owed its existence to path dependency that had emerged because of violations of Islamic distributional rules that occurred during the early stages of the Post-Messenger period. Ibrahim, in line with Rodinson, observes that the military, which was initially recruited to serve the landed aristocracy, now became a system unto itself.⁶² This feudal system continued under the Ottoman government until the end of WWI. Consequently, this view holds, merchant capitalism that had dominated the Muslim world for three centuries was replaced by the military and feudal rule in contrast to the opposite process that took place in Europe.

In Leonard Binder’s reading of Rodinson, whom he calls a “new-Marxist” and an “Orientalist,” “Islam is both rational and commercial in spirit” and “that it is not necessary to give up anything that is essentially Islamic because Islam has really nothing to do with the economic circumstances of Muslim lands. It follows that Islam cannot be responsible for the backwardness of Muslims. In other words, one may go as far as needs to in order to catch up with the West without sacrificing anything which is essential to Islam or integral to the identity of

Muslims.”⁶³ This position of Rodinson runs counter to the Weberian Orientalists, such as Lewis and Kuran, who seek “de-essentialization” of Islam.⁶⁴

Unlike Rodinson and Ibrahim, who see Islamic merchant capitalism as continuation of pre-Islamic history, Koehler, while implicitly rejecting the divine and transcendental source of Islam, the Qur’an and the appointment of the Messenger (sawa), credits Islam with the invention of capitalism. He suggests that while some elements of capitalism existed before Islam, “only through the economic dynamic released in early Islam were these constituents combined and converted into a nexus and constituted capitalism.” This system, thus developed in Muslim lands, migrated to Europe through the intermediation of trade, Crusade Wars and Spain during the Middle Ages.⁶⁵

In this context, Murat Cizakca,⁶⁶ using extensive citations from the Qur’an and the traditions (Sunnah) of the Messenger (sawa) as well as economic history, makes two important points. First, he reaffirms Rodinson’s reasoned insistence and Nolan’s empirical econometric study⁶⁷ that Islam is not responsible for economic underperformance of Muslim countries of the Middle East and provides a well-developed alternative narrative to that of the Orientalists, namely, rather than Islam or “Islamic law” being the cause of underperformance, it was the cumulative effects of path dependency of deviation of practice from the ideal. He too suggests that Muslims need not de-essentialize their beliefs in order to create a dynamic, prosperous and democratic economy. Cizakca second point is that if capitalism is defined by the protection of property rights, contract enforcement and good governance, then the economic system that was practiced in Muslim countries from seventh to thirteenth centuries was capitalism, which was derived from the teachings of the Qur’an and the Tradition of the Messenger (sawa).⁶⁸

FOR WHOM THE ORIENTALIST BELL TOLLS?

Muslims who are familiar with the Islam of the Qur’an, namely submission to the Will of Allah (swt), fully realize that “Islam is a message of mercy, compassion and justice to humanity, [and] submission to the God of this message can only mean that the followers of this faith must use all available means, whether of intellect or spirit, in the pursuit of these values. There is no escaping the fact that the primary and essential law of God is the path that leads to the exploration and realization of these moral goals. The

further Muslims walk along the path the more beauty they will achieve and the closer they will come to divinity.”⁶⁹

Moreover, the Muslims who are aware of Abou El Fadl’s above summation are also the most adamant, forceful and serious critics of Muslim rule violations. Their criticism of Muslim behavior is far more severe and strident than any Orientalists’ writings. Consider, for example, Abou EL Fadl’s observation that while he finds that “without a doubt... non-Muslims are ill-informed and ignorant about Islam,” he argues that, “many Muslims have become shamefully unjust and iniquitous toward others, each other and themselves.” He asserts that “we, as Muslims live submerged in a profound set of contradictions” one of which is “the fact that it is basic and foundational article of faith for many Muslims that Islam is the religion of peace, compassion and mercy to humanity at large. Yet one must frankly admit that in the minds of most non-Muslim inhabitant of this earth, these are not the values that are normally associated with the Islamic faith.”⁷⁰

To Muslims who are familiar with the message of the Qur’an, the Orientalists’ reformed Muslim society is not the Qur’anic vision. The Orientalists’ selectively structured history of a limited number of Muslim societies, whose historical record is hardly reflective of a society envisioned in the Qur’an, could not convince anyone except the very naïve and uninformed reader of their validity. For Qur’anicly informed Muslims, the ideal and authentic Muslim society is one established by the Messenger (sawa) in Medina. Orientalists, however, are convinced that Muslim countries cannot progress toward ending “the long divergence” until and unless they reform by shedding some of the most essential rules in the institutional scaffolding of the Islam of the Qur’an. In his book, *Formation of the Secular*, Talal Asad suggests that Orientalist missionaries (such as Lewis and Kuran), convinced of the superior liberal Western ideology, believe “...that human beings can be separated from their histories and traditions.”⁷¹ For Muslims, this means de-essentializing Islam. The message is for Muslims to reform according to the Orientalists’ prescription once they recognize that “Islam has delayed modernization.”⁷² And once they do so, they can enter the Orientalists’ heaven and be assimilated into what Kuran calls “the emerging global culture whose core elements have a Western pedigree.”⁷³ Asad observes that the central objective of Orientalists is to remake Islam “in the image of liberal, Protestant Christianity.”⁷⁴

After studying Orientalist writings, their assumed superiority, arrogance, willful ignorance and dismissive attitude towards the Islam of the Qur'an are baffling. It can be shown, as has been done by Said, Asad and others in response to Lewis and by Cizakca, Malik, Crow and others in response to Kuran, that properly scrutinized writings of Orientalists can hardly be the product of genuinely objective scientific investigation and detached scholarly discipline, in part because they are ideologically driven. As Pruett suggests "Orientalist agenda is irrelevant to the fundamental concern of Islam, and its tone and argumentation degrading, condescending and frankly insulting."⁷⁵ But, this is of no concern to Orientalists for whom not being arrogant and condescending is considered "intellectual restrictions motivated by paternalistic concerns" that "may deprive their intended beneficiaries of material self-improvement."⁷⁶ For Muslims, however, the idea of reform and "self-improvement" is relevant only if it means cleansing, strengthening, and improving the self in its progress toward full submission to the Will of Allah (swt). This "self-improvement" can only take place through full compliance with the rules of behavior (institutions) prescribed in the Qur'an. Most certainly, it does not mean reforming or improving the self toward accepting the "economic institutions of modern capitalism."⁷⁷

Since the writings of Orientalists cannot persuade informed Muslims, the question is who is the target audience and what is there to be gained by de-essentializing, deconstructing, and creating an Ersatz Islam by dis-embedding it from the Qur'an? As to the first part of the question, it appears that, in the first instance, Orientalists write for each other. Recall earlier discussion of Bernard Lewis's assertion in his debate with Edward Said that only other Orientalists can critique Orientalists writings! More brazenly, Crone and Cook declare, in the preface to their book, *Hagarism* (1977), "This is a book by infidels for infidels. Our account is not merely unacceptable; it is also one which any Muslim whose faith is as a grain of mustard seed should find no difficulty in rejecting."⁷⁸ This applies equally to Lewis and Kuran's more sophisticated, nuanced writings with covert agenda of fiction masquerading as historical analysis. The second group addressed by these writings is the uninformed or ill-informed Western readers to create ground support in the eventuality that military option is exercised. This mission was successful in creating high degree of support for the 2003 Iraq War, with Bernard Lewis as the grand ideologue of the war and going on to receive the National Humanities Award from President Bush in 2006. The third group addressed by the Orientalists is

the appallingly uninformed Muslims who have very little understanding of the Islam of the Qur'an and are seduced both by the West and by unreasoned persuasion of liberal secularism of Orientalists on the one hand, and abuse of Islam by autocratic and corrupt rulers of Muslim countries on the other hand.⁷⁹ As for the second part of the question, there is little doubt that, within the structure of the Orientalist thought, a reformed Islam in the image of a liberal, secular, Protestant Christianity of the "modern" West will be less of a threat to the West and Western values, which must for them rule supreme.

The "charlatanism" displayed in the writings of Orientalists referred to by Edward Said knows no limit. In this context, Almond asks, "how far is the exercise of representation an ethically lamentable activity? When can the semantic use of another culture—its symbols, its motifs, its beliefs—said to be morally reproachable? The Islam represented by modern western writers of the last few decades remains invariably an Islam-for-others...and never an Islam for itself." These writers "unreflectively appropriate and manipulate the imagery and semantic residue of other cultures for their own purposes, with little or no consideration of the ethical dimension to their gestures."⁸⁰

It may be argued that since Orientalists do not consider themselves as Muslims and reject the divine and transcendental origin of Islam, they are entitled to their own understanding of Islam, "Islamic law" and Muslim history; as outsiders, they are free to judge Muslim culture and its historical dynamics according to their own frames of reference. However, the Orientalists mission is said to be to "help" Muslims realize "unsuitability of classical Islamic law to modern needs. The objective being the reform of this "law" as inhibitor of capitalist development of Muslim economies based on "free competition, openness to borrowing and innovation, and a government eager to support, rather than stifle, private enterprise."⁸¹

Clearly, there is substantial difference between the worldview of Orientalists and Muslims.⁸² The former assumes a secular stance as a starting assumption that does not admit transcendental truths and rejects the divine source of the Qur'an, while the latter relies wholly on the transcendental to make sense of the world, history, ontology and epistemology; an aware Muslim "indwells" in the Qur'an and Sunnah.⁸³ Most importantly with respect to Islam, Orientalists start with the Weberian presupposition that Islam inhibits development, a priori. Naugle⁸⁴ argues that there is a difference between propositions (which are testable) and presuppositions (which are not). An absolute presupposition is absolutely

not subject to proof or disproof. The rationality of any system of thought, Naugle argues, is worked out by reference to the starting point of provided by its absolute presuppositions. Since absolute presuppositions cannot be proven, it follows that worldviews are adhered to as an act of commitment and not on the basis of logic.⁸⁵

Is there anyway to test the validity of a worldview? Naugle responds that there are three ways: (1) Coherence test, meaning that the worldview in question must possess internal logical consistency. Its propositions cannot contradict one another. If they do, the worldview is falsified. (2) Explanatory power test, meaning that the worldview must be able to explain particulars as well the whole of reality as it presents itself to its adherents as well to the rest of humanity. And (3) Existential test, meaning that the worldview must demonstrate its value propositions that, when it becomes operational, it can provide a sense of peace and security.

It is not a difficult challenge to show that the Orientalists' worldview when applied to their assessment of Islam fails all three tests of validity proposed by Naugle. It fails the coherence test because of its convoluted confusion in discussing exactly what caused the Muslim countries' underperformance. Was the cause the "Shari'ah"? Or was it because of "Islamic or Muslim law"? Moreover, ever since Weber, Orientalism has faced inconsistency in attacking Islam for inhibiting emergence of capitalism while at the same time arguing that early Islam was not inimical to commercial development and had all the basics of capitalism in terms of property rights protection, no limitation on profit making and contract enforcement. And it has never been able to explain why if Islam prohibits growth, many Muslim countries performed well for much of their history. As his critics have shown, most certainly Kuran's explanation is not the answer to this dilemma of Orientalists. For this last reason, Orientalism's worldview fails to explain both the particulars and the general phenomena of dynamics of Muslim history. Its methodology of selective and anecdotal references to history of Ottomans is contradicted not only by examples from the same history, as is shown by its critiques including Rodinson and Cizakca, but by reference to the history of other Muslim countries, for example those in Asia. It also fails the existential test because the value propositions in adopting democratic capitalism have already demonstrated that the adoption of such a system is accompanied by crises, environmental degradation, societal polarization, obscene levels of inequality, poverty and destitution.

While today, it would appear that Muslim countries have underperformed on the basis that “Muslims around the world are, on the whole, poorer than non-Muslims,”⁸⁶ to do an honest and objective (agenda-free and no priors) would require researching the Qur’an for its vision of an Islamic economy and then to use it as the framework to assess Muslim economic history. The most damaging dimension of Kuran-type writing is that, according to Kuran’s own admission, its benchmark for judgment of “underperformance” is Western capitalism. The same writers, however, reject adamantly if the process is reversed, when the tables are turned, that is, if Muslims judge the West using their own benchmark. Even if one extends credulity to its limit and accepts that these writers are genuinely interested in the well-being of Muslims, one faces the problem that without a Muslim perspective of Islam and Muslim history and without entertaining the full import of the transcendental orientation of the Qur’an’s vision of an economy, both Islam and Islamic history will be misunderstood and misrepresented. Ultimately, such a project will fail to engage Muslims and to help them in their efforts to resolve challenges they face. This, however, is a non-starter because as Paul Ricoeur observes, “you must understand in order to believe, but you must believe in order to understand.”⁸⁷

Muslims face the challenges of an age of unreason dominated by “scholarly” anti-Islam “charlatanism” that has incessantly fed the phenomenon of Islamophobia.⁸⁸ There can be no question that Muslims face serious challenges, including economic underperformance. The solution, however, is not that prescribed by liberal secular Orientalism. Before giving in into despair, it behooves Muslims to search, as many aware Muslim scholars, such as Fazlur Rahman, Ali Allawi, Abou EL Fadl and Said Nursi have recommended, the Qur’an for explanations of today’s Muslim plight and find solutions to their contemporary problems. As David Johnston suggests, echoing Fazlur Rahman, “each generation of scholarship must be prepared not to imitate the past but to demonstrate that the application of revelation, although its own, has the authority of previous generations going back to the Prophet.”⁸⁹

Accordingly, our goal in this book is to present a vision of an economy discernible from the Qur’an (Metaframework) and its implementation (Archetype Model) by the Messenger (saw). From the Qur’an, rules governing the relationship of Allah (swt) with humans, those governing the relationship of humans with their Creator, and those rules governing the relationship of humans with one another are derived. We then consider the implementation of this system by the Messenger (saw). The performance

of Muslim and non-Muslim societies (countries) will be evaluated and assessed on the basis of this ideal model. Have Muslim countries followed this prescribed model? If no, then Islam has little bearing on their performance and where they stand today. If they have followed the prescribed model, then Islam may be connected to their performance, requiring further examination. But we begin by exploring the connection between Capitalism and the Islamic Economic System.

NOTES

1. Mirakhor, Abbas and Hossein Askari. *Islam and the Path to Human and Economic Development*. New York, NY: Palgrave Macmillan, 2010 (Mirakhor and Askari 2010).
2. Kuran, Timur. *The Long Divergence*. Princeton: Princeton University Press, 2011.
3. Said, Edward, W. *Orientalism*. New York: Vantage books, 1979. He used the term “Charlatans” to apply to those who, like Bernard Lewis create an Ersatz Islam just to knock it down. See the debate between Said and Lewis in “Orientalism: an Exchange,” *New York Times Review of Books*, August 12, 1982 (Lewis and Edward 1982).
4. Abou El Fadl. *Reasoning with God*. Lanham: Rowan & Littlefield, 2014.
5. Said, Edward W. *Covering Islam*. New York: Vantage Books, 1997, p. 1.
6. See Lewis, Bernard. *The Middle East and the West*. New York: Harper Torch books, 1964. For an exposition on Bernard Lewis see Yang, Sulayman S. and Samir Abed-Rabbo, “Bernard Lewis and Islamic Studies: An Assessment” in Asaf Hussain, Robert Olson, Jamil Qureshi, eds. *Orientalism, Islam, and Islamists*. Brattleboro: Amana Books, 1984, pp. 259–286 (Lewis 1964; Yang and Abed-Rabbo 1984).
7. Kuran (2011), p. 20.
8. See, for example, Abou El Fadl, 2014 and Askari, Hossein and Hossein Mohammadkhan. *Islamicity Indices: The Seed For Change*. New York: Palgrave Macmillan, 2015 (Askari and Hossein 2015).
9. See, for example, Noland, Marcus and Howard Pack, “Islam, Economic Growth and the Middle East,” *Global Dialogue*, vol. 6, nos. 1 & 2, (2003).
10. See Hoyland, Robert G. *Seeing Islam as Others Saw it*. Princeton: Princeton University Press, 1997 (Hoyland 1997).
11. Abou El Fadl (2014), pp. 171–173.
12. Abou El Fadl (2014), p. 175.
13. Lewis, Bernard. *What Went Wrong: The Clash Between Islam and Modernity in the Middle East*. Oxford: Oxford University Press, 2002 (Lewis 2002).

14. See Said, Edward W., "Impossible Histories: Why the Many Islams cannot be Simplified," *Harper's Magazine*, (2002), pp. 69–74 (Said 2002).
15. Turner, Bryan s. *Weber and Islam*. London: Rutledge & Kegan Paul, 1974 (Turner 1974).
16. Huff, T. E. "Introduction" in Huff, T. E. and W. Schluchter, eds. *Max Weber and Islam*. New Brunswick: Transaction Publishers, 1999. See also Crow, Karim Douglas, "Islam, Capitalism and Underdevelopment," in *Islam and Civilizational Renewal*, v. 4, no. 3 (2014) pp. 371–390 (Huff 1999; Crow 2014).
17. Weber, Max. *The Protestant Ethic and the Spirit of Capitalism*, Talcott Parson's Translation. New York: Charles Scribner, 1958. See also Weber, Max, *Economy and Society*, 2 volumes, edited by Guenther Roth and Claus Wittich. Berkeley: University of California Press, 1978 (Weber 1958, 1978).
18. Crone (1999), p. 248.
19. Rodinson, Maxime. *Islam and Capitalism*. Austin, Texas: The university of Texas Press, 1973 (Rodinson 1973).
20. Huff, T. E., "Introduction" in Huff, T. E. and W. Schluchter, eds. *Max Weber and Islam*. New Brunswick: Transaction Publishers, 1999, p. 41 (Huff 1999).
21. Kuran (2011), p. 7.
22. Kuran (2011), p. 302.
23. Robinson, Francis. "Secularization, Weber, and Islam," in Toby E. Huff and Wolfgang Schluchter, eds. *Max Weber & Islam*. New Brunswick: Transaction Publishers, 1999, pp. 231 and 231–246 (Robinson 1999).
24. Turner, Bryan S. *Weber And Islam*. London: Routledge & Kegan Paul, 1974, pp. 151–152 (Turner 1974).
25. Bellah, Robert N., in Bellah, Robert N. and Steven M. Tipton, eds. *The Robert Bellah Reader*. Durham: Duke University Press, 2006, pp. 123–149 (Bellah 2006).
26. Bellah, Robert N. (2006), note 59, p. 144 (Bellah 2006).
27. Siedentop, Larry. *Inventing the Individual*. UK: Penguin book, 2015, p. 1 (Siedentop 2015).
28. See Hoyt, Robert (1997).
29. Jakobsen, Janet R. and Ann Pellegrini, eds. *Secularisms*. Durham: Duke University Press, 2008, pp. 2–3 (Jakobsen and Pellegrini 2008).
30. Asad, Talal, "Europe Against Islam: Islam in Europe," *Muslim World*, vol. 87, No. 2 (1997), p. 189. See also Lewis, Bernard, *What Went Wrong: The Clash Between Islam and Modernity in the Middle East*. New York: Harper Collins (2002), p. 96, where Lewis says that secularism is profoundly Christian. Lewis also suggests that Muslims never developed "native secularism" and they have rejected imported secularism. The reason is, he believes, that unlike

Christianity which from the start separated God and Caesar, Muslims made no such distinction since they do not believe in the separation of church and state. “The state was the church and the church was the state, and God was head of both, with the Prophet as his representative on earth,” p. 101. In this book, Lewis identifies endemic problems of Muslims that caused their inability to cope with modernity as well as preventing their adoption of Western democratic political system. He goes on to identify two types of Muslims. One struggles to eliminate “intrusive Western power and corrupting Western influence from all lands of Islam, and the restoration of Islamic authenticity and authority in these lands.” The other struggles for “freedom.” He then pleads for “natural allies in the free world” to help “these freedom seekers.” He ends by warning that if this help is not forthcoming “the outlook for the Islamic world, and perhaps for the West, will be grim,” p. 165. Kuran adopts the binary division of Muslims as identified by Lewis in his writings. Anyone holding the view that Islam and the Qur’an have a vision of the economy that can provide solutions to the problems of mankind in general and Muslims in particular he labels as “anti-West.” For a view different from Lewis, see Abou El Fadl, Khalid. *Reasoning With God*. Lanham, Maryland: Rown and Littlefield (2014), Chap. 8, “What Really Went Wrong,” pp. 203–270 (Asad 1997; Lewis 2002).

31. Massad, Joseph A. *Islam in Liberalism*. Chicago: University of Chicago Press, 2015, p. 3 (Massad 2015).
32. Massad (2015), p. 3.
33. Asad, Talal. *Formation of the Secular: Christianity, Islam, and Modernity*. Stanford: Stanford University Press, 2003, pp. 61–62 (Asad 2003).
34. Massad (2015), pp. 3–4.
35. Levtzion, Nehemia, “Aspects of Islamization,” in Huff and Schluchter, eds. *Max Weber & Islam*. New Brunswick: Transaction Publishers, 1999, pp. 153 and 153–162 (Levtzion 1999).
36. Eisenstadt (1999), pp. 281–282.
37. Lapidus, Ira M. “The Institutionalization of Early Islamic Societies,” in Huff and Schluchter, eds. *Max Weber & Islam*. New Brunswick: Transaction Publishers, 1999, pp. 139 and 139–152 (Lapidus 1999).
38. Turner, Bryan (1974), pp. 12–14 (Turner 1974).
39. See, for example, Landis, David. *The Wealth and Poverty of Nations*. New York: W.W. Norton, 1998, footnote on p. 410 (Landis 1998).
40. Lewis, Bernard. *The Middle East and the West*. New York: Harper Torch books, 1964 (Lewis 1964).
41. Huff, Toby, E. (1999), p. 15 and 1–52.
42. On “democratic capitalism,” see Novak, Michael. *The Spirit of Democratic Capitalism*. New York: Simon and Schuster, 1982 (Novak 1982).

43. Kuran (2011), pp. xi–xii.
44. Abou El Fadl, Khalid (2011), p. xxxi.
45. Abou El Fadl (2011), p. xxxii.
46. As mentioned earlier, Bishop Kenneth Cragg makes a distinction between “Muslim” and “Muslim” in his writings. The first he uses to refer to anyone who submits to the Will of the Creator while “Muslim” is used to refer to one who follows the *Manhaj* and Shari’ah specified in the Qur’an for that submission. See, for example, his *The Qur’an and the West*. Washington, DC: Georgetown University Press, 2005 (Cragg 2005).
47. Weiss, Bernard G. *The Spirit of Islamic Law*. Athens: The University of Georgia Press, 2006, p. 18 (Weiss 2006).
48. Weiss, p. 32 (Weiss 2006).
49. Weiss (2005), p. 33. For more detailed discussion of the primordial contract in the Qur’an see Kadi, Wadad, “Primordial Covenant and Human History in the Qur’an,” *Proceedings of the American Philosophical Society*, vol. 147, no. 4 (2003): 332–338. See also Lumbard, Joseph E. B., “Covenant and Covenants in the Qur’an” *Journal of Qur’anic Studies*, vol. 17, no. 2 (2015): 1–23 (Kadi 2003; Lumbard 2015).
50. See, for example, Kuran, Timur, “The discontents of Islamic Morality,” *American Economic Review*, vol. 86, no. 2 (1996) p. 440, in which he claims absurdly that Muslim economists intend to prevent “Muslims from assimilating into the emerging global culture whose core element have a Western pedigree.” See also Mirakhor, Abbas, 2007, “A note on Islamic Economics,” Islamic Research and Training Institute, IDB Prize Winners Lecture Series, No. 20, pp. 26–28 (Kuran 1996; Mirakhor 2007).
51. Indeed, most of Kuran’s references to the Qur’an in his book, *The Long Divergence*, 2011, pp. 45 and 105–106, relate to the law of inheritance. The rest of references to the verses of the Qur’an are used to demonstrate implicitly the Orientalist belief that the Qur’an was produced by the Messenger (sawa) rather than having a divine origin. For example, he claims on p. 45 that “it is significant that the founder of Islam was a successful merchant” and finds it “unsurprising” that “the Qur’an endorses private property, encourages commerce, and supports personal enrichment, a position that has been long held by Orientalists beginning with Weber and, as will be seen, shared by Marxists as well. Like them, he rejects the transcendental and divine source of Islam and considers it as an “entrepreneurial act of immense ingenuity” in spreading of which “Muhammad displayed remarkable social, political ingenuity”. In his effort to prove this point, Kuran, refers to three verses that he believes “characterize profit as Allah’s bounty to humanity.” Of course none of the verses he uses (specifically, Verse 198, Chap. 2; Verse 28, Chap. 77; Verse 62; Chap. 10) support his argument. Even here he mistranslates *fadhli*,

- generally meaning both economic and spiritual goodness, well-being, and thriving existence, as profit in order to stress the point by Weber that Islam is this worldly and hedonistic (Kuran, Timur, 2007, “The Scale of Entrepreneurship in the Middle East History: Inhibitive Role of Islamic Institutions,” Department of Economics, Duke University, p. 6) (Kuran 2007).
52. See, for example, the collection of papers in Erreygers, Guido and Toon Vandevelde, eds. *Is Inheritance Legitimate?* Heidelberg: Springer, 1997 (Erreygers and Vandevelde 1997).
 53. See, for example, Crow, Karim, “Islam, Capitalism and underdevelopment”, *Islam and Civilizational Renewal*, vol. 4, no. 3 (2014): 371–390; Cizacka, Murat, “Was Shari’ah Indeed the Culprit?” Munich Personal RePEc Archive, paper no. 22865, 2010; and Malik Adeel, “Was the Middle East Economic Decline a Legal or Political Failure? A Review of Timur Kuran’s Long Divergence...” Paper presented in the 8th International Conference on Islamic Economics and Finance, 2011 (Crow 2014; Malik 2011; Cizacka 2010).
 54. There are a number of books and many articles that focus on Islam and capitalism from a Marxist viewpoint, the three most important of which are: Rodinson, Maxime. *Islam and Capitalism*. New York: Penguin Books, 1974; Ibrahim, Mahmood. *Merchant Capital and Islam*. Austin: University of Texas Press, 1990; and Koehler, Benedikt. *Early Islam and The Birth of Capitalism*. Lanham: Lexington Books, 2014.
 55. Hussain, Asaf, “The Ideology of Orientalism” in Asaf Hussain, Robert Olson, Jamil Qureshi. *Orientalism, Islam, and Islamists*. Brattleboro, Vermont: Amana Books, 1984, p. 14 (Hussain 1984).
 56. See Hussain (1984). See also Turner, Bryan S. *Weber and Islam*. London: Routledge & Kegan Paul, 1974, p. 37.
 57. Hussain (1984), p. 16.
 58. Ibrahim (1990), p. 75. See also Watt, Montgomery. *Muhammad at Mecca*. Oxford: Oxford University Press, 1953, Chap. 1 (Watt 1953).
 59. Ibrahim (1990), pp. 76–77.
 60. Koehler (2014), p. 40.
 61. Ibrahim (1990), p. 196. See also Wolf, Eric, “The social Organization of Mecca and the Origins of Islam,” *Southwest Journal of Anthropology*, vol. 7 (1951): 329–356.
 62. Ibrahim (1990), p. 195.
 63. Binder, Leonard. *Islamic Liberalism*. Chicago: The University of Chicago, 1988, pp. 210–212 (Binder 1988).
 64. The term “de-essentialization” is from Talal Asad.
 65. See Koehler (2015), pp. 175–200.

66. Cizakca, Murat. *Islamic Capitalism and Finance*. Northampton: Edward Elgar, 2011. See also Cizakca, Murat, "Was Shari'ah Indeed the Culprit?" Personal RePEc Archive, (2011) Paper no. 22865 (Cizakca 2011).
67. Nolan, Marcus, "Religion, Culture, and Economic Performance," Working Paper Series 03–08, Institute for International Economics, Washington, DC (2003). See also Nolan, Marcus and Howard Pack, "Islam, Economic Growth and the Middle East," *Global Dialogue*, vol. 6, no. 1&2 (2004) (Nolan 2003; Nolan and Pack 2004).
68. See Crow, Karim Douglas, "Islam, Capitalism and Underdevelopment," *Islam and Civilizational Renewal*, vol. 4, no. 3 (2014): 371–390 (Crow 2014).
69. Abou EL Fadl (2014), p. 420.
70. Abou El Fadl (2014), pp. xiii–xiv. See also Allawi, Ali. *The Crisis of Islamic Civilization*. New Haven: Yale University Press, 2009 (Allawi 2009).
71. Asad, Talal. *Formation of the Secular, Christianity, Islam, Modernity*. Stanford: Stanford University Press, 2003, pp. 169–170 (Asad 2003).
72. Kuran, The Long Divergence, 2011, Chap. 14, p. 281.
73. Kuran (2011), p. 438.
74. Asad, Talal, "Europe Against Islam: Islam in Europe," *Muslim World*, vol. 87, no. 2 (1997) p. 189. See also Kuran (2011), *The Long Divergence*, p. 6 where he defines "the West" as "western Christendom" (Asad 1997).
75. See Pruett, Gordon E., "Islam" and Orientalism," in Asaf Hussain, et al., eds. 1984, p. 82 (Pruett 1984).
76. Kuran (2011), p. xii
77. Ibid., p. 302.
78. Crone, Patricia and Michael Cook. *Hagarism: The Making of the Islamic World*. Cambridge: Cambridge University Press, 1977 (Crone and Cook 1977).
79. See Abou El Fadl (2014), especially Chaps. 5, 6, and 8.
80. Almond, Ian. *The New Orientalists*. New York: I. B. Taurist Co. Ltd., 2007, p. 203 (Almond 2007).
81. Kuran (2011), p. 302.
82. Simply stated, a worldview is the way a people explain the world around them.
83. Just as a person indwells in her/his body, a Muslim "indwells" in the Qur'an and Sunnah.
84. Naugle, David, K. *Worldview: The History of a Concept*. Grand Rapids: Eermans. 2002, pp. 305–307 (Naugle 2002).
85. This and subsequent discussion of testing for worldview is based on Johnston's reading of Naugle, see, Johnston, David L. *Earth, Empire and Sacred Text*. London: Equinox Publishing Company, 2010, pp. 190–195 (Johnston 2010).

86. Noland and Pack (2003), p. 1.
87. Quoted in Johnston (2010), p. 212.
88. See Norton, Anne. *On the Muslim Question*. Princeton: Princeton University Press, 2013 (Norton 2013).
89. Johnston (2010), p. 223.

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Capitalism and the Islamic Economic System

DOES CAPITALISM DEFINE AN ISLAMIC ECONOMY?

There are two reasons for beginning this chapter with this question. First, there is the distinct impression from a number of books and articles over the last four decades that the Islamic economic system shares a number of common features with capitalism. Second, from a historical perspective, there is the proposition that capitalism borrowed a number of its vital economic institutions from Islam beginning in the eleventh century. The answer to the question is important because an affirmative response obviates the need for our book. In this chapter, we try to address the question and present the case that the answer to the question depends on how one defines and envisages capitalism. We argue that a narrow consideration of capitalism, from an economic point of view or the vantage of economic history, would indicate certain common features between capitalism and an Islamic economy, such as embracing private property, profit-seeking and reliance on markets. These commonalities were far more important to pre-Enlightenment capitalism and to a version of capitalism referred to as “mercantile capitalism.” Since the Enlightenment, however, capitalism has picked up other characteristics in its evolution that has allowed it to expand its domain of influence beyond economics to social, political, cultural, art, and religious spheres. It is no longer just an economic system, but like Islam itself it is a whole way of life—as such, it differentiates itself not only from Islam but also from Christianity and Judaism.

While it is still valid to consider Islam's influence in the historical formation of capitalism, as some scholars have done, there is little justification for identifying the Islamic economy with the system that today is considered capitalism. To argue this point, we will first consider the simplified and narrow vision of capitalism to describe the logic, the organising principle, the mentality and the dynamics that define it and provide the basis for assertions of close affinity between it and an Islamic economy based on the Qur'an. Then we consider the elements that have made capitalism into a whole social system.¹ We then continue by describing the institutional structure of an Islamic economy that renders it a totally different system. Clearly defining and characterizing an Islamic economy is the necessary and crucial step in calling attention to the divergence of Muslim economies, which are being influenced by the seemingly inevitable global march of capitalism, from the system prescribed by the Qur'an.

DEFINING CAPITALISM

In trying to define capitalism, one faces an "embarrassment of riches" because there are so many definitions. Grassby (1999, p. 1)² refers to Richard Passow who reports that 111 definitions of capitalism existed as early as 1918. Maurice Dobb in his book on *The Development of Capitalism* (1946)³ asks: "How is it that a term as seemingly central as capitalism can have so many different meanings?" He argues that each definition and meaning of capitalism stems from a unique view of nature, time frontier, causal narrative of the origin of capitalism and the progress and growth of the modern world.

One characteristic of capitalism that makes definition challenging is that it does not owe its existence to any specific theoretical or historical construct. As Grassby suggests, Werner Sombart⁴ invented the idea of capitalism both as a historical and conceptual ideal construct. Similarly, Max Weber,⁵ a contemporary of Sombart, characterized capitalism as rational organization of production by appealing to historical experience in conjunction with hypothesizing rational action of individuals and groups directed to given ends.

The challenge of finding a definition of capitalism that attracts the consensus of scholars remains largely unmet. What is instead available is defining capitalism by searching for characteristics that are shared in most definitions. In this context, a recent two-volume book edited by Lary Neal and Jeffrey Williamson (2014)⁶ provides a broad definition of capitalism by identifying

four common elements: (i) private property rights; (ii) legal framework for contract enforcement; (iii) price-sensitive markets; and (iv) supportive governments that promote trade, develop financial institutions and protect private property rights. Such a definition provides the flexibility to economic historians to investigate the occurrence of these elements in history as far back as Mesopotamia to present-day capitalism in North America.

EXCHANGE, PRINCIPLE AND MENTALITY OF CAPITALISM

One of the fundamental concepts of any economic system is that of exchange. Kenneth Boulding⁷ defines exchange as a “basic” form of interaction in human societies, including economic, social, political, personal relationships as well as collective action, containing the proposition that “I will do something good for you if you do something good for me.” He considers exchange as a powerful organiser of society and its activities that makes everyone better off “because exchange, if it is really free exchange, does not happen unless both parties are better off.” Braudel (1982, p. 125) suggests that “exchange is as old as human history” and that (p. 26) “the genesis of capitalism is strictly related to exchange ... production means division of labor and forces men to exchange goods.” Boulding (1968, p. 103) observes that exchange is a positive-sum game in that all participants in exchange gain from trading and suggests that exchange is a “curious mixture of cooperation and competition.” It is cooperative in that both parties to exchange gain but it is competitive in so far as any change in the terms of trade in exchange, that is the ratio of exchange, has the potential to make one party better off at the expense of the other party.

What do the parties exchange? The subject of exchange is commodities. A commodity is anything that is able to satisfy a human need or desire or in other words anything that has a use value and has the ability to satiate a need or desire. A commodity can also be exchanged for another commodity. Therefore, it also has exchange value; that is, it can be priced in exchange. There are things such as love, honesty, trust, friendship and integrity that have enormous use value but, at least in some social formations, have no exchange value because they are not priced for exchange. There is a process, considered unique to capitalism called “commodification.” This is continuous and gradual process by which commodities that have use value are priced for exchange, they pick up exchange value there are commodities that have no direct use value but have the power to

acquire it through their exchange value. Money is such a commodity. While it has exchange value, it cannot directly satisfy a need or desire but can do so indirectly through its exchange value, because it is accepted in exchange for commodities with direct use value. Accumulation of money is an accumulation of exchange values. However, accumulated money has a unique power to acquire use value without being exchanged for commodities that do have use value. A wealthy person obtains power and prestige without the need to exchange.

Exchange takes place in a market. In its simplest form, market refers to a place where exchange takes place where supply and demand come together through the functioning of the price mechanism. Braudel suggests that the market “may have been invented by the Phoenicians” (Braudel, p. 228).

Markets come into existence when the production of a given commodity exceeds self-sufficiency and the excess commodities are exchanged between parties to satisfy needs or desires. Market exchange can take variety of forms. The simplest is the direct exchange of one commodity, C , for another commodity, C' . This is the barter exchange. When money intermediates the exchange between one commodity, C , and another, C' , the form becomes $C-M-C'$. In this form, a market participant brings the commodity C to the market, sells for an amount of money, M , and exchanges it for the other consumable commodity C' . The first participant in this form is only interested in ultimately buying commodity C' . In this form of exchange $C-M-C'$, M is the medium of exchange. In the third form, a participant exchanges an amount of money, M , to acquire commodity C and sell it for a larger amount of money, M' . That is, $M-C-M'$ where $M' > M$. A merchant is someone who produces neither C nor C' but engages in this form of exchange to earn a profit, i.e. $\Delta M = M' - M$. In this case, M is capital and has exchange value. If the merchant does not use M' to satisfy consumption needs but to use it as capital to continue the form $M'-C'-M''$, where $M'' > M' > M$, then the merchant has progressed to become a “merchant capitalist.” That is the merchant becomes someone who uses “capitalist principle” of using exchange value continuously to acquire greater exchange value—using exchange value to increase exchange value.

Using exchange value to increase exchange value for the sole purpose of accumulation constitutes the “capitalist mentality.” It is possible for a merchant or an entrepreneur or a manager to adhere to the capitalist principle without having capitalist mentality. Consider, for example, the case of someone who has been designated as the executor of a person’s will for the sake of his/her orphaned children. According to the Qur’an, this

person is entrusted to manage the funds on behalf of the orphans. He/She can use the capitalist principle to accumulate wealth (exchange value) for the children's future use without benefiting from the accumulation, though the executor is allowed to partake a minimal amount from the estate for its management. So, the person uses capitalist principle of accumulating wealth without the capitalist mentality. Therefore, while in general the principle and mentality go hand in hand to make a capitalist and they promote each other, they need not always go together. In the case of the orphans' legacy, the executor may bargain even harder than the capitalist because of a strong moral justification without the mentality of benefiting from accumulation personally.

A more complicated form of exchange is when the capitalist uses money as financial capital to acquire the power of labor and machinery to produce commodities with exchange value in order to accumulate wealth (exchange value). This process can be represented as $M-C (L_1, L_2, RM, K_{\text{Production}})-C'-M'$, where L_1 is labor power, L_2 is land, RM is raw material and $K_{\text{Production}}$ is machinery and other needs for production of C' to be sold in the market for M' . Once again, $\Delta M = M' - M = \text{Profit}$. In this process, labor and land become commodified because they acquire exchange value. The capitalist is no longer a merchant but an industrialist whose logic ultimately derives from the pressure of ceaseless process of accumulation, which in turn becomes the organizing principle of capitalism.

Since there are many capitalists in the market competing with one another for the purpose of accumulation, the dynamics of the market driven by competition requires each capitalist to continuously increase exchange value (ΔM , or profit) or face bankruptcy. Capitalists do this by reducing cost, expanding their markets, innovating (finding new products, new markets or adding new processes and technologies to improve labor productivity to get more output per unit of production). To expand output under these conditions, it becomes imperative for capitalist to continuously accumulate. But to be able to increase output, there must be markets and that means an increase in consumption. This, in turn, implies inducing consumption beyond satiation, which the capitalist does through marketing, advertising, or infusing into products a feature that Joseph Schumpeter called "creative destruction," continued or planned obsolescence.

This brief review of the essential foundation and definition of capitalism should facilitate an analysis of commonalities, differences and connections between Islam and capitalism. Consideration of historical, conceptual and contemporary sources can be helpful in this effort.

ISLAM AND CAPITALISM—THE CONNECTION

There are varieties of claims in the literature relating to the connection between Islam and capitalism. Among these connections, five varieties stand out. The first suggests that capitalism is a historical, epochal system that has evolved over the long span of human history. The economy, which developed in Muslim countries between eighth and eleventh centuries, was an important stage in capitalism's long march to become the global dominant system it is today. The second view holds that capitalism that developed in the West borrowed a few but crucial concepts, methods and institutions from Muslim countries in the process of trading with the latter. This view argues that the capitalism of Europe that originated in fourteenth and fifteenth centuries was unique to European societies with little connection to Muslims other than trade. This connection became even more tenuous once the sea trade shifted away from the Mediterranean to the Atlantic and Pacific oceans. The third view holds that the essential characteristics of capitalism became palpable only with the development of Muslim economies and was then transmitted through trade to European countries. The fourth view holds that not only did capitalism originate in Muslim countries in form of merchant capitalism but that the ideal Islamic economy, as defined by the Qur'an and Sunnah, is capitalistic and hence the term Islamic capitalism. Finally, there is fifth version that argues that the origin of capitalism is strictly Christian and Western with an antagonistic relationship with Islam and Muslims. These five claims will be considered in due course but before these claims can be fruitfully discussed, it is important to recall that there are varieties of capitalism and this leads to the question—which type of capitalism is at the center of each of the five claims?

VARIETIES OF CAPITALISM

The many varieties of capitalism make it not only challenging to focus on the one type of capitalism that is appropriate, but also runs the risk of being erroneous. A recent interesting approach is that of Squibs (2014). While the varieties of capitalism can be typified according to historical origin, characteristics, ideologies, institutional framework, culture, economic structure and the forms of government, Squibs finds classification according to genre more helpful. He identifies five genres: (i) capitalism as

a vessel of spirit; (ii) capitalism as a commercial system; (iii) capitalism as a production-focused system; (iv) capitalism as a production-mode-focused system, and (v) capitalism as a religion.

V.1. The first of these genres is associated with Werner Sombart and Max Weber. Sombart, in *Quintessence of capitalism*, argues, “At some point capitalistic spirit must have been in existence—in embryo—if you like—before any capitalist undertaking became a reality” (p. 25). In the hands of Max Weber, this idea of “spirit” became the motivator of capitalist to make profit and accumulate. The latter would take place through the rational organization of production. Weber emphasized that it was Protestantism that provided the spirit of a move toward rationalism. Whereas Weber argues that Protestantism provided the spirit of capitalism, Sombart relegates this role to Jews. He argued that Jews, with their characteristic of calculating self-interested orientation, represented the embodiment of capitalism. Neither of the two authors suggests that capitalism is a religion but that it was a product of religion. Weber gives a Protestant mode of organizing capitalism and Sombart a Jewish mode. The latter distinguishes between the spirits of commercialism of the Middle Ages as being the spirit of artisan mentality and different from the spirit of merchant capitalist that emerged later. The difference between the two was that merchants of the Middle Ages did not possess a capitalist mentality and no acquisitive urge. The merchant of the Middle Ages was primarily motivated by the urge to “earn a living which belonged to his position in society. His entire activity was dominated by the idea of securing a proper living—proper according to traditional standards....”⁸ This mentality, Sombart argued, was dictated by the “livelihood principle” expressed in the legal and ethical order of medieval trade reaffirmed later by Protestant Reformers, such as Martin Luther, who argued that “the merchant should regard his earnings as simply a reward for labor extended” (p. 28).

Werner Sombart’s book, *Modern Capitalism* (1902), was published before Max Weber’s book, *The Protestant Ethics* (1904–1905). In 1911, however, Sombart published another book in response to Weber’s book translated into English in 1913, with the title: *The Jews and Modern Capitalism*, in which he documented Jewish traders, scholars and financiers’ involvement in the history of development of capitalism. According to Sombart, these groups were excluded from trade guilds, disliked feudalism and believed that characteristics that defined the economic system of

medieval Europe were sterile, unprogressive and backward. The fundamental attributes of that system included the objectives of “just” wages and prices, an equitable system in which agreement among traders guaranteed a “fair” and “stable” market shares, an operating “livelihood principle” that guaranteed modest levels of profits and livelihood, and limits on production. Sombart argued that since Jewish groups were excluded from guilds, they favored the breakup of the feudal system and its economic system in favor of a more dynamic competition-based system, geared only to supplying the market with what people demanded. For Sombart, a kind spirit is the motivator for organizing production.

In a recent book, Muller explores the historical relationship between capitalism and Jews, explaining why the Jews were so successful in capitalistic societies.⁹ Muller (p. 5) argues that Jews were involved, during the Middle Ages and beyond, in commerce “and with the lending of money long before the rise of a recognized modern capitalism in the seventeenth century.” He makes a connection between Schumpeter’s idea of creative destruction—which he interprets as destruction of the old and its replacement with the new—and the role of the Jews in ushering in the new system of capitalism. He contends that in the mind of European intellectuals “Jews served as a kind of metaphor-turned-flesh for capitalism” with some arguing that “only a society in which the reality of shared community was dead would encourage the self-interested economic activities ...” (p. 15). Among these intellectuals, “thinking about capitalism and thinking about Jews went hand in hand” (p. 16). Evaluation of the connection between Jews and capitalism depended on the evaluation of traditional life of European medieval societies with their inherited privileges and their replacement by capitalism.¹⁰ Muller (p. 59) argues, to Sombart, that Jews “were inclined less to creative, entrepreneurial elements of capitalism than to the calculative search for advantage characteristic of finance and trade... Sombart portrayed the triumph of capitalism as the replacement of a concrete, particularistic, Christian community by an abstract, Judaized society.”

According to Frankel (1983, p. 1), “Sombart asserted that the Jews had created modern capitalism. Indeed the terms Jewish and capitalism were used synonymously by him, as was quite common at the time.” Over the years since the publication of Sombart’s book, his arguments have been challenged effectively by scholars for their logical inconsistency and historical inaccuracies and are considered as ideological tracts rather than a scholarly research in the historical origin of capitalism.¹¹ Max Weber,

on the other hand, postulated that Christianity provided the original impulse, “spirit,” for emergence of capitalism. This was, however, not the Christianity of the medieval church but that of the Protestant Reformation of Martin Luther (1483–1546) and, more importantly, John Calvin (1509–1564).¹²

V.2. Whereas the “spirit of capitalism” approach deals with the force behind organization of production, the genre of commercialism focuses on global exchange–trade relations within the capitalist process as in the work of scholars such as Fernand Braudel,¹³ Immanuel Wallerstein,¹⁴ Janet Abu-Lughud¹⁵ and Giovanni Arrighi.¹⁶ While most of the researchers in the world system, as this genre are known, locate capitalism in a global process and consider modern capitalism as developing in Europe and accompanying the industrial revolution. Abu-Lughud argues that making a distinction between “Commercial Revolution” and “Industrial Revolution,” and considering the latter as the prime force in the emergence of capitalism as “too arbitrary and indeed too late.” She provides evidence of development of metallurgy in the twelfth century, something that “would not be achieved in Europe until the sixteenth century.” The same holds true for China’s papermaking and printing technology “that would not be duplicated in the West for several centuries” (1989, pp. 9–10).

Abu-Lughud also disputes the habit of discounting contribution of Islam and Muslim ideas in the development of the West and criticizes the procedure of “reasoning backward from outcome” that the economic success of the West was because “it was more advanced in either capitalistic theory or practice. Islamic society needed no teacher in these matters.” (1989, p. 216). She refers to evidence and arguments presented by Solomon Goitein,¹⁷ Auguste Toussaint,¹⁸ Maxime Rodinson,¹⁹ Abraham Udovitch²⁰ and Robert Lopez²¹ to argue that capitalism flourished in the Muslim world centuries before it took roots in Europe (1989, pp. 216–224).

V.3. Stephen Squibs (2014) presents capitalism as productivism and as a mode of production in two different categories. However, the resemblance between the two is close, so they are combined here. The former category focuses on capitalism as being concerned primarily with production and its means as well as their productivity especially that of labor. The roots of this genre is Marx and the idea of commodification of labor according to which labor power is traded in the market for labor and it is the source of creation of “surplus value” monetized as capitalist profit. The scholar associated with this view is Maurice Dobb.²² The latter category, capitalism as a mode of production, is associated, according to Squibs, with David Harvey²³

who considers capital as the organizer of the capitalist mode of production that creates surplus value, consistent with Marx's analysis.

V.4. Whereas, according to Squib's classification, the first genre focuses on a "spirit" that motivates capitalism, the last genre in this classification, capitalism as religion, considers capitalism as a religion with "godlike power" that is "external and powerful" that dominates every aspect of social life. It is the "life form" that through capital, as its force, dominates and conditions "collective human experience."²⁴

The first and leading proponent of this genre is Walter Benjamin (1892–1940), a philosopher and a critique of various aspects of modern life, including capitalism associated with the Frankfurt School, a philosophical school focusing on critique of technological development, modern culture and capitalism, also known as Critical Theory.²⁵ Benjamin argues that capitalism developed "parasitically on Christianity" to become "a purely cultic religion without dogma."²⁶ "Capitalism," Philip Goodchild argues²⁷, "is a material religion ... a religion in things themselves." "Its ideology ... is purely objective, a constitutive illusion in the relation between things themselves." To Benjamin, capitalism, in the way it organizes production and reproduces itself, is a form of religion that grew out of Christianity. As such it has its own mythology, in that it presents itself in the form of the myth that it is the only natural and possible religion to modern man. It also has its own icons, including money and markets. Benjamin "considers capitalism as a particularly pernicious form of religious consciousness," as it is "embedded in the needs and problems of consciousness... and radicalizes the need upon which religions rest."²⁸

In the context of discussion of capitalism as religion, Nathan Ross calls attention to a paradox of "capitalist cult." Just as any "cultic religion is characterized by an intense identification of the individual with group ... as a show of faith," Ross argues, capitalism requires the sacrifice of the most important devotional aspect that motivates the behavior of individual, self-interest, to "conformity to an irrational group behavior" as a show of faith. This characteristic of capitalism has had significant implication. Goodchild argues that the emergence of capitalism as a cultic religion required the death of religion proper and the "murder of God." In turn, this led to a "fundamental shift in human history which at once unites that history and globalizes the world," through over-expansion of financial capitalism.²⁹ He borrows the concept of the Murder of God from Nietzsche³⁰ to indicate "the simultaneous collapse of all eternal certainties

regarding religion, morality and reason” (p. 10). The emergence of the secular, as a replacement for a God-centered worldview, created the new religion of capitalism with its own theology, provided by economics, and its own icons of money (the future value of which was guaranteed by taxation which became a source of accumulation of power and which progressively enslaves market participants through debt) and ever-expanding markets (p. 10).³¹ Goodchild argues that the shift is the “global role of finance capital” that now mediates and permeates human relations. Global capital now demands fidelity to its ideology and the “undemocratic” global institutions “govern the World in line with the demands of capital” (p. 247).

Goodchild argues that the emergence of self-regulating market, as the organizing principle of social order, effectively accomplished the “deed of the murder of God” (p. 29). Before the eighteenth century, he contends, markets were more than “accessories of economic life” (p. 29). They would have remained so had not the limit on their growth (constrained by the amount of money in circulation) been removed by the state’s power to print money. This, Goodchild dates to the take-over of the Bank of England, which allowed the Bank to issue long-term debt instruments backed by the power of state to tax, which in turn provided backing for the currency. In turn, this allowed the emergence of single currency and increase in the money supply, thus removing a hard constraint on the growth of the market and growth of credit (pp. 30–32). Importantly, Goodchild asserts that development of money and credit made the financing of Industrial Revolution possible. Whereas before money in circulation served a physical, material function, credit became metaphysical and capital, credit bearing interest, became “the material form of ideology” (pp. 85–86). Money, assuming the role of divine in the cult of capitalism, being both abstract, as it becomes the standard of value of all values, and tangible simultaneously, is both metaphysical and physical.³²

To some, it is not so much that capitalism as a social system has become a cultic religion but its most important icon, the market, is becoming a world religion with economics as its theology.³³ Dobell (1995) argues that environment destruction is the result of the embrace of a peculiarly European and Western individualistic religion of economics and markets that makes the market dogma universally applicable, any interference in which would be a threat to the natural order of economic life. It is remarkable, Dobell asserts, how the religion of the market has become the

dominant religion with an immense influence on human activities and relations across the globe.

The chief characteristic of modern capitalism as a religious “cult” is its achievement in raising the status of the market to one of reverence as an ideology that represents a number of value elements including efficiency, self-interest, means-ends rationality with freedom as the most important among these elements. Reification or “absolutization” of market was a historical process that began in the seventeenth century with England’s Glorious Revolution and picked up momentum after the French Revolution.³⁴ However, the push to make the market the leading ideology began in the nineteenth century.

Walter Weisskopf argues that up to the time of Reformation, Christianity was diametrically opposed to market behavior, which was motivated by: uninhibited pursuit of self-interest and greed, pursuit of wealth for its own sake, the exploitation of market participants through the action of buying cheap and selling dear, and lending with interest on the ground that the conflicted with Christian ethics and its virtues of charity and compassion.³⁵ Since the eighteenth century, there have been attempts to resolve this conflict by building a case that Christian belief admits market conduct as virtuous because behavior required by market promotes the “common good.” Reformation created the atmosphere where all conduct required by market as being in conformity with hard work and economic success ethics of Calvinism and puritanism that considered profits and wealth as a sign of Grace and Salvation rather than sin. Economic success was considered a result of practicing worldly asceticism, which meant the virtues of hard work, postponed gratification, resistance to impulses, thrift and saving. Seeking profits was pursued with good conscious. The poor did not practice these important virtues and were not to be saved. In this way, Reformation resolved the conflict between values of capitalism and those of Christianity.³⁶

In the nineteenth century, the compromise between Christian values and those of capitalism broke down as capitalism severed its ties with religion to become a religion itself. The economically successful appealed to natural selection to explain their superiority. Acquisitive individualism received attention as a natural trait of humans. In the middle of the nineteenth century, freedom of the individual became the cornerstone value of capitalism. Freedom at this time meant freedom from constraints on the market; freedom of land, labor, capital, contract, and freedom of whatever was needed to make markets work. But the major thinkers of this

period were aware that there had to be limits on some freedoms, which that if allowed autonomy would mean the destruction of markets, such as in the case of monopoly. While they opposed state regulation of markets because they considered them inconsistent with their ideology of freedom, they favored limited government regulation to make sure that markets thrived. The battle of the freedom of land, labor and capital having been won, the twentieth-century advocates of freedom focused on freedom of government regulations of any kind except the very basic duty of the government of defense and police protection, a role analogous to the “night watchman.” With the success of “conservative” governments in the USA and England in the 1980s, the absolutization of market emerged triumphant and capitalism as fast growing global capitalism and a “religion cult.” As remarked earlier, the seeds of reification of capitalism are to be found in the Reformation. This is where the historical unfolding of this “cult” emerged.

Reformation was a crucial stage in the destruction of the old European medieval system and the emergence of capitalism. The social order that existed before the full blooming of capitalism was oriented toward its own unique religious, cultural foundation, deeply influenced by Christianity and social structure that was vertical, hierarchical and fended order with the nobility and clergy on the uppermost rung of the ladder. Official ecclesiastical class possessed “grace” by which society was sanctified. Historians judge the medieval society as a static society caught in a straitjacket of religious and feudal hierarchy that created development barriers. This plus the corruption in the ecclesiastical order heralded the emergence of the Protestant Reformation.

The most important revolutionary aspect of Reformation was not an anti-religion attitude that came in with the birth of the Enlightenment, as much as it was the emergence of a consciousness that broke through the belief that man needed the intermediation and the “grace” of the Church to sanctify life on earth. Weber’s thesis was that it was this aspect of Reformation, particularly Calvinism that began the demolition of medieval society and created the “spirit” of capitalism. Essential to emergence of this “spirit” was Reformation’s doctrines of predestination (or election), vocation (or calling) and providence. The origin of these doctrines is traced to St. Augustine and St. Paul. The first asserts that not all are destined to the same end—some men are predestined for eternal felicity and others for eternal damnation. The doctrine of vocation finds its root in 1 Corinthians 7:17: “only let each person lead to life that the Lord has assigned him, and to which God has called him.” To Martin Luther, vocations are

opportunities provided specifically to each human to serve God and neighbor. Every human will be called to account for his actions and possessions commensurate with his calling. Therefore, humans, according to Calvin, should work for the glory of God. A Christian has two duties: (i) know and believe in God as it is only by faith that humans are saved; and (ii) work hard in life because genuine faith is affirmed by hard work. Calvinism decoupled work and consumption and made savings and investment independent virtues.³⁷ The doctrine of Divine Providence finds its origin in the thought of Stoics, philosophers who lived just before and a few decades after the emergence of the Christian era. This school of thought provided a number of critical concepts that influenced the Renaissance, the Enlightenment and, through these two, the formation of political economy and of capitalism. The Stoic philosophers (such as Zeno, Diogenes, Marcus Aurelius, Cicero, Marcus Tullius, and Marcus Aurelius) posited a teleological³⁸ foundation of nature that came to be known as Design.³⁹ The Stoics formulated the idea of Design as the doctrine of divine providence arguing that the deity created and shaped the universe.⁴⁰ Everything in creation is provided by Deity, drives its history and nothing in the history happens accidentally because everything that happens is provided for in Providence, which contains everything. Deity has already played its role in creating that natural order and roles by which it is to operate and then fades in the background. It is then the humans that will create a harmonious world. Deism influenced enormously the scholars and philosophers from the sixteenth through the eighteenth centuries to whom the ancient idea of Stoics became more attractive than the Medieval thinkers such as St. Thomas Aquinas. Deism was interpreted by Christians, such as St. Augustine, with the message that Stoics believed in a “godless” world that would “lead to catastrophe, as must all the absolute presumptions of so frail a creature as man, who is always in danger of being unjust, most of all when he claims to be building the kingdom of eternal harmony” (Heimann 1945, p. 49).⁴¹

St. Augustine, while disagreeing with the Stoics on this important issue, nevertheless borrowed the idea of Divine Providence but placed it within the framework of Christian thought. God, he says, “can never be believed to have left the kingdom of men, their domination and servitude, outside the laws of His Providence.”⁴² The three doctrines of ‘predestination,’ ‘calling’ and ‘providence’ became crucial concepts in Calvinism. This is why Richard Tawney (2005) argues that during Reformation, treating commerce as being independent from religion “would have appeared, not

merely reprehensible, but intellectually absurd. Holding as their first assumption that the ultimate social authority is the will of God, and that temporal interests are a transitory episode in the life of spirits which are eternal, they state the rules to which the social conduct of the Christian must conform, and when circumstances allow, organize the discipline by which those rules may be enforced" (Tawney 2005, p. 27). Tawney believes that this is the reason that Reformation in general, and Calvinism in particular, could not support emergence of a capitalistic society. He argues that "such a society does not tolerate the image of God who rules the world, who in his way sets the destinies of men and women, and at moments of his own choosing interferes directly in their efforts with his judgment" (p. 19). For this reason, Tawney concluded that the ideas of Reformation especially Calvinism could not have led to capitalism directly. This is despite the fact that elements of Calvinism such as emphasis on hard work, frugality and rule-based asceticism in line with the need to fulfill a divine vocation. But Calvinism's emphasis on labor was coupled with harsh warnings against accumulation of wealth and possessions. Tawney suggests that Calvinism "did its best to make life unbearable for the rich" (p. 139). Consequently, Goudzwaard (1979, p. 8) points to the difficulty of the task of establishing a direct relationship between Calvinism and capitalism and hold the former responsible for the emergence of the spirit of the latter. Moreover, in contradiction to Weber, he holds that "there is doubt as to whether Calvinism and puritanism thought are sufficient to explain the spirit of capitalism" (p. 8).

Not only scholars find it difficult to establish a direct relationship between the rise of capitalism and the Reformation but the history of the idea of capitalism suggests that, as Goudzwaard argues, the emergence of capitalism had more to do with successive removal of the spiritual characteristics of medieval thought that "in part, evoked the spirit and reality of modern capitalism" (p. 8). This process began with the effort in the Renaissance to destroy the "verticalization" of life, which was marked by the dominance of the ecclesiastical rules and the focus on the life hereafter. This posed a barrier to the unrestricted growth of the economy and of technological progress. While both the Reformation and Renaissance opposed ecclesiastical order with its rules, it was the latter that was most responsible for conversion of society and culture from its vertical to horizontal formation.⁴³ A society with a vertical orientation could not host an expansive system such as capitalism because it located the individual's thought, work and spirit in a straitjacket. While reformation too supported

conversion of the vertical society into the horizontal, actualized in the fierce opposition by the Reformers to the dominance of hierarchical order of clergy and what they saw as a corrupt church, they emphasized that life was sanctified by God and humans were obliged to abide by His laws for life on earth. This meant that such a life did not need a continuous and ever present mediation of the church. However, the Reformers stressed the risks of expansion of commerce in creating the temptation of pursuing unbridled accumulation of wealth.

The Renaissance represented a transition between the Middle Ages and the Enlightenment. The latter did much to remove the idea of God as omniscient, omnipresent Creator who is involved with human life and creation continuously. Thoughts in the Renaissance still maintained the idea of God's providence and judgment, at least formally. But the Renaissance is also credited with laying the foundation of the concept of autonomy of humans that, in turn, relied on the concept of "dignity of man" that had developed in the fifteenth century.⁴⁴ This represented the beginning of what Goudzwaard (1979, p. 12) calls "a licensing of an unlimited and autonomous horizontal development." The Renaissance, he asserts, provided "the first primary impulse for that development. In other words, the earth becomes man's domain as the platform and instrument with which he can realize himself in the arts as well as in science, in trade as well as in his contact with the other sex. Man directs his attention to this world to come to a better understanding of its and consequently of himself" (pp. 12–13).

The decline and eventual demise of the medieval social system created an intense crisis in European societies. Werner Stark suggests that the age of the Renaissance "was a period of contradictory development."⁴⁵ The medieval cosmology that gave a clear view of human's relation with their Creator was abandoned but it was not replaced by a similarly comprehensive system of thought. This was to change in the seventeenth and eighteenth centuries, as thinkers changed the ideology of Europe based on a God-centered cosmology to design and then to a wholly man-centered ideology. The process began to turn with scholars, such as Hugo Grotius (1583–1645), to a conception of design and natural law of Stoics, such as Cicero, to construct themes of law, rights, private property and perception of man as rational being and a "rational" man who was fast being theorized as the master of his own destiny. Grotius contributed to the general stream of thought that fed the formation of what Weber later called "the spirit of capitalism" by articulating the foundation of the process of a break with

Protestantism and led to emergence of a new conception of man's rights and responsibilities as a member of society.

Grotius clearly articulated the relation between natural law and deism. God has demonstrated His Will through the law of nature. He has created man free with natural liberty and given him dominion over material world. He interpreted natural law as maintenance of other people's rights of property or personal merit. He saw natural law as creating duties of benevolence, the duty of keeping faith and the duty of making amends for wrongdoing. He defined natural law as an "intuitive judgment making known what things from their own nature are honorable or dishonorable, involving a duty to follow the same imposed by God" [quoted in Stark 1976, p. 68].⁴⁶ Stark suggests that for Grotius, "God's will is no longer the unique source of moral qualities: things are good or bad from their own nature, and that is logically prior to God commanding or forbidding them... men want to be responsible and social beings even though they may suffer as individuals for those wants in the short term, and that the law of nature obliges them to follow their natural bent" (Stark, p. 68). Stark suggests also that Grotius view on private property is similar to contemporary view that men were naturally free and, by virtue of that man the master of his own property and action, hence, he was to negotiate contracts regarding their property because liberty was man's property and because of it men were free to contract (Stark, p. 69). Importantly, according to Grotius, it was this aspect of natural law that created the obligation for men to respect the rights of others so that social peace would be preserved. It was disputes over rights that created the justification for wars (Stark, p. 70). Grotius did not deny the existence of God, but qualified his view by suggesting that when God created man, He endowed man with nature according to which man acts without God's mediation: "Natural law is so unalterable that God himself cannot change it" (quoted in Gay 1967, vol. 1, p. 299).⁴⁷

Goudzwaard (1979, p. 299) argues that in the seventeenth century, natural law replaced God and assumed the role of Providence in the world. God receded in the background, and this creates space for man to come forward and take his fate into his own hands and "provide" for himself. Natural law and deism of stocks that were the basis for the emergence of the concept of liberalism and individualism were also responsible for decoupling of religion, specifically Christianity, and the spirit of capitalism contrary to Weber's assertion. Peter Gay (1967, p. 149) suggests that deism represented "a last compromise with religion." The social and economic life of

humans was governed by natural law completely accessible by human reason. In this context, “God becomes a working hypothesis who can, in fact, easily be eliminated at a later stage.”⁴⁸ Deism persisted well through eighteenth century, greatly influencing Adam Smith, as did the development of Enlightenment thought that gave human reflective thinking and reason a primal role for enlightening the dark sphere of unreason of despotism, authoritarianism and religious dogmatism and superstition.⁴⁹

Strictly a European phenomenon, the Enlightenment considered the period in which the light of reason became supreme. There is some disagreement on the time period covering the Age of Enlightenment, also called the Age of Reason. It is, nevertheless, common to place, as most historians do, the time frame from late seventeenth to late eighteenth centuries, with the end of Age of Reason generally agreed to be the French Revolution (1787–1799). The strong belief that the power of reason would free mankind from the darkness of the age of dogmatism. Perhaps the most important thinker of the Age, at least in the fields of philosophy and ethics, Immanuel Kant, provided the “motto of enlightenment, “dare to know,” composed of three maxims as the basis of analysis for individual human knowledge and understanding. These maxims are: “(1) think for oneself; (2) think from the standpoint of everyone else; and (3) think always consistently” (Kant 1790/1790, pp. 160–162).⁵⁰

Enlightenment was hugely influential in the development of, *inter alia*, political theory [including the ideas of: Thomas Hobbes (1588–1679); John Lock (1632–1704); Voltaire (1694–1778); Montesquieu (1689–1755); Jean-Jacques Rousseau (1712–1788); and Marquis de Condorcet (1743–1794)] and political economy, especially through Scottish Enlightenment thinkers [including the ideas of: Francis Hutcheson (1694–1746), David Hume (1711–1776) and Adam Smith (1723–1790)]. Enlightenment came into disfavour as a result of the violence of the French Revolution, widely considered a political outcome of the Enlightenment and was blamed for it. Most importantly, doubt as to whether reason alone was sufficient to know all things. Even Kant⁵¹ casted doubt on the idea of supremacy of reason to understand anything about phenomena beyond the physical, such as God and life hereafter, that needed faith to understand. James Q. Wilson asserts that the Enlightenment left an “ambiguous legacy.”⁵² Nevertheless, the Enlightenment gave birth to the ideas of human dignity, liberalism, individualism and progress of eighteenth to twentieth centuries that became crucial aspects of emergence of capitalism in the nineteenth and twentieth centuries.

For the idea of capitalism, as understood in the twentieth century, to emerge, a number of barriers created by the beliefs of the Middle Ages had to be removed. Goudzwaard (1979, pp. 3–4) argues that for capitalism to emerge and take a sustained shape as a new social order, the social structure preceding it with its total full cultural characteristics had to be demolished through removal of the barriers that blocked its establishment. These barriers included belief in God, and His powers, the idea of the wretchedness of humans due to the Original Sin and the Fall, as defined by Christian belief, the vertical hierarchical structure of the society in which supremacy was granted to the nobility and the clergy, the idea that gave priority to the life hereafter (since in view of Christian theology humans had lost paradise on earth), human's lack of self-determination, doctrines of divine providence, predestination and calling. All these barriers were razed between sixteenth and nineteenth centuries in which the Renaissance and Enlightenment all but destroyed the essence of medieval thought and replaced them with ideas of liberalism, individualism and progress, which together would build a paradise on Earth without a need for an active God that would participate in human destiny.

The Enlightenment resulted in a major shift in the spiritual framework within which medieval society had functioned. Whereas the latter was hierarchical and had a conscientious that life on earth was strictly the domain of God's Will and Providence, the Enlightenment, with Renaissance values of human dignity, rationality and man's dominance of nature already developed and accessible, focused on the role of each human to promote the maximum happiness of all (measured by utility) through the operation of the market. In this way, Enlightenment theorists argued, each human is able to determine his own destiny and promote social harmony. Under the influence of deism, the idea of providence of God shifted to the providence of man as each human was thought to "provide" for himself. Natural law was reinterpreted to be anchored in individual agency.⁵³

Out of the Enlightenment, three major ideas crystallized: progress, liberalism and secularism. A case can be made that emergence of the idea of progress as an earthly phenomenon was inevitable once the ideas of God, and His Will and Providence, as understood in the medieval period, were abandoned, first by the Renaissance and then by the Enlightenment.

The idea of heavenly Paradise lost had to be regained on earth. John Gay (*Enlightenment* vol. 1, p. 3) suggests that the Enlightenment shifted the essence of progress from an existing consciousness to a faith in progress

that “became an inherent part of Western culture.” Development of sciences, colonization of far off lands, economic expansion, development of new markets, new techniques of production, rapid urbanization, development of trade and banking centers in Europe allowed the man of the Enlightenment to experience progress before it became an operating belief and a program for the society (Gay, *Enlightenment*, vol. 2, p. 56).

J.B. Bury argues that belief in the idea of progress is an act of faith and “belongs to same order of ideas as Providence and Personal immortality.”⁵⁴ As a result of the Enlightenment, “man had acquired a profound confidence in the possibility of his own rational insight and critical ingenuity,” as well as a triumph rationalism; a belief that human reason as guide to the future and “which can help humankind to avoid every danger and threat with infallible certainty” (Goudzwaard 1979, p. 37). Goudzwaard argues that the idea of progress of the Enlightenment was all-encompassing and comprehensive. It not only included progression in education, art, mores, customs, technology, economic and social conditions but also extended to the idea of progress in profitability of humans (p. 39) which would follow steady improvement in the process of human self-improvement and self-realization. Gay (vol. 2, p. 119) quotes Marquis de Condorcet (1743–1794), as saying in his book *Sketch for a Historical Pictures of the Progress of the Human Mind* that, “nature has set no limit to the perfection of human faculty... the human race, freed from all fetters, withdrawn from the empire of chance as from that of the enemies of progress, would walk with firm and assured step in the way of truth, of virtue and of happiness.” Thus, Goudzwaard (p. 40) argues that for the thinkers of the Enlightenment, “paradise does not lie in the past; it lies in the future. Western man is now competent to attain that future.” He further argues that this was not just “a Utopian dream but as definitely attainable future certainty.” This view was not only limited to French thinkers but other European theorists as well.⁵⁵

The faith of the Enlightenment in progress was characterized first by an antireligious and antichristian attitude (Gay, vol. 1, p. 391), particularly among the French Enlightenment figures such as Voltaire (1694–1778) and Diderot (1713–1784). Becker (1932, p. 31) summarizes the belief system of the French Enlightenment thinkers: rejection of the original sin; believing in attaining the good life on earth rather than the beatific life after death; belief in perfectibility of man, guided by the light of reason; and belief in liberty of man from the oppression of the authorities as well as freedom of human mind from bonds of superstition and ignorance imposed by religion. The second characteristic of the Enlightenment was

belief in the Paradise image achievable on Earth with attainment of material progress, peace, and harmony with nature. This belief was influenced strongly by the Stoics image of Paradise in a golden age at the beginning of the human era (Bury, *Idea of Progress*, p. 10) with equality among men, communal property, equity for all and prosperity. This image reappears in the writings of Hugo Grotius, Francis Bacon, Sir Thomas More and John Locke in sixteenth and seventeenth centuries. While there were differences among these visions of Utopia, they share in common the characteristics of raising the possibility of Paradise on Earth as well as that of providing a blue print of how this could be achieved. The clearest expression of these beliefs is reflected in the epitaph of the French Utopian Henry Saint-Simon (1760–1825) engraved on his tombstone: “The golden age does not lie behind us, but ahead of us.”⁵⁶

The third characteristic of the Enlightenment for progress was the practical aspects of imagining a perfect future on earth among the Enlightenment thinkers through utilization of scientific advancement for practical social utility. They firmly believed that prosperity would be achieved through technological progress. They shared the belief in the strong advocacy of social change to ensure emergence of conditions that would allow technological and economic progress to bring about general human prosperity. There was, however, a difference between the French Enlightenment thinkers, who advocated revolution to achieve this end, and the English and German thinkers who advocated restraint on violence and gradual change in social and political institutions.⁵⁷ The Enlightenment’s emphasis on liberty, individualism, rationalism and human social, political and economic progress is credited with the events of French and American Revolutions, as well as the emergence of Industrial Revolution.⁵⁸

Scholars have for long debated the question of why did Industrial Revolution begin in England and not in France? The ideas of the Enlightenment were held in common in the two countries. They shared the same faith in human reason, liberalism, individualism, practicality, and technological innovation as a source of progress. Yet Industrial Revolution began in England? Many reasons have been given, including Britain’s greater access to natural resources, its own and its colonies. What has been considered as the most important reason is the “difference in cultural and spiritual outlook” in the two countries (Dawson 2001; Goudzwaard 1979). French Enlightenment thinkers’ strong faith in progress prompted a radical position against the existing social structure, which they saw as a barrier to social progress. Hence, France in general became preoccupied

with the struggle to change the existing social order. In England, however, stronger belief in deism influenced a stronger willingness to preserve the existing social order, thus allowing England to spend its energies on technical and economic progress. Goudzwaard (1979, pp. 60–62) argues that the spiritual climate between 1750 and 1850 provided the most suitable context for emergence of modern capitalistic society because of the strong belief in deism, which sanctioned natural law and its emphasis on the state's protection of individual liberties and rights. Moreover, the strength of belief in utilitarianism, which emphasized actions that increased total utility for the entire society, in the right of individuals to follow their own self-interest and in the free market, allowed new industrialists to do their best to achieve the maximum degree of utility for themselves. In striving for their own self-interest, it was believed, industrialists' actions would automatically be in the greatest interest of human society. "The intention within this spiritual climate was decisively favorable to capitalism because it found in technical and economic expansion the basis for providing happiness not only for the individual but society in every one of its domains."⁵⁹

As mentioned earlier, the emergence of post-Industrial Revolution owed considerable debt to the ideas developed in the Enlightenment; ideas which were strictly European. Some of these ideas have been discussed. Two other ideas with enormous impact that were developed in the Enlightenment are secularism and liberalism, and the associated concept of possessive individualism. As a political doctrine, secularism has come to mean separation of church and state, but as Asad argues, there is more to the concept.⁶⁰ While undoubtedly the doctrine originated in Europe and implemented in America, traces of it can be found elsewhere as well (Asad 2003, p. 1). It is, however, important to note that the conception of this doctrine owes its birth to a particular nexus of politics, ethics, religion and economic configuration, specifically medieval Christendom. Mahmood argues that secularism is not just the separation of church and state, but rather "the articulation of religion in a manner that is commensurate with modern sensibilities and modes of difference."⁶¹ The Enlightenment, again a European phenomenon, had to devise a substitute system of support for social structure previously provided by the church. This came in the form of liberalism-individualism that focused on the reason, freedom, self-discipline of individuals rather than paternalistic-despotic administration of socio-political-economic structure of society. The argument that the experience of Euro-America with secularism can be universalized,

as the claim for all other Enlightenment values goes, needs to recognize differences in the structure of social formation in various societies.⁶²

Steven Lukes traces the roots of liberalism and its idea of human dignity as a contribution from the New Testament (Mathew xxv: 40).⁶³ According to Lukes, Christianity considers dignity of individual as “the ultimate moral principle... individual’s supreme worth under the sovereign will of God,” with nation, community or other social categories having “secondary moral importance.” The source of human dignity was “the supreme value of the God-given soul” (Lukes 1990, p. 46). In the Middle Ages, however, society came first and the individual was only a part.⁶⁴ In a recent book, Siedentop, however, draws an uninterrupted line for the Christian origin of individualism and liberalism from the Gospels to St. Paul to St. Augustine to the medieval period to Renaissance to the Enlightenment to the present.⁶⁵ The Reformation had its emphasis on individual’s direct relation with His Creator, on individual salvation and equality of all, each with unique calling and purpose, before God. The destiny of man became central to the thinkers of the seventeenth century who built the ideology of individualism and liberalism with an intellectual force that established their continued potency to the present time. The idea of the human dignity found its most systematic articulation in Immanuel Kant’s expression of his *Categorical Imperative* the focus on means as an end and not as means (Lukes 1990, p. 49).

Once the centrality of the dignity of individual is recognized, implications regarding human autonomy, freedom of action, right to privacy, and personal responsibility followed. St. Thomas Aquinas had utilized the autonomy of individual in a special case when a superior’s order would not have to be followed if it went against the dictate of conscious. Yet while Scholastic scholars of thirteenth and fourteenth centuries granted this degree of autonomy of the individual, autonomy did not achieve its status of becoming “one of the cardinal values of the Enlightenment” (Lukes 1990, p. 54). It was left to Spinoza and Kant to accomplish the systematic expression of autonomy. The former taught that the autonomy of human being was key to the difference between servitude and freedom. Kant saw autonomy as integral to freedom. Privacy, with roots in the life and thoughts of St. Augustine and Christian mystics, with focus on an inner private life, establishes the boundary between private and public life of an individual, and hence becomes central to liberalism for which autonomy of individual with respect to life and property includes the right to privacy. Privacy and self-development were considered central elements of

sovereignty of the individual, which were, according to Natural Law theorists of seventeenth and eighteenth centuries, the only sources of formation of society and its authority. These theorists from Hobbes to Kant believed that it was the will of individual that creates social life (Lukes 1990, pp. 73–74).⁶⁶

Through time, liberalism has taken variety of forms from socialism to conservatism and from egalitarianism to liberationism. They all share some key characteristics. John Gray suggests three: individualism, universalism and meliorism.⁶⁷ According to the first, liberalism proposes that an individual human has priority over the collectivity and society. The arguments for this position were put forward by the liberal thinkers from the eighteenth century but reached their most sophisticated form in the nineteenth century built on the ideas from previous centuries. Liberal thought before the twentieth century is referred to as “classical liberalism” to distinguish it from newer social (egalitarian) liberalism. Classical liberalism thought considered individual as self-interested, calculating and rational and agreed with Thomas Hobbes that individuals create governments to protect themselves from transgressions of one another on person and property. Individualism was the core of classical liberal political theory of society, government and public policy.⁶⁸ Locke’s *The Second Treaties of Government* is considered central to the ideology of individualism, and Locke himself is often referred to as the father of modern liberalism for whom the individual had elemental priority over community.⁶⁹ To Locke, governments were trustees and as such they were expected to serve the interests of the collectivity of individuals who have given their consent to the government to protect their person and property; life, liberty and property became the motto of classical liberalism.⁷⁰ The potency of individualism is evidenced by Margret Thatcher’s famous remark that “there is no such a thing as society, only individual men and women.”⁷¹ Gray argues that all Enlightenment thinkers believed in the universality of the ideas central to liberalism. Universalism was also essential to the spirit of capitalism. Karl Marx believed that capitalist mentality would know no limits and there was a tendency of capitalism to expand markets beyond geographic limits and overcome every barrier.⁷² The third common characteristic of liberalism, meliorism, is the idea of political perfectibility of human beings through progress in self-development by the utilization of reason. This idea of progress was discussed earlier as essential to the development of liberalism in the Enlightenment, but its traces run through “economic growth,” “economic progress,” and “economic development”

discourse of today. Much less emphasis, if any, is placed on the Enlightenment's idea of "self-development."⁷³

It is important to note that while classical liberalism is considered a political theory, it has a strong economic component so much so that at times it is referred to as "economic individualism" or "possessive individualism" or "acquisitive individualism." Frank Knight argued that the "main content of the liberal ideal was economic and ethical individualism... each shall be free to use his own resources in his own way to satisfy his own wants."⁷⁴ The Primary objective of liberalism, Knight suggested, was the freedom of individual to own property, to produce and exchange, "in relations of quid pro quo," without being coerced or coercing anyone else. This, Knight asserts, is the essence of laissez-fair liberalism. This follows from the religious ethics of Protestantism belief "in the dignity of human life to live responsibly. Knight provides two axioms of "liberal individualism." The first axiom is the axiom of non-coercion: relationships among humans ought to rest on mutual consent and not subject to the coercion of other individuals or the state. The only "right" function of the state is to protect individuals from coercion by others (p. 5). The second axiom of individual liberalism, according to Knight, is an axiom of "dualism." He asserts that liberalism "was emphatic" that the only obligation created by exchange for the participants was that of "honesty and non-predation." Individual earned income (from their own economic power) representing the individual's "own productive contribution to the aggregate social output." The second axiom of "dualism," according to Knight, is axiom of separation of business from charity means that a business has a "right" to "play the business game according to rules." Thus, for much of the twentieth century, the focus of strand of liberalism called "neoclassical liberalism" or "neoliberalism" was on this latter aspect of core values of liberalism, reducing if not eliminating government regulation of business since a number of other values of the Enlightenment, such as liberty, property rights and progress, had become accepted, even if not fully and uniformly implemented in Western societies.

The trauma of Great Depression and WWII had two different influences on liberalism. The first led to the emergence of egalitarian liberalism and substantial involvement of state in the economy. The second trauma led to emergence of the political and economic idea of neoliberalism. Keynes was the theoretician of the first with the US administration of President Franklin Roosevelt and his New Deal, which was, for all practical purposes, a practical blueprint of Keynes's ideas. The trauma of WWII and continued

strength and growth of communism shaped the views of many intellectual European immigrants to the US and the UK. Consider the view of one such thinker, Ayan Rand, considered the most important contributor to the formation of what became known as Libertarianism. She asserts that to evaluate the “nature of any social system” one needs to ask two questions. First is whether individual rights are recognized by the social system? And second, is the use of physical force to resolve disputes in human relations negated by the system? She argues that the second question is the practical consequence of the first which she expounds passionately with a series of other questions: “Is man a sovereign individual who owns his person, his mind, his life, his work and its product—or is he the property of the tribe, the state, the society, the collective” that may dispose of him in any way it pleases, that may dictate his convictions, prescribe the course of his life, control his work and expropriate his product? Does man have the right to exist for his own sake—or is he born in bondage, an indentured servant who must keep buying his life by serving the tribe but can never acquire it free and clear? This is the first question to answer. The rest is consequences and practical implementation.” Rand then proceeds to define capitalism as a “social system based on recognition of individual rights, including property rights, in which all property is privately owned.”⁷⁵

Rand’s statement summarizes the concern with liberty above all other values for liberalism. From the eighteenth century onwards, traditional or classical liberalism had anchored its political theory on the rights of individuals and the free market. Egalitarian liberalism, which had led to the emergence of welfare state, had taken the arguments of seventeenth-century natural law thinkers on the equality of all humans seriously enough to propose that the idea of equality had to be extended to economic equality—when as a result of operations of free market, part of the society’s membership was deprived of economic resources to meet their basic needs. In the period of post-World War II, a group of thinkers, thinking that egalitarian liberalism and the welfare state and its institutional structure had undermined traditional liberal values, began a movement in 1947 referred to as Mont Pelerin Society (MPS), under the leadership of Friedrich Von Hayek, Ludwig Von Mises, Frank Knight, George Stigler and Karl Popper. MPS was dedicated to reviving traditional liberalism, in particular focused on reducing the role of government in the economy, as opposed to the egalitarian liberalism that was then the dominant ideology. The first meeting of the MPS was attended by 36 influential scholars, who would manage to make neoliberalism the dominant ideology of political regime of

President Reagan in the USA and of Prime Minister Margret Thatcher in the UK. A number of economists, members of MPS, have gone on to receive the Nobel Memorial Prize in Economic Science, including Friedrich Von Hayek, Milton Friedman, George Stigler, Maurice Allais, James M. Buchanan, Ronald Coase, Gary Becker and Vernon Smith.⁷⁶

Because of the importance of neoliberalism in general, and MPS in particular, in creating the image of modern-day capitalism and claiming the ideology of classical liberalism as its own, it is important to consider the analytic essence of this ideology. In this context, a comprehensive view that focuses on liberalism, not only as an ideology but also as a social system, is that of Crawford B. Macpherson (who refers to such a society, not as capitalism but as a society of possessive individuals).⁷⁷ This is a society in which market relations “shape or permeate all social relations.”⁷⁸ This is a “market society” in which the market is the social system and not an institution embedded in the society as a mechanism of allocation of resources, goods and services, what was earlier referred to as “market absolutism.” Macpherson traces the roots of modern “possessive market society” to the seventeenth century of Hobbes, Locke and Hume which provided the foundation of possessive individualism that argued that humans are free and sole owners of their own persons, “and that human society is essentially a series of market relations.” This kind of society is possible only because it regards human dignity as an essential element necessitating the freedom of individuals to pursue only their own self-interest within contractual relationships with others without interference of the state. Macpherson believes that the popularity and the staying power of liberal individualism from the seventeenth to the twentieth centuries were due to the fact that it was a representation of existing circumstances of societies given “the inevitability of everyone’s subordination to the laws of the market” (p. 272). Konings suggests that the logic of possessive individualism was the engine that drives capitalism.⁷⁹ It is this conceptualization of capitalism that appears to summarize the socio-political-economic system in contemporary industrial societies. In forming his theoretical conception of capitalism, Macpherson considered political, economic and cultural as “intimately related. This was the domain where Adam Smith, David Ricardo, and Marx developed their views.”⁸⁰

Like Macpherson, Adam Smith (and Marx) did not use the term capitalism but defined a system, which is identified as ideal capitalism. Smith referred to this system as “commercial society,” rather than capitalism.⁸¹ Adam Smith’s greatest attribute as a scholar was his eclecticism. His system

of thought was influenced by Greek, Roman, Christian and Scientific thinking, particularly that of Newton, natural law movement of Grotius, social contract and liberalism of Hobbes, Locke, Pufendorf, and Rousseau. He wrote at a time when deism dominated the spiritual climate of England and Scotland. As a deist, he considered the social and economic life of man as heavily influenced by Natural Law and guided by an invisible hand to serve the good of the society even if humans are engaged only to act in pursuit of their own self-interest. Even though the term invisible hand appears only a few times in his major writings and only once in *The Wealth of Nations*, it is clear that Adam Smith thought that the operation of socio-economic system was analogous to the workings of the physical system as envisioned by Newton. Goudzwaard asserts, “the invisible hand is the deistic version of the role of God’s providence.”⁸² Smith’s doctrine of invisible hand demonstrated the idea of unintended consequence of everyone acting in his or her own self-interest, which leads to the general well-being of everyone. His book, *The Theory of Moral Sentiments*, outlines the ethical rules of behavior prescribed by God. Human behavior in accordance with moral faculties, Smith argued, promotes the happiness of mankind, thus advancing the plan of Providence.⁸³

Among the extant works of Adam Smith, three are the most famous. *The Theory of Moral Sentiments*,⁸⁴ 1759; *The Wealth of Nations*,⁸⁵ 1776; and *Lectures on Jurisprudence*,⁸⁶ 1798. The last book is a collection of lecture notes by Smith’s students published after his death. In addition to these, Smith scholars believe that two other of his works are: *The History of Astronomy*⁸⁷ and *The History of Ancient Physics*.⁸⁸ An important implication of Newton’s discovery of the law of universal gravitation in 1687 had induced Adam Smith and other Enlightenment thinkers to think that it is possible to establish a science of man and society, parallel to the science of nature, that could discover regularities in God’s creation through conception of natural theology and moral philosophy. Important to this conception was consideration of man neither as intrinsically good nor as irredeemably evil. Convinced of the idea of progress in perfectibility of man, this project focused on humans as they actually are and act in society, and using socio-economic institutions, not by use of force of government authority, to create incentives for humans to become what God had intended for them.

Adam Smith conceptualized that passions in humans create gravitational forces. In discussing the role of passions, Smith drew on centuries of thought, especially Stoics, and reflections of virtue and reason as

constraining and controlling forces to inhibit passion. One of these passions was self-love, which leads to efforts in humans to pursue their self-interest, as long as they do not “violate the laws of justice.”⁸⁹ Albert Hirschman⁹⁰ argued that Adam Smith’s invisible hand, the capstone of the doctrine of self-interest, involves a paradox that general interests of society and its welfare “would be promoted by self-interested activities of numerous decentralized operators” (Hirschman 2013, p. 203). This view of Smith’s “paradox” reflects the general approach to Smith’s works that, until recently, focused on Smithian concepts and ideas in isolation. This was demonstrated by the hypothesis of “Adam Smith Problem” advanced in the early twentieth century by German scholars of Smith that found general incoherence, inconsistency and paradoxes between various works of Adam Smith, especially between his *The Theory of Moral Sentiments* and *The Wealth of Nations* which seemed to these scholars to have been two unrelated works. Recent Smith scholarship has done much to show the coherence of Smith’s work and writings.⁹¹

Athol Fitzgibbons⁹² makes compelling case that Smith’s writings represent a coherent body of work. He argues that while *The Wealth of Nations* has been considered, especially by economists, in isolation, the validity of its arguments depends on Smith’s other work, which provided scientific, empirical observation, and moral and political foundations for *The Wealth of Nations*. *The Theory of Moral Sentiments* provides the institutional (rules of behavior) framework consisting of rules prescribed by God (Smith seems to be using “Deity,” the “Designer,” the “Author of Nature” and God interchangeably) compliance with which assures that passions are controlled and that the working of the invisible hand would bring about social harmony. *Lectures on Jurisprudence* is a general argument about how legal institutions could be so structured that Divine Laws, reflected in Natural Laws, are accommodated by human laws. It is within this moral, ethical, political and social framework that the propositions of *The Wealth of Nations* would find their validity and operational significance.⁹³ This is Smith’s conceptualization of a “commercial society” or capitalism.

Attempts to explain what emerged as “modern capitalism” in the second half of the nineteenth through the twentieth centuries by appealing to Smith’s *The Wealth of Nations* as the sole intellectual source in isolation from all other of his works is disingenuous at best; since it disregards the moral institutional framework of *The Theory of Moral Sentiments*, which is indispensable to understanding the working of the socio-economic system

envisioned by Smith who was aware of the possibility that without moral constraints, self-interest can easily turn into greed with frightfully destructive consequences (see, Adam Smith, *The Wealth of Nations*, Chap. 7 of Book IV). Fitzgibbons (p. 193) asserted that Smith's main intention was "to offer a new moral insight and demonstrate that a liberal society need not be undermined by its own lack of values. A commitment to science, liberty, and the production of wealth would not commit society to laws and values that were devoid of an inner moral conception." Moreover, he points out that Smith "was not the author of the capitalist blueprint, at least not if capitalism meant an amoral system of production and exchange."

Reinhold Niebur, playing on the Augustinian notion of "city of light and city of darkness" titled his 1944 book, *The Children of Light and Children of Darkness*⁹⁴ and argued that: "Smith clearly belongs to the children of light. But the children of darkness were able to make good use of his creed. A dogma which was intended to guarantee the economic freedom of the individual became the "ideology" of vast corporate structures of a later period of capitalism, used by them, and still used, to prevent a proper political control of their power. His vision of international harmony was transmuted into the sorry realities of an international capitalism which recognized neither moral scruples nor political restraints in expanding its power over the world. His vision of a democratic harmony of society, founded upon the free play of economic forces, was refuted by the tragic realities of the class conflicts in western society. Individual and collective egotism usually employed the political philosophy of this creed, but always defied the moral idealism which informed it." (p. 26)

The gap between the ideal model of capitalism envisioned by Smith and the actual operation of the "modern capitalism" observed by Niebur at the end of the first half of the twentieth century became much wider in the second half of the century and the first decade of the twenty-first century leading to the disastrous consequences of the 2007/2008 financial crisis. Many observers considered that while a number of technical reasons could be advanced as causes of the crisis, as its heart, it was driven by massive moral failure (see, Vicary et al. 2013). The kind of society that "modern capitalism promoted" exhibits a pronounced proclivity to undermining the moral foundation on which any society, including its own, must rest (Hirschman, p. 219).

RELIGIOUS BASIS OF ADAM SMITH'S VISION OF THE ECONOMY

There has been a vigorous debate on the theology of Adam Smith.⁹⁵ Many commentators have pointed out that teleology⁹⁶ plays an important role in Adam Smith's thought. Jacob Viner argues that there is a tendency among social scientists to disregard Smith's view of theology and human nature, which Smith saw as designed by God.⁹⁷ He further asserts that the essence of Adam Smith's thought is not understandable without consideration of his teleological and theological views (Viner 1972, p. 81). Morrow (1927/1984)⁹⁸ argued that the basis of Adam Smith's political economy is theological. He says that "Adam Smith looks upon social and economic institutions as the product of a power beyond human power, of a reason which human reason can fathom but cannot initiate" (pp. 175–176). Based on Smith's writings, Alvey (2004, pp. 338–339) infers that "God's wisdom is demonstrated throughout the universe" and that "a single designer... drew up a grant blueprint of the universe before creating it in accordance with the plan... the arrangement of the whole system of nature" reflects what Smith referred to as "the wisdom of God." It is that wisdom that provides humans with a system of natural liberties and freedoms to pursue, along with nature, economic growth which helps meet several ends of nature, including self-preservation, procreation, and happiness, through division of labour, capital accumulation, order and security through good governance (Kleer 2000; Minowitz⁹⁹ 1993; Hill 2001; Evensky¹⁰⁰ 2005; Fitzgibbons¹⁰¹ 2003).

Smith's theory of moral philosophy envisioned a harmonious nature designed by the Creator. The corpus of Smith's writings subordinates political economy to this harmonious whole. Not only did the "Designer," "the Author of Nature" create the harmonious whole but provided humans with rules of behaviour, which would ensure their happiness, prosperity and security. These moral rules would have to be imparted to humans through education. Griswold¹⁰² argues that, according to Smith, it is through moral education that humans become "self-determining agents." Smith identified virtues that were needed to make his vision of "commercial society" work. The interdependence of institutions and virtue was essential in this context. As Griswold suggests, such a society virtues or "moral capital" (1999, p. 359) and that Smith did not envision selfish utility maximization. Such a society is much more than that; it is a moral and virtuous society. Young¹⁰³ (1997, pp. 144–145) asserts that "Smith sees

the “final cause of God’s creative action is a desire to produce a society of virtuous and happy persons.” He states that “Smith summarizes the system of Golden Rule of Christianity. The ultimate standard of moral conduct is love of God, and love of neighbour, benevolence.” He concludes that “an exclusively secular reading of Smith fails to capture the deeper movement of the Smithian corpus, which is theologically inspired” (Young 1997, p. 145)¹⁰⁴.

Desi¹⁰⁵ (2004) regards Smith as the most important scholar (before Marx) who understood “the dynamics of capitalism” who considered “the achievement of commerce and liberty as the highest and final stage of human history” (p. x and p. 5). Desi argues that Smith saw a “simple unifying principle the motion of societies ... as a design in God’s creation” in line with Newton’s explanation “of underlying unity in the physical universe as God intended” (Desi 2004, p. 12). In the commercial society envisioned by Smith, liberty, division of labour, specialization, virtues of self-control, frugality, prudence, benevolence, sympathy and justice ensured growth and prosperity for all. In a commercial society, awakened spirit of enterprise that along with moral rules of behaviour could guarantee a decent living standard. Despite his preference for a commercial society as the best economic arrangement for human society, Smith recognized that there are drawbacks to the operation of such a society including inequality as a cost of natural liberties and private property. Moreover, division of labor could make work a routine which would make labour “as stupid and ignorant as it is possible for a human creature to be” (Adam Smith quoted by Desi 2004, p. 24). In a commercial society, Smith saw justice, as “proper behaviour of individuals toward each other,” as the main task of government along with education and national security (Desi 2004, p. 25).¹⁰⁶ In a commercial society, Smith suggested, the pursuit of self-interest arises from teleological views of the universe in which the guiding hand of Providence could be observed. Moreover, Smith argued, humans have to ability to comprehend others’ point of view through their innate sympathy that formed “natural justice” toward others. This justice provided the framework within which self-interests of one person would benefit others. For Smith, the idea of justice permeated self-interest.

It is difficult to find meaningful similarity between contemporary capitalism and the commercial society envisioned by Adam Smith. Capitalism has the ability to self-authenticate, self-duplicate, and “shape shift,” as suggested by Gonzales¹⁰⁷ (2015). Harvey (2014, pp. 3–7) argues that capitalism is well-adept in thriving on crises. In fact, he asserts that it is

during crises that capitalism confronts its instabilities, reshapes reengineers to create a new version of itself. Therefore, many have come to acknowledge “the force of its gravity” (Brown¹⁰⁸ 2001, p. 259) and assert that capitalism is now hegemonic and all economies are only varieties of capitalism. Particularly, since the downfall of the Soviet Union, this view suggests that there is an inevitable and irreversible march of all economies toward capitalism (see for example, Carruthers and Babb¹⁰⁹ 2000; Gudeman¹¹⁰ 2001), and as a result all economies can be presented as varieties of capitalism (see for example, Hall and Soskice¹¹¹ 2001). This view holds even if some non-capitalist practices are present in a given society. Such an economy exists at the margins and in a state of transition to an eventual form of capitalism (Crouch¹¹² 2005), where goods and services are produced for monetized exchange for the purpose of earning profit and accumulation. The pessimistic view is held strongly by a number of contemporary authors to the point that they see no viable alternative to capitalism (for example, Fulcher¹¹³ 2004; Kalb et al.¹¹⁴ 2004 and Ruskola¹¹⁵ 2005). Ruskola (2005, p. 324) suggests, “we do not seem to have any alternative paradigms for economic organization, except for the socialist model of planned economy, and that paradigm certainly seems to have exhausted its political appeal for now.”

Since 2000, a number of authors have articulated a different view. These authors have essentially tried to question the empirical validity of the narrative of hegemonic capitalism, deconstruct the discourse of this narrative and imagine the possibility of a future economic system beyond capitalism (see for example, Somers¹¹⁶ 2005, p. 876). This approach looks for non-capitalist practices that persist currently in various economies but which cannot be reduced to a form or by-product of capitalism. Harvey¹¹⁷ (2000) looks at Utopian movements of the past for solutions to contemporary problems. He searches for social designs from Utopian examples of equitable societies that take account of human equality and strike the right balance between economic activities and living with nature. On the other hand, there are writers, such as Samir Amin,¹¹⁸ who argue that capitalism as a system is not viable and will eventually implode. Similar sentiments are expressed by David Harvey¹¹⁹ (2014) and Imanuel Wallerstein et al. (2013).¹²⁰

An overall socio-political-economic system gives rise to an economic system, which in turn grows a system of financing to facilitate production, trade and exchange. The idea of the contemporary conventional economic system is usually traced to Adam Smith’s conception of an economy as

envisioned in his book, *The Wealth of Nations*. But it must be remembered that Smith's vision of the economy is embedded in his vision of a moral-ethical system described in *The Theory of Moral Sentiments*.¹²¹

Whereas conventional economics considered Smith's notion of "invisible hand" as a coordinator of independent decisions of market participants, in both *The Theory of Moral Sentiments* and in *The Wealth of Nations* the metaphor refers to the design of the Supreme Creator "who arranged the connecting principles such that the actions of all those seeking their own advantage could produce the most efficient allocation of resources, and thus the greatest possible wealth for the nation. This is indeed a benevolent designer" (Evensky 1993, p. 9). Smith contended that the objective of the Divine Design must have been the happiness of humans "when he brought them into existence. No other end seems worthy of that supreme wisdom and divine benignity which we necessarily ascribe to him" (Smith 2006, pp. 186–189). A major contribution of Smith in his *Theory of Moral Sentiments* is to envision a coherent moral-ethical social system consistent with the Supreme Creator's design and how each member of society would enforce ethical positions. Recognition of human frailties led Smith to the appreciation of a need for an organic co-evolution of individual and society in a stage-wise process of accumulation of ethical system of values from one generation to next. While it is possible for any given society to move forward or stagnate and even regress, the benevolence of the invisible hand of the "Author of nature" guides the totality of humanity in its movement toward the ideal human society. Compliance with and commitment to a set of values—virtues of prudence, concern for other people, justice and benevolence—would insure social order and cohesion.¹²²

The economics profession developed its own vision of that economy focusing primarily on two concepts of "invisible hand" and "self-interest." The first was mentioned only once in *The Wealth of Nations* (see Smith 1976, p. 456) and the manner in which the second was used by economists has been referred to by Vivian Walsh (2000) as "vulgar ... misunderstanding" of what Smith meant by "self-interest." This "narrowing" of Smith's view has been subject to rather sharp criticism by Amartya Sen (1982, 1987) who suggests that: "Indeed, it is precisely the narrowing of the broad Smithian view of human beings in modern economics that can be seen as one of the major deficiencies of contemporary economic theory. This impoverishment is closely related to the distancing of economics from ethics" (Sen 1987). A careful reading of *The Theory of Moral Sentiments* and *The Wealth of Nations* provides immense support for Sen's position. Even

beyond Sen's spirited criticism of economists' misunderstanding of Smith's self-interest motive is the latter's insistence on the need to comply with "general rules of conduct" that "are the commands and laws of the Deity, who will finally reward the obedient, and punish the transgressor of their duty When the general rules which determine the merit and demerit of actions comes thus to be regarded as the laws of an all-powerful being, who watches over our conduct, and who, in a life to come, will reward the observance and punish the breach of them—they necessarily acquire a new sacredness from this consideration. That our regard to the will of Deity ought to be the supreme rule of our conduct can be doubted of by nobody who believes his existence. The very thought of disobedience appears to involve in it the most shocking impropriety. How vain, how absurd would it be for man, either to oppose or to neglect the commands that were laid upon him by infinite wisdom and infinite power. How unnatural, how impiously ungrateful not to reverence the precepts that were prescribed to him by the infinite goodness of his Creator, even though no punishment was to follow their violation! The sense of propriety, too, is here well supported by the strongest motive of self-interest. The idea that, however, we may escape the observation of man, or be placed above the reach of human punishment, yet we are always acting under the eye and exposed to the punishment of God, the greatest avenger of injustice, is a motive capable of restraining the most headstrong passions, with those at least who, by constant reflection, have rendered it familiar to them" (Smith 2006, pp. 186–189).

Consideration of the above quotation as well as the rest of *The Theory of Moral Sentiments*, leads to, at least, three observations. First, this is the Smith that has been ignored by the economics profession. The Smith of economics is the author of the self-interest motive that is the basis of utility and profit maximization at any cost to society, including the impoverishment and exploitation of fellow human beings. Second, Smith makes clear in his *Theory of Moral Sentiments* that compliance with the rules prescribed by the Creator and with the rules of the market was essential to his vision. Third, it is also clear that Smith considers the internalization of rules—being consciously aware of ever-presence of the Creator and acting accordingly—as crucial to all human conduct, including economics. Smith succinctly and clearly shares some of the fundamental institutional scaffolding of Islam: belief in One and Only Creator; belief in accountability of the Day of Judgement; belief in the necessity of compliance with the rules prescribed by the Creator; and belief that justice is achieved with full

compliance with rules. To paraphrase Sen, no space need be made artificially for justice and fairness; it already exists in the rules prescribed by the Law Giver.

Modern capitalism with its market absolutist emphasis undermines its own moral framework that it had inherited. Hirschman (2013, p. 260) summarized in Hirsch's Chaps. 8–11 on "The Depleting Moral Legacy" as "once a social system, such as capitalism, convinces everyone that it can dispense with morality and public spirit, the universal pursuit of self-interest being all that is needed for satisfactory performance, the system will undermine its own viability which is in fact premised on civic behavior and on the respect of certain moral norms to a far greater extent than capitalism's official ideology avows." Possessive individualism of such market economy driven by self-love and self-interest makes coordination of individual plans much more difficult resulting in weak cooperation needed for the production of collective or public goods. Hence, the system cannot coordinate individual self-interest to serve society's interest as envisioned by Adam Smith.

Hirsch asserts that "truth, trust, acceptance, restraint, obligation" (what are referred to as social capital in contemporary literature) are needed for proper functioning of the economy. These values, Hirsch argues, are grounded in religious belief. However, "the individualistic, rationalistic base of market undermines religious support" (Hirsch, p. 145).¹²³ Not only does modern capitalism undermine religious support, it itself becomes a religion with its own icons, as was suggested by Walter Benjamin (Benjamin 1921/2005); Mahmood (2009) explains that an icon is not just an image but a "form of relationality that binds the subject to an object or imaginary" (p. 837). Max Weber saw secularization as a result of the close alliance of capitalism and protestant faith. However, to Walter Benjamin, it was not so much that this alliance empowered capitalism but rather that Protestantism "changed itself into capitalism" by placing itself at the heart of capitalism (Benjamin 1921/2005, p. 261). Hence, Konings argues that secularizing thrust of capitalism was "metamorphosis of the sacred" that led to "socialization" of the icon of capitalism, money. Arguably, the sacred icons of the new religion of capitalism include the market, interest rate and complete freedom of possessive individualism, in addition to money. Market and possessive individualism have been discussed briefly, the significance of money and interest rate will be briefly considered now.

Philip Goodchild refers to capitalism as "the religion of money" and "a material religion ... a religion in things in themselves" (Goodchild 2002, p. 85). As Thoby (p. 165) argues, "one may consider capitalism as a religion

in the sense that it is a system of beliefs and rights in which economics plays a theological role.” As an object of exchange, money measures the value of commodities in exchange as an abstract value. It is an embodiment of value. It exchanges itself for a variety of commodities. As such it becomes the value of values. Marx¹²⁴ argued that “money is the universal self-established value of all things ... the estranged essence of man’s work and experience, and this alien essence dominates it, and he worships it.” When all values are expressed in money, it “becomes the concrete embodiment of the abstract social relations between all things” (Goodchild 2002, p. 81). It becomes an abstract instrument in the practice of trade for the appropriation of ever-more wealth in the abstract.¹²⁵ In a capitalist society, money is imagined as an abstract precious object with “inherent supernatural virtues” conveying “not only wealth but sacred powers, social prestige, and ties of personal dependence; its circulation enlists individuals and mobilizes religious forces at the same time that it represents the transmission of material goods” (Goux¹²⁶ 1990, p. 126, quoted by Goodchild, p. 82). Peter Sloterdijk¹²⁷ argues that “money has long since proved itself as an operatively successful alternative to God. This affects the overall context of things today more than a Creator of Heaven and Earth ever could” (p. 208).

While money may arguably be considered the most important facet of capitalism, it does so in its physical manifestation. As mentioned earlier, the metaphysical aspect of money is represented by credit. Even a more abstract concept than money, credit in modern capitalism owes its essence to the existence of interest rate, perhaps the most enigmatic feature of modern capitalism. While interest rate is perhaps among the most important defining characteristics of modern capitalism, it is also a source of its instability and an existential threat. In an essay in the *Economic Journal* in 1932, Keynes declared that modern capitalism contains two evils: its inability to create full employment equilibrium (without government intervention) and its proclivity to create massive income and wealth inequality. The cause of both, “the villain of the piece,” is interest rate, a major source of rentier income. However, Keynes’s solution is the “euthanasia of rentier” rather than the euthanasia of the interest rate. This is not surprising since interest rate has achieved the status of a sacrosanct icon in modern capitalism. Any suggestion of its elimination conjures in the imagination of modern theologists of capitalism a sacrilegious notion. Hence, many books and articles have been written since the 2007/2008 crisis lamenting the massive build-up of debt and pledging for its elimination without once questioning the cause of it: *the credit-interest rate*

nexus. It does not seem to have occurred to these minds that “excess” debt is representation of the failure of price mechanism—the interest rate.¹²⁸

Modern capitalism owes the existence of interest rate as one of its most powerful icon to John Calvin. Before him, medieval Christianity, supported by intellectual arguments of Scholastics, especially its most powerful intellect, St. Thomas Aquinas, had banned the lending of money upon interest rate.¹²⁹ The Church’s ban on interest was based on the Aristotelian argument and Natural Law that money by its own very nature is barren. Making money on money is an unnatural gain. Additionally, the church’s position was based on the scripture, e.g., Luke, 6: 35: “Lend, hoping for nothing in return,” which they interpreted as a prohibition of interest rate (see, Schervish and Whitaker¹³⁰ 2010, pp. 39–74). Calvin turned both arguments on their heads. He interpreted Luke, 6: 35 as Jesus saying that money should be given as a gift to the poor not lent. Convinced of this argument, Calvin prohibited charging interest on money lent to the poor only allowing the charging of interest on money lent to non-poor (see Harkness¹³¹ 1958, p. 205). On the Aristotelian argument, Calvin objected to the assertion of barrenness of money arguing that money begets more money through rental income, from using money in agriculture, and trade. He asks how is it that it is lawful to earn money as rent on a property and unlawful to earn money by renting money?¹³²

While Calvin proposed that charging interest on money should not be unlawful, he imposed the following conditions: poor should not be charged interest; lender must consider the welfare of the borrower and not only the recovery of the principal; the lender must follow the Golden Rule (in its simplest positive form, the Golden Rule says that one must treat others as one wishes to be treated; in its negative form, the Rule becomes: one must not treat others the way one does not wish to be treated); the transaction of lending money upon interest must ensure that the borrower earns more than the rate of interest; the parties to this transaction must obey the law of God, not human laws or customs, that is if customs or laws permit higher interest rates, they should not be followed; and, the transaction must make positive contribution to the overall good of the society. Schervish and Whitaker (2010, pp. 136–137) argue that, more than anything else, it was Calvin’s views on the permissibility of charging interest on money lent was the factor that animated the “spirit of capitalism.” It may be recalled that Calvinism restricted consumption. Hence, Schervish and Whitaker argue that the spirit of capitalism “is a felt obligation to make the goods of the earth as productive as possible. Allowing money to make

money” through charging of interest “amidst restricted consumption would almost seem to define that spirit” (p. 136).

ISLAMIC ECONOMIC SYSTEM AND CAPITALISM

Over the past five decades, a number of authors have suggested various levels of relationship between capitalism and what have been considered as Islam’s vision of the economy. Among these writers, there are those who suggest, from a historical perspective, that emergence of capitalism would not have been possible without massive borrowing of ideas, principles, methods and instruments from Muslims. Braudel (1982, pp. 555–559), for example, gives a list of these borrowings that made commerce possible as a dynamic force of capitalism. This borrowing was channelled through trade but also through access of scholars of the European Middle Ages to books and other writings of Muslim scholars (see Mirakhor¹³³ 1983/2014; Hosseini¹³⁴ 2007; Banaji¹³⁵ 2007). In a recent book, *The Enlightenment Qur’an*, Ziad Elmarsafy (2009), asserts that borrowings from Muslims by merchants and scholars of European Middle Ages was not the only influence on emergence of capitalism. In as much as the Enlightenment is crucial to the development of modern capitalism, the Qur’an, Elmarsafy contends, in its eighteenth century translations, played a crucial role in the formation of Enlightenment thought. These new translations of the Qur’an influenced the “shifts of thoughts” in the European Enlightenment that led to the emergence of liberalism, essential for the development of modernity and the shift of capitalism from its mercantile to modern form. Studying the history of transactions of the Qur’an in Europe during the eighteenth and early nineteenth centuries, Elmarsafy demonstrates how a number of most important Enlightenment intellectuals’ ideas and inspirations were influenced by the Qur’an. Among these intellectuals, Voltaire, Rousseau, Goethe, and Napoleon were prominent. As a result, Islam found a place at the center of development of European Enlightenment. Similarly, Denise A. Spellberg in his recent book, *Thomas Jefferson’s Qur’an*, suggests that the purchase of a copy of the Qur’an in 1765 was the beginning of Jefferson’s understanding of and engagement with Islam. This understanding, Spellberg asserts, influenced not only Jefferson but a number of his colleagues to shift their view of tolerance for Protestantism to a general view of religious liberty enshrined in the American constitution; a vision of the ideal of religious freedom and pluralism.¹³⁶

Among the authors with a historical perspective on the relationship between capitalism and the economy of Islam, Janet Abu-Lughod¹³⁷ considers that the economic system of the Muslim World was a stage in the evolution of world capitalist system. She contends that Muslims took ideas, methods and instruments inherited from others societies and “added to them a high moral evolution of merchants and their contribution to society” (p. 126). She dates the full flowering of capitalism in Muslim lands to the second half of the eighth century and the transmission of borrowings of methods, techniques and institutions from the Muslims by Europeans to the century 1250–1350 which she considers as “pivotal” (p. 12). Along the same line, Goitein¹³⁸ (1964, 1967–1983); Udovitch¹³⁹ (1970) and Lopez¹⁴⁰ (1976) recount the methods, principles and instruments borrowed from Europe at the earliest stages of emergence of capitalism. Udovitch (1970, p. 261) argues that all the legal and institutional frameworks, including money and credit institutions as well as institutions for pooling capital and distributing risk, that were needed for emergence of capitalism in Europe were already well in place in the Muslim world long before the Europeans would benefit from them. Fernand Braudel (1982–1984) also argues that capitalism existed in various parts of the world before its emergence in Europe. While these writers unequivocally argue that in the historical evolution of capitalism the Middle Ages marks its beginning, other writers date the emergence of capitalism as much later.¹⁴¹ For example, Immanuel Wallerstein (1983/2011) considers that the chief defining characteristic of capitalism is “endless accumulation of capital” and locates this capitalism’s origin in the late fifteenth and early sixteenth centuries that then evolved to become a global system (pp. 20–43). Another defining characteristic of this capitalism according to Wallerstein is the process of commodification, which dates to the late nineteenth century. In this view, there is little justification for considering the economy of Islam as capitalism envisioned by writers such as Wallerstein who see the only valid form of capitalism is its form that emerged with the industrial revolution.¹⁴²

Until recently, the relationship between capitalism and the economy of Islam has been posited as historical. Muslim mercantile economy has been considered as merchant capitalism, a stage in the evolution of capitalism. Recently, however, new views have emerged that consider an economy structured around Islamic institutions as capitalism. Murat Cizakca¹⁴³ (2011) asserts that “the economic system practiced by the Islamic world

from the seventh century to the middle of the thirteenth century” was capitalism (p. xiv), thus predating by centuries Western capitalism. He makes a compelling case that Islam provided all the prerequisites of capitalism, including private property, profit motive, capital and wealth accumulation, wage labour, and free markets. Moreover, Cizakca argues that the use of money, credit instruments, and partnership contracts facilitated the emergence of capitalism in the Muslim empire “more than a thousand years before Adam Smith” (p. xviii). Importantly, and in contrast to Weberians and Neo-Weberians who consider liberalism and democracy as essential concomitant institutional requirements of capitalism that Islam lacks, Cizakca argues that there is nothing in Islam that pre-empts democracy and liberalism or even secularism (pp. 276–290). He attributes the cause of backwardness of the Muslim societies to the fact that these societies abandoned many of the economic, political, legal and social institutions prescribed by the Qur’an and implemented by the Prophet (saw).

Echoing Cizakca, Benedikt Koehler¹⁴⁴ (2014) provides a compelling case that development in the Muslim world was different enough from the economies of pre-Islamic period, even though the tradition of trading had existed, to be called capitalism. Islam sanctified honest trading and “set free market dynamics throughout Islam’s realm and in neighbouring countries” so that after a “thousand years” of stagnation in which “Europeans were slow to discover how trade creates wealth,” until the “Islamic single market had spin-off benefits for Europe” (p. 5). Earlier, Maxime Rodinson¹⁴⁵ (1966/1974) had made a case for compatibility between Islam and modern capitalism. He had argued that while the Islamic doctrine may pose some obstacles to the development of capitalism, the history of Islamic jurisprudence had demonstrated how such obstacles can be removed by creative reinterpretation. Rodinson’s main argument was, however, that while Muslim countries could well develop capitalism as the next stage toward socialism, they could also directly implement socialism. The idea, expressed by writers such as Cizakca and Koehler, that, in essence, liberal and democratic roots, as prerequisites for the development of full-fledged modern capitalism, exist in Islam resonates in the works of Robert Bellah¹⁴⁶ (1970), Marcel Boisard¹⁴⁷ (1979/1988) and Leonard Binder¹⁴⁸ (1988).

DOES CAPITALISM DEFINE AN ISLAMIC ECONOMY?

We began this chapter with this same question. Our discussion may give the impression that the answer to this question depends on how one defines capitalism. If, as some of the writers have suggested, one considers the system that prevailed in the Middle Ages of Europe, where trade constituted the bulk of economic activities taking place within a framework defined by Scholastic thought with a religion playing a defining role, then it would not be too difficult to make the case that such an economy could approach the system defined by Islam. In such an economy where just wages and prices were considered paramount, where interest was prohibited, excess profits and wealth accumulation were considered unfavourably, where property rights accompanied responsibility and were not unlimited and where a conception of an omnipotent God guided the behaviour of participants in the economy, the affinity between the two systems is not difficult to envision. Even the economy envisioned by Adam Smith in which the Devine, the Designer, the Author of Nature, God, prescribed rules of behaviour—which humans translated into moral rules that governed the behaviour of market participants—where self-control, sympathy and just behaviour limited self-interested greed could well be considered as an approximation of the Islamic vision of an economy. However, since the nineteenth century the economy that emerged and is labelled as modern capitalism does not resemble either of these two visions.

This “modern” capitalism has become, at least, a quasi-religion with its own icons—interest rate, market, profits—and its own theology (see, Nelson¹⁴⁹ 2001) with neoliberalism as its ideology. It has institutions that do not exist in Islam or are prohibited, such as unlimited accumulation of private property and wealth, interest rate mechanism, consumerism with its wastefulness, extravagant and opulent consumption, mal-distribution of income, massive poverty, repeated financial crisis, growing financial, economic exclusion and all the adverse impact of environmental degradation. It is difficult to see how this form of “modern” capitalism could be compatible with any theocentric or even humanistic system of thought. Connolly (2008), however, discusses the emergence of a new form of capitalism he refers to as “capitalist-Christian assemblage;” a combination of neoliberal vision of the self-regulated market minimal role for the government and an aggressive, male-dominated, white-race-privileged vision of Evangelical Christianity. According to Connolly, “capitalist-Christian assemblage” has a vision combining three elements: capitalism, Christianity, and God. Its

“political formula is to expand the aggressive, punitive arm of the state (through drug wars, pre-emptive foreign wars, new modes of surveillance, torture, criminalization, the construction of prisons and regressive social legislation), while curtailing its democratic and pluralistic activities (social security, minority rights, healthcare, public transit, unemployment compensation, a secure retirement, progressive taxation, urban development, experiments with worker ownership, and policies to conserve energy)” (Connolly¹⁵⁰ 2008, pp. 29–30).

It is hoped that the following chapters will provide a clear vision of an Islamic economy that clarifies our claim that regardless of how many characteristics an Islamic economy may share with capitalism, there is no reasonable basis to support the assertion that capitalism defines an Islamic economy.

NOTES

1. See Braudel, Fernand. *Civilization and Capitalism*, vol. 2, *The Wheels of Commerce*. New York: Harper and Row, 1982, who argues that “... capitalism in the past (as distinct from capitalism today) only occupied a narrow platform of economic life. How could one possibly take it to mean a ‘system’ extending over the whole society? It was nevertheless a world apart, different from and indeed foreign to the social and economic context surrounding it ... capitalism was what it was in relation to a non-capitalism of immense proportions.” (p. 239).
2. Grassby, Richard. *The Idea of Capitalism before the Industrial Revolution*. New York: Rowman and Littlefield Publishers, Inc., 1999.
3. Dobb, Maurice. *Development of Capitalism* (revised edition). New York: International Publishers, 1946/1981, p. 4. See also Heaton, Herbert, “Criteria of Periodization in Economic History,” *The Journal of Economic History*, vol. 15, issue 3 (1955): 267–272, who says that the word capitalism “unfortunately has acquired such a motley of meanings and definitions that one may justly plead that capitalism, like imperialism, is a term that should be cut out of the vocabulary of every self-respecting scholar (p. 268); and Shonfield, Andrew. *Modern Capitalism*. Oxford: Oxford University Press, 1965, p. 3, who says that: “Justification for the continued use of the word ‘capitalism’ is that no one, not even its severest critics, has proposed a better word to put in its place.” Fernand Braudel, *Civilization and Capitalism*, argues (pp. 231–239) that while the word “capital” emerged in the twelfth to thirteenth century, the word “capitalist” and “capitalism” emerged much later. He speculates that the former did not emerge until “mid-seventeenth” century but even by late eighteenth century it was yet to “refer to investor or

entrepreneur. Capital and capitalist remained attached to the idea of money, of wealth for its own sake.” (p. 237). In the case of “capitalism” it is noteworthy that neither Adam Smith, considered the most brilliant expositor of the ideal capitalism nor Karl Marx, its most effective intellectual protagonist, use the term “capitalism.” Adam Smith described the logic, organising principle and dynamics of “capitalism” but referred to it as “commercial society.” Braudel contends that (p. 237) it was not until the beginning of the twentieth century that the word capitalism “fully burst upon political debate as the natural opposite to socialism. It was to be launched in academic circles by Werner Sombart’s explosive book *Der Moderne Kapitalismus* (first edition, 1902). Not unnaturally, this word which Marx never used was incorporated into the Marxist model, so much so that the terms slavery, feudalism and capitalism are commonly used to refer to the three major steps of development defined by the author of Capital.” (Heaton 1955; Shonfield 1965).

4. Sombart, Werner. *Der Moderne Kapitalismus* [*Modern Capitalism*]. Boston: Eliborn, 1902/2001). See also Werner Sombart, “Capitalism,” in *Encyclopedia of the Social Sciences*, eds. E.R. Seligman and A. Johnson. New York: MacMillan, 1930: 195–208; Sombart, Werner. *The Quintessence Of Capitalism: A Study of the History and Psychology of the Modern Businessman*. New York: Howard Fertig, 1915/1967.
5. Weber, Max. *The Protestant Ethics and the Spirit of Capitalism*. New York: Routledge, 1904–1905/1992.
6. Neal, Larry and Jeffrey Williamson, eds. *The Cambridge History of Capitalism* (two volumes). Cambridge: Cambridge University Press, 2014.
7. Boulding, Kenneth, E. *Beyond Economics: Essays on Society, Religion, and Ethics*. Ann Arbor: University of Michigan Press, 1968.
8. Sombart, Werner (1902) “Medieval and Modern Commercial Enterprise” in Fredrick C. Lane, ed. *Enterprise and Secular Change*. Homewood: Richard D. Irwin, 1953, p. 27.
9. Muller, Jerry Z. *Capitalism and the Jews*. Princeton: Princeton University Press, 2010. See also Jeffrey Friedman and Shterna Friedman, “Capitalism and the Jewish Intellectuals,” *Critical Review Foundation*, vol. 23(12) (2011): 169–194.
10. See also Frankel, Herbert S. *Modern Capitalism and the Jews*. Oxford: Oxford Centre for Postgraduate Hebrew Studies, 1983. See also Friedman, Milton, 1972. “Capitalism and the Jews,” presented to Mont Perelin Society (1972) and subsequently published in a variety of sources, including in Kurt R. Leube, ed. *Essence of Friedman*. Stanford: Hoover Institution, 1988. In this lecture Friedman poses a paradox with two propositions: (1) “there are few people if any in the world who owe so great a debt to free enterprise and competitive capitalism as the Jews; and

- (2) “There are few people or any in the world who have done so much to undermine the intellectual foundation capitalism as the Jews.”
11. See, for example, Mendes-Flohr, Paul R., “Werner Sombart’s: The Jews and Modern Capitalism,” in *Leo Baeck Institute Yearbook*, 21(1), 1976, pp. 87–107.
 12. See McNeill, John T. *The History and Character of Calvinism*. Oxford: Oxford University Press, 1954; Tawney, Richard H. *Religion and the Rise of Capitalism*. Harmondsworth: Penguin Books, 1938 and republished in 2005 by Transaction Publishers; New Brunswick, New Jersey. USA; Vos, Geerhardus. *Reformed Dogmatics* (2 volumes). (Bellingham: Lexham Press, 2012–2014); and Samuelsson, Kurt. *Religion and Economic Action*. London: Heineman, 1961.
 13. Braudel, Fernand. *The Wheels of Commerce, Civilization and Capitalism, fifteenth–eighteenth Century*. New York: Harper and Row, 1982.
 14. Wallerstein, Immanuel. *The Modern World System I* and, *The Modern World System II*. New York: Academic Press, 1974 and 1979; also Wallerstein, Immanuel. *Historical Capitalism*. London: Verso Edition, 1983.
 15. Abu-Lughod, Janet L. *Before European Hegemony*. New York: Oxford University Press, 1989.
 16. Arrighi, Giovanni. *The Long Twentieth Century*. New York: Verso, 1994 (Arrighi 1994).
 17. Goitein, Solomon. *Jews and Arabs: Their Contacts Through the Ages*. New York: Schucken Books, 1962; also, Goitein, Solomon, *A Mediterranean Society*, Volumes I, II, III and IV. Berkeley and Los Angeles: University of California Press, 1967–1983.
 18. Toussaint, Auguste. *A History of the Indian Ocean*. London: Routledge and Kegan Paul PLC, 1966.
 19. Rodinson, Maxime. *Islam and Capitalism*. London: Allen Lane, 1966/1974.
 20. Udovitch, Abraham. *Partnership and Profit in Medieval Islam*. Princeton: Princeton University Press, 1970.
 21. Lopez, Robert. *The Commercial Revolution of the Middle Ages, 950–1350*. Cambridge: Cambridge University Press, 1976.
 22. Dobb, Maurice. *Studies in the Development of Capitalism*, revised. New York: International Publishers, 1981; also Dobb, Maurice and Robert Brenner. *The Boom and the Bubble*. New York: Verso, 2008.
 23. Harvey, David. *A Companion to Marx’s Capital*, vol. 2. New York: Verso, 2013.
 24. See Brown, Wendy, 2005. “At the Edge: The Future of Political Theory,” in *Edgework: Critical Essays on Knowledge and Politics*. New York: Princeton University Press, p. 68.

25. For a collection of his short critiques, see Benjami, Walter. *One-Way Street and other writings*, translated by J. A. Underwood. London: Penguin Group, 2008.
26. See his short essay, "Capitalism as Religion," translated by Chad Kautzer, available at: http://www.rae.com.pt/Caderno_wb_2010/Benjamin%20Capitalism-as-Religion.pdf
27. Goodchild, Philip. *Capitalism and Religion: The Price of Piety*. London: Routledge, 2002, pp. 85–86.
28. See Ross, Nathan, "How is Capitalism like a Religion? Reflections on a Theme in Walter Benjamin's Early Writings," at: https://www.academia.edu/11700336/How_is_Capitalism_like_a_Religion_Reflections_on_a_Theme_in_Walter_Benjamin's_Early_Writings. See also Eiland, H. and M. Jennings. *Walter Benjamin: A Critical Life*. Cambridge, Massachusetts: Harvard University Press, 2014.
29. Goodchild 2002, p. 247. For further details see also Chap. 1 of his book: *Capitalism and Religion*.
30. Nietzsche, Friedrich. *The Gay Science*. New York: Vintage, 1974.
31. See also Thoby, Arthur, "Capitalism as Religion," *The Student Economic Review*, (Trinity College, Dublin) vol. XXVI (2012): 161–171. See also Löwy, M., "Capitalism as Religion: Walter Benjamin and Max Weber," *Historical Materialism*, vol. 17 (2009): 60–73; Cox, H., "The Market as God," *The Atlantic Monthly*, vol. 283, No. 3 (1999): 18–23; Nelson, R. H. *Economics as Religion: From Samuelson to Chicago and Beyond*. University Park, Pennsylvania: The Pennsylvania State University, 2001.
32. See Lash, Scott, "Capitalism and Metaphysics," *Theory, Culture and Society*, vol. 24, (2007):1–26.
33. See Loy, David R. *A Buddhist History of the West*. Albany: State University of New York Press, 2002; Dobell, A. Rodney, "Environmental Degradation and the Religion of the Market," in Howard Coward, ed. *Population, Consumption, and the Environment: Religious and Secular Responses*. Albany: State University of New York Press, 1995 (Loy 2002).
34. Barber, Bernard, "Absolutization of the Market: Some Notes on How We Got from There to Here," in Gerald Dworkin, et al. *Market Morals*. New York: Harpercollins, 1977; see the debate in Blank, Rebecca, M. and William McGurn. *Is the Market Moral?* (Washington DC: The Brookings Institution, 2004); Muller, Jerry Z. *The Mind and the Market*. New York: Anchor Books, 2002; Sandel, Michael, J., reprinted 2013. *What Money Can't Buy*. Farrar, Straus and Giroux, 1994; Rae, Scott and Austin Hill. *The Virtues of Capitalism*. Chicago: Northfield Publishing, 2010; Halteman, James and Edd S. Noell. *Reckoning with Markets*. Oxford: Oxford University Press, 2010 (Barber 1977; Blank and McGurn 2004; Muller 2002; Sandel 1994; Rae and Hill 2010; Halteman and Noell 2010).

35. Weisskopf, Walter A., "The Moral Predicament of the Market Economy," in Gerald Dworkin, et al. *Market and Morals*. 1977: 33–42 (Weisskopf 1977).
36. See Schreivish, Paul, G. and Keith Whitaker. *Wealth and the Will of God*. Bloomington, Indiana: Indiana University Press, 2010.
37. See Goudzwaard, Bob and Josina Van Nuis Zylstra. *Capitalism and Progress*. Grand Rapids: Wedge Publishing Foundation, 1979; Vos, Geerhardus. *Reformed Dogmatics* (2 volumes). Bellingham: Lexham Press, 2012–2014, pp. 97–155; Tawney, Richard. *Religion and the Rise of Capitalism*. New Brunswick: Transactional Publishers, 2005, pp. 102–105.
38. Teleology is the study of the final causes in nature.
39. See Heimann, Edward. *History of Economic Doctrines*. London: Oxford University Press, 1945, p. 49.
40. See Stark, Werner. *The Ideal Foundations of Economic Thought*. Fairfield: Augustus M. Kelly, 1976, pp. 151–158.
41. See also Mommsen, Theodor, E., "St. Augustine and the Christian Idea of Progress," *Journal of the History of Ideas*, vol. 22, No. 1 (1951): 346–374.
42. St. Augustine. *The City of God*. New York: Random House, 1950, book 5, p. 158.
43. See Ferguson, Wallace, K. *Facets of the Renaissance*. New York: Harper and Row, 1963; and Gay, Peter. *The Enlightenment: An Interpretation* (2 volumes). New York: Alfred A. Knopf, 1967, 1969. Both authors credit the Enlightenment with the creation of a new image of man which Peter Gray (vol. 1, p. 266) defines as "man is free, the master of his fortune, not chained to his place in the universal hierarchy but capable of all things." The image was critical in the emergence of capitalist spirit.
44. Dawson, Christopher. *Progress and Religion: An Historical Inquiry*. London: Sheed and Ward, 1929, mentions (p. 183) that in 1486 Giovanni Pico della Mirandola spoke about the "dignity of man" appealing throughout to Plato as well as to Paul, to Averros as well as to Thomas Aquinas.
45. Stark, Werner. *The Ideal Foundations of Economic Thought*. Fairfield: Augustus M. Kelley, 1943, 1976, p. 1.
46. Stark, Werner. *The Ideal Foundations of Economic Thought*. Fairfield: Augustus M. Kelly, 1976.
47. The prime role given to natural law comes from Stoics' conviction that "there exists rationally grounded laws of nature and that mankind has strong practical reasons to behave in accordance with these laws" (Nelson 1991, p. 28) [Nelson, Robert, H. *Reaching for Heaven on Earth*. Lanham, MD: Rowman and Littlefield, 1991]. Stoics considered man's reason as a divine element granted by deity that was shared by all humans. Among the Stoics, Cicero was the first to distinctly formulate natural law. Nature's

- workings, Cicero argued, were governed by rules that were accessible by human reason and that assured respect for the law “right reason” he said “is Law” (Nelson 1991, p. 29).
48. Goudzwaard 1979, p. 21.
 49. In an interesting book, *The Enlightenment Qu’ran: The Politics of Translation*. Oxford: One World Publications, 2009, its author Ziad Elmarsafy, challenges the common belief that Enlightenment held reason sacrosanct hence religion was not a major influence in development of Enlightenment thought and argues that religion was still hugely influential. But the religion that exerted this influence was not Christianity but Islam. Relying on the translations of the Qur’an during eighteenth and nineteenth centuries, Elmarsafy demonstrates that leading intellectuals of the Enlightenment, including Voltaire, Rousseau, Goethe and Napoleon, drew inspiration and ideas from the Qur’an. See also Spellberg, Denise, A. *Thomas Jefferson’s Qur’an*. New York: Alfred A. Knopf, 2013. The author argues that even though there were not many Muslims who lived in America during this time, Jefferson’s understanding of Islam helped him argue his case for widening the concept of religious tolerance, freedom and pluralism.
 50. Kant, Immanuel (1790). *Critique of Judgement* (translated by Werner S. Pulhar). Indianapolis: Hackett Publishing, 1987.
 51. *Critique of Pure Reason* (1781, 1788), translated by Patricia Kitcher. New York: Rowman and Littlefield, 1998.
 52. Wilson, James Q. *The Moral Sense*. New York: Free Press, 1993.
 53. Schmidt, James, ed. *What is Enlightenment*. Los Angeles: University of California Press, 1996; Nelson, Robert H. *Reaching for Heaven on Earth*. Lanham, MD: Rowan and Littlefield Publishers, Inc., 1991; Tierney, Brian. *Liberty and the Law: The Idea of Permissive Natural Law: 1100–1800*. Washington, DC: The Catholic University of America Press, 2014; Siedentop, Larry. *Inventing the Individual*. London: Penguin Books, 2015 (Siedentop 2015).
 54. Bury, J.B. (1932). *The idea of Progress*. New York: Cosimo Publication, 2008, p. 4.
 55. See Dason, Christopher. *Progress and Religion* (originally published in 1929). New York: Sheed and Ward, and reprinted 2001; Becker, Carl Lotus. *The Heavenly City of the Enlightenment Century Philosophers*. New Haven: Yale University Press, 1932.
 56. See Manuel, Frank E. *The New World of Henri Saint Simon*. South Bend: University of Notre Dame Press, 1963.
 57. Goudzwaard 1979, pp. 51–60.
 58. Goudzwaard explains, 1979, pp. 51–54, how the Enlightenment became the mother of both Revolutions.

59. Goudzwaard 1979, p. 62; see also, Ashton, Thomas, S. *Industrial Revolution, 1760–1830*. New York: Oxford University Press, 1997.
60. Asad, Talal. *Formation of the Secular*. Stanford: Stanford University Press, 2003, p. 1. See also Bhargava, Rajeev, ed., *Secularism and its Critics*. Delhi: Oxford University Press, 1998; and Charles Taylor, “Modes of Secularism” in Bhargava, Rajeev ed. *Secularism and its Critics*. Delhi: Oxford University Press, 1998.
61. Mahmood, Saba, “Religious Reason and Secular Affect: An Incommensurable Divide?” *Critical Inquiry*, vol. 35. No. 4 (2009): 836–862, p. 837.
62. See Jakobsen, J. R. and A. Pellegrini, eds. *Secularisms*. Durham, NC: Duke University Press, 2008 (Jakobsen and Pellegrini 2008).
63. Lukes, Steven. *Individualism*. Cambridge: Basil Blackwell, Inc., 1979/1990, pp. 44–51.
64. Walter, Ulmann. *The Individual and Society in the Middle Ages*. Baltimore: John Hopkins University Press, 1966; Connell, William J. ed. *Society and Individual in Renaissance Florence*. Berkeley: University of California Press, 2002 (Walter 1966).
65. Siedentop, Larry. *Inventing the Individual*. UK: Penguin Books, 2015.
66. See also Haezraki, P., “The Concept of Man as End-in-Himself,” in R. P. Wolff, ed. *Kant: A Collection of Critical Essays*. London: Macmillan, 1968 (Haezraki 1968).
67. Gray, John. *Liberalism*. Buckingham: Open University Press, 1995 (Gray 1995).
68. See Richardson, James L. *Contending Liberalism in World Politics*. Boulder: Lynne Reiner Publisher, 2001 (Richardson 2001).
69. Locke, John. *The Second Treaties of Government*. Mineola, New York: Dover Publications, Inc., 2002 (Locke 2002).
70. Bell, Duncan, “What is Liberalism,” *Political Theory*, vol. 42, No. 6 (2014): 682–715 (Bell 2014).
71. As quoted in: Harvey, David. *A Brief History of Neoliberalism*. Oxford: Oxford University Press, 2005, p. 23 (Harvey 2005).
72. See Marx, Karl. *Grundrisse: Foundations of the Critique of the Political Economy*. London: Penguin, 1939/1993; also, Harvey, David. *The Limits to Capital*. London, Verso, 2006 (Marx 1939/1993; Harvey 2006).
73. See Mirakhor and Askari 2010.
74. Knight, Frank H., “Ethics and Economic Reform. I,” *Economica*, vol. 6, No. 21 (1939): 1–29, p. 3 (Knight 1939).
75. Rand, Ayan, “What is Capitalism,” in *Capitalism: the Unknown Ideal*. New York: Signet, 1967, pp. 18–19 (Rand 1967).
76. See Mirowski, Philip, and Dieter Plehwe, ed. *The Road from Mont Pelerin: the Making of the Neoliberal Thought Collective*. Cambridge: Harvard University Press, 2015 (Mirowski and Plehwe 2015).

77. See Macpherson, Crawford B. *The Political Theory of Possessive Individualism*. Oxford: Oxford University Press, 1962/2011 (Macpherson 1962/2011).
78. Crawford B. Macpherson, pp. 48–49.
79. See Konings, Martijn. *The Emotional Logic of Capitalism*. Stanford: Stanford University Press, 2015 (Konings 2015).
80. Macpherson, 2011, p. (iii.)
81. See Pack, Spencer J. *Capitalism as a Moral System*. Northampton, MA: Edward Elgar Publishing, 1991 (Pack 1991).
82. Goudzwaard 1979, pp. 21–22.
83. See Sheehan, J. and D. Warhman. *Invisible Hand*. Chicago: University of Chicago Press, 2005; also, Samuels, W. and M. F. Johnson. *Erasing the Invisible Hand*. Cambridge: Cambridge University Press, 2014 (Sheehan and Warhman 2005).
84. See Raphael, D. D. and A. L. Macfie. *The Theory of Moral Sentiments*. Oxford: Oxford University Press, 1976 (Raphael and Macfie 1976).
85. See Campbell, R. H., A. S. Skinner, and W. B. Todd, eds. *The Wealth of Nations*. Oxford: Oxford University Press, 1976 (Campbell et al. 1976).
86. See Meek, R. L., D. D. Raphael, and P. G. Stein. *Lectures on Jurisprudence*. Oxford: Oxford University Press, 1978 (Meek et al. 1978).
87. See Smith, Adam. *The History of Astronomy*. London and Edinburgh: T. Cadell, W. Davies, and W. Crcech, 1795 (Smith 1795).
88. See Wightman, W. P. D. and J. C. Bryce, eds. *Adam Smith, Essays on Philosophical Subjects*. Oxford: Oxford University Press, 1980 (Wightman and Bryce 1980).
89. See Muller, Jerry Z. *Adam Smith in His Time and Ours*. Princeton: Princeton University Press, 1993 and Parfit, Derek. *Reasons and Persons*. Oxford: Oxford University Press, 1984, especially Chap. 1 and the concluding chapter (Muller 1993; Parfit 1984).
90. See Hirschman, Albert O. *The Essential Hirschman*, Jeremy Adelman, ed. Princeton: Princeton University Press, 2013 and Hirschman, Albert O., *The Passions and Interests*. Princeton: Princeton University Press, 1977.
91. See Oncken, A. 1897. “The Consistency of Adam Smith,” *Economic Journal*, vol. 7, (1897): 443–450; Griswold, Charles L. *Adam Smith and the Virtues of Enlightenment*. Cambridge: Cambridge University Press, 1999; Haakonssen, K. *The Science of a Legislator: The Natural Jurisprudence of David Hume and Adam Smith*. Cambridge: Cambridge University Press, 1981 (Oncken 1897; Haakonssen 1981).
92. Fitzgibbons, Athol. *Adam Smith’s System of Liberty, Wealth and Virtue*. Oxford: Oxford University Press, 1995.
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Overview of an Ideal Islamic System

Much of the post 2007/2008 writings diagnosing the causes of the financial crisis, have focused on factors such as lack of regulation, corporate conflict of interest, radical securitization of debt-based assets, risk-shifting nature of financial innovation, rapid growth in public and/or private debt, and other mechanical aspects of financial/economic behavior of major players. Very few authors found sufficient reason to question the underlying paradigm within which the axioms of such behavior are embedded. Yet, starting in the last decade of twentieth century, the paradigm came under close scrutiny by numerous economists.

More recent years, however, have witnessed significant increase in books and articles that consider the paradigm seriously flawed, as is the training of economists. The central issue is that the discipline is “totally disconnected from any meaningful social ontology and practiced in the existential vacuum of economic laws that mimic scientific laws and the ostensible rationality of *Homo Economicus*.”¹ Rima goes on to state, “that the current prevailing paradigm of neoliberal capitalism has become incapable of solving the world’s recurring crises and, in fact, has instead become one of the primary cause of these recurring crises.” He then suggests that it is now time “to radically rethink economics by rooting its study and practice in social ontology and giving serious attention to the moral, ethical, and even spiritual elements of economics that are essential to developing a more integral approach to economics that serves all of humanity, as opposed to a very small percentage of the world’s population residing in Western, economically powerful nations.” And we should emphasize that in these powerful Western countries, the economy also serves a very small percentage of their population. The crises plaguing humanity are metaphysical

at their roots and stem “from profound moral, ethical, and distribution of the earth’s resources.”² Similar sentiments appear in a number of recent books that relay a sense of urgency of the need for a new economic ideation and models that serve humanity by being consistent with human nature.³ The sense of urgency and desperation comes from the recognition that the dominant economic system, capitalism, “is consuming the world. The ozone layer is thinning the greenhouse effect is warming the world.”⁴

The warning that the current dominant system, with its emphasis on growth, production, consumption and accumulation, is leading humanity to disaster is not new. Nearly four and half decades ago, based on a computer simulation model tracking the world economy and resources, a group of MIT researchers commissioned by the Club of Rome issued a report, *The Limits to Growth* (1972), in which they argued that preoccupation with economic growth was fast depleting resources and creating massive environmental pollution.⁵ While the Report was ridiculed when it was published and for the next two decades,⁶ updates undertaken since have confirmed the dire consequences of the “business-as-usual,” business as usual (BAU) scenario of the Report⁷ that argued the continuation of reaching for growth indefinitely will assure that global collapse would occur sometime in the twenty-first century. One of the criticisms of the Report had been its reliance on simulation. In 2014, Graham Turner published the results of his research comparing historical data with the simulation results of the Report. Turner found that the historical data tracks well the BAU-scenario of the original model. He then concluded that not only historical data confirm the pattern of resource depletion predicted by the Report but “that the early stages of collapse could occur within a decade, or might even be underway. This suggests, from a rational risk-based perspective, that we have squandered the past decades, and that preparing for a collapsing global system could be even more important than trying to avoid collapse.”⁸

Four years after the publication of the limits to growth, Fred Hirsch (1976) published his book, *Social Limits to Growth*, in which, while agreeing with the Club of Rome report on the resource limits to indefinite growth, he asserted that there is also a social limit meaning that growth also causes social problems, which is due to the promotion of culture of fierce individualism, becomes intractable in capitalist societies. The latter limits, Hirsch argued, will undermine the growth objective of capitalist societies well before their collapse, which had been premised on physical limits to growth based on resource depletion and environmental degradation. He

argued that market capitalism, where individuals pursue their private goals, “must be girded at key points by a strict social morality.” Even Weber had endowed capitalism with the religious values of Puritan Calvinism in which, aside from asceticism, self-control, hard work, honesty, integrity were among the values advocated for market participants.⁹ These values, according to Weber, were responsible for the initial successes of capitalism. As Yanis Varoufakis¹⁰ argues in his book, *success breeds greed*, greed, in turn, is a “solvent” of values such as self-restraint and trust, the most important element of social capital, which Kenneth Arrow called the lubricant of the economy.¹¹ Capitalism as a value system corrodes social morality by its own active values one of which, particularly in its “modern liberal” version, is that “the socioeconomic system is seen as amoral.” That is “in an individualistic society, morality is for the most part an individual matter.”¹² This view is substantially different from what Adam Smith had envisioned for a market-based economy. In Smith’s view, individuals were to pursue their own self-interest without harm to the community *because* they were subject to an internalized system of religious and moral restraints.

Hirsch observes that contemporary economics “has kept religion firmly outside the economic sphere and has thereby obscured the role it has played in the economic system.”¹³ An important contribution of Hirsch’s book is enumeration of elements of network of rules and norms (later to be called institutional scaffolding by Douglass North)¹⁴ and their enforcement required to strengthen collective interests and mitigate emergence of social limits. Most important among these rules and norms are truth, trust, acceptance, restraint, internalization of social obligations, and “neighborly policing,” which are “among the social virtues grounded in religious belief” that are also crucial to the “functioning of an individualistic, contractual economy.” While at its origin, Hirsch believes, market system was dependent on religious binding, its “individualistic, rationalistic base of the market undermined the unseen religious support.” This led to the loss of base of support for social obligations sabotaging the foundation of the market system.¹⁵ Even as early as 1976, Hirsch was pessimistic that placing one’s private interest above social interests, which had become a dynamic process in liberal capitalism, could be reversed. He observed that the two ways suggested as solution: “collectively imposed compulsion” or “collectively imposed incentives” have not led to desirable results in reconnecting “individual and collective rationality.” He suggested in order to avoid social collapse, societies need legitimacy and the only legitimacy a society “has is social justice” the attainment of which requires structural

“pull back” of “the bounds of economic self-advancement.” This needs justification and validation of a just basis for distribution of income and wealth, a task that liberal capitalism “has managed to do without.”¹⁶

In a recent book, Bowles (2016) argues that, based on his vast empirical knowledge of human behavior, policies that use economic incentives to promote social ethos and to improve the functioning of the market system may have unintended consequence of strengthening individualistic drive to pursue self-interest. To work well, markets need a network of social norms including elements such as trust, the absence of which will limit gains from exchange. Bowles argues that there is enough experimental evidence to suggest that humans are far more socially oriented than the *Homo Economicus* model would claim. Evidence “that other-regarding and ethical motives are common in most populations greatly enhances the space of policy interventions, which can include, for example, a wise combination of positive incentives and punishments with moral lessons” that would allow people to internalize social norms.¹⁷

Judging by the post financial crisis literature, the advanced capitalist societies have, arguably, reached the realization that the workings of a market economy without a moral foundation has brought them perilously close to meltdown and collapse. Yet the Muslim countries are evermore engaged in the process of adapting the values and methods of liberal capitalism! They are doing so, ostensibly, to spur growth, an objective that, without proper undergirding of moral and ethical values, is certain to lead to the same adverse consequences as observed in advanced countries. These countries do not seem to realize that the values that many observers now deem absolutely necessary for the proper functioning of a market economy are contained in the rules governing Muslims and their societies prescribed in the Qur'an and implemented by the Messenger (sawa) during his lifetime in Medina. For all Muslims, the society in Medina established by the Messenger is the acknowledged ideal. Yet, Muslims display little interest to know or understand the society and the institutions (rules) that made it work, beyond a romanticized and, generally false, popular imagination.

One reason why Muslim societies of today find liberal capitalism attractive is that this paradigm fits well with the overall outlook on economic and human relations developed through path dependency of a process of rule violation that had its beginning in the immediate post-Messenger period. Rules governing property rights, contracts, distribution and redistribution, uncompromising equality before the law, human

dignity, freedom to criticize rulers (in performance of the mandated Qur'anic duty of "encouraging the good and discouraging evil") and others were systematically violated. By the end of the first generation, deviations from original rule-based system envisioned in the Qur'an and implemented by the Messenger had created a path-dependent system that had well institutionalized political and economic rule violations. Even when there was acknowledgement of correct network of rules governing behavior, they were not applied uniformly to elites and commoners alike as the Qur'an demands. For example, rules governing the rights and responsibilities of women in the society were not only disregarded altogether, they were replaced by pre-Islamic and/or Byzantine and Persian norms and practices. Roughly within the first two decades after the Messenger (sawa), Muslim society had crossed the Rubicon into one distinguished by violations of property rights established by the Qur'an and the Sunnah, unjust distribution of income and wealth, violations of life, liberty, property and human dignity, so emphasized by the Qur'an and the Messenger (sawa), Arab supremacy, Arab racism, wars of aggression, tyranny of merchant capitalists sanctioned by the rulers, massive wealth accumulation by the elite and widespread injustice. In short, the Muslim society of the Messenger (sawa) had become a caricature of itself. This period became a reference point (beginning of a path-dependent process) for all other deviations from the rule-based system envisioned in the Qur'an and implemented by the Messenger (sawa). Autocracy and tyranny were always justified by reference to rule violations of the first generation. Hence, the inner core of the nascent model of an Islamic society established by the Messenger (sawa) began a process of decay shortly after him. The model that replaced it continued to dominate even the Muslim societies periphery to the (Arabian Peninsula) center until it collapsed in the wake of Western modernity (See history books by Al-Tabari, Baladhuri, Miskawayh, in the Bibliography, and also Jafri 1979; Ya'qub 2011; Mirza 1992; Dakake 2007; Jordac 2000; and Charfi 2003).

Contemporary Muslims display an appalling lack of interest in early Muslim history, preferring a romanticized and manufactured post-Messenger history. Despite the urging of many scholars in the last hundred years to apply human reason to critically study the Qur'an and the tradition of the Messenger (sawa) in search for solutions to the challenges and problems facing Muslim societies, there is a lamentable refusal to do so. Instead of establishing a personal interactive relationship with the Qur'an, the focus is in memorizing and repetition without understanding

deeper levels of meaning that could lead to better analysis of problems and challenges as well as their solutions. It is a reminder of the Verse 30: Chap. 25 according to which the Messenger (sawa) complains that "Oh my Lord my people have abandoned this Qur'an." Reasoned and contemplative reading of the Qur'an provides a vision of a rule-compliant society "full of justice, the love of learning, mercy, compassion, moderation, tolerance, and balance...Muslims are supposed to set the moral examples for the world; they are supposed to bear witness with equanimity and justice to God's primordial law in the universe; and they are supposed to be humanity's refuge away from ignorance and self-idolatry and toward embodying and manifesting the truth of divinity...Islam is supposed to be the religion of moderation that calls to the moderate path and is supposed to espouse moderation as moral and ethical value...The Qur'an even warns¹⁸ Muslims that if they should fail in performing their moral duties, not only will God abandon them, but even more, God will replace them with another group of people who will be more fit for the challenge and more up to the task."¹⁹ This is a system that aware Muslims dream about and strive for its establishment. But it has now turned into a nightmare of lived reality with ISIS and the like who consider themselves as spokesmen of the Creator and executioner of what little they understand of the Qur'an and Islam. They take innocent lives and consider themselves true inheritors of the mantle of the Messenger (sawa) who brought a Message whose elemental and clear rules is preservation of human life, freedom and dignity²⁰ to the point of equating the life of one innocent human with the life of the whole of humanity.

Thankfully there are Muslims who understand the radical monotheism of Islam and know that Islam means the human act of submission to the Will of their Creator who knows the best for them and, accordingly live their lives in accordance with the rules. Richard Niebuhr explains eloquently what radical monotheism means: "For radical monotheism the value center...is the principle of being, its reference is to no one reality among the many but to One beyond all the many, whence all the many derive their being, and by participation in which they exist. As faith, it is reliance on the source of all being for the significance of the self and of all that exists...it is value relation to the One to whom all being is related."²¹ In radical monotheism, it is the faith in the One, an active commitment of the self to strive hard to submit to the One, to choose with one's free choice, a gift of the One, to give up one's own will to the Will of the One by complying with the rules that He has prescribed in order to achieve

felicity here and on other planes of existence. This Islam is not what is on display today. Those who attract most attention are those who act as if it is their will that represents that of the One, beheading, burning alive, raping, looting, and creating corruption on earth in the name of the One and referencing their actions to the first generation of Muslims, particularly those in power after the Messenger (sawa). The fact that these represent only a small minority of Muslims does not stop Islam-haters from generalizing. The actions of this minority serve agendas that have little to do with honesty, fairness, integrity, or concern for humanity. The question that arises is, however, whether this minority would have appeared in Muslim societies if the latter were rule compliant and submitters, i.e. true Muslims. Using a Islamicity Index based on the Qur'an, Hossein Askari and his colleagues have shown²² that, in general, Muslim countries are more rule violators or more rule non-compliers than most Western countries (see Chap. 7). Over the last hundred years, many Muslim scholars have explained the cause of economic, political and social backwardness of Muslim countries as being due to the fact of unfamiliarity of these societies with the Qur'an. These scholars have all urged the Muslims to return to critical thinking and use human reason to understand the Qur'an in order to find and apply solutions to problems and challenges of Muslim societies.

We agree with those who argue that constant referrals of Muslims to some "romanticized Golden Age" is unproductive and that Muslims should focus their attention and hard work on operationalizing the ideal system and becoming the exemplary individual Muslims that the Qur'an envisages. Nonetheless, it is important to note that it was the focus on the Qur'an by Muslim scholars of the first five centuries of the Muslim civilization, before intellectual endeavor among Muslims entered a stage of deep atrophy, that led to discoveries in cosmology, observational sciences, progress in experimental medicine, astronomy, optics, physics, mathematics, and experimental sciences. History records these contributions as the priming factors in the emergence of renaissance in Europe.²³

Since about 1980, there has been an awakening of Muslim scholarship in all fields of science. Just as their predecessors, the new generation is beginning to make contributions to humanity by combining scientific knowledge gained over the past centuries and their understanding of Qur'an verses in their field of expertise. Two examples illustrate the point. Muslim physicists and cosmologists are investigating Qur'an verses relating to their fields to enlighten themselves and others.²⁴ In another example,

the Qur'an says of itself that it contains cures and mercy for mankind.²⁵ Taking this at face value, an eye specialist, Dr. Abdul Basit Sayed Mohammad of National Center of Research in Cairo, Egypt, discovered a non-surgical, non-intrusive eye drop that cures cataract by studying deeply Verses 84 and 93–96 of Chap. 12 of the Qur'an.²⁶

We believe social sciences too can similarly benefit by bringing their knowledge and expertise in each of their fields to gain an understanding of the Qur'an's vision for elements that make up the society. Accordingly, our book reflects efforts to grasp the vision of the Qur'an for an economy. It is *not* an attempt at "Islamization" of economics. We share the view of Abu El Fadl on "Islamization" project whose "meaning and impact...remained extremely vague" and that reading the sizable literature produced by this project reveals that "there was nothing uniquely Islamic in the so-called Islamization process."²⁷ Nor is this an attempt to construct what Abu EL Fadl calls "an artificial playfield on the margins of human history...a different game with much lower standards..."²⁸ We believe firmly that there is a genuine discipline of Islamic economics within the general universe of discourse called "economics" whose objective is to address the material challenges facing human societies. That universe of discourse is composed of many elements that may be identified and include classical, Marxist, neoclassical, Keynesian, Christian, Judaic, Hindu, Buddhist, and others. The worldview of each of these elements distinguishes one from another and is the identifying characteristic of that element of the universe of discourse. It is, therefore, the worldview of Islam, within which its economics is embedded. Our book is an attempt to draw out the elements of that worldview and characteristics of the unique economy as is discernible from the Qur'an.

The paradigm of the economy as envisioned in the Qur'an is a Creator-centered conceptualization of reality. Its view of man distinguishes between the exterior, physical form which the Qur'an terms as "*Al Bashar*" and the non-physical, substantive and internal substance full of potentialities which the Qur'an terms as "*Al Insan*."²⁹ The two concepts roughly parallel "Man" and "Human." In exteriority they are similar, but there are significant differences between the two. While both share the same general physical attributes and the same physical needs, what is inside them are quite different. Outwardly they are alike. Inwardly, however, they can assume range of states of being: worse than animals or better than angels.³⁰ The former are those who have no consciousness of their human state but have attributes such as greed and cunning, which gives them the ability to

devise and execute premeditated actions. Hence, they become worse, more dangerous than animals. At the other end of the spectrum, *Al Insan* is human being who is aware and fully conscious of her/his transcendence nature and all the potentialities of the human state and strive hard to actualize the potentialities of their human state. The passage from *Bashar* to an actualized human is imbued with the gradation of upward movement marked by the degree to which she/he is compliant with the rules prescribed by the Creator.

THE QUR'AN

The Qur'an is the source of Metaframework as well as the Archetype model. It is the source of all Islamic paradigms in all fields of knowledge. Its importance is due to what it accomplished. It showed the full power, glory, beauty and majesty of the One and unique Creator; it showed the absolute necessity of the Creator and absolute contingency of the created; it argued, not only for the Unity of the Creator, but of the Unity of His Creation, in general, and the unity of humanity, in particular; it gave the good tidings of full potential inherent in the human state; it affirmed and confirmed human's direct relationship to their Creator without intermediaries; it declared the equality of all humankind regardless of creed, color or race; it declared the multiplicity of characteristics among humans a blessing not a cause for differentiation; it showed humans the path that would assure them a perfect life on this plane of existence and easy passage and a fulfilled life on the next; it made felicity here and in the hereafter conditional upon righteous conduct resulting from rule compliance; it showed humans how to balance physical needs with spiritual necessities; it specified the rights and responsibilities of humans, individually and collectively; it made it incumbent on humans to acquire knowledge, to think critically, and to contemplate all thing including their own creation and their Creator; it showed how compliance with the rules prescribed by Allah (swt) would create the possibility of full liberation; and, finally, it provided the example of a perfect human to follow, one who had achieved his own liberation in perfect servitude to his Creator: The Beloved Messenger (sawa).

The Metaframework rests on the foundations of three fundamental axioms. The first and most important of these is the Oneness and the Uniqueness of the Creator, a corollary of which is the unity of creation, in general, and humans, in particular. The second axiom is belief in prophets

and messengers selected among humans to serve as carriers of Creator's message to the people of his time and reminders of the previous messages and of their covenants with their Lord Creator and Sustainer. Every messenger confirmed and affirmed previous messages and supplemented Allah's additional guidance for mankind commensurate with the mental and rational growth of the people of the time. The final, universal, perfect message was delivered by the last of the line of messengers in this cycle of humanity, Mohammad (sawa). The third axiom is that of accountability, the belief that humans, individually and collectively, stand accountable for every action before their Creator. This axiom and the capstone rule of encouraging other humans "to rule compliance and discouraging rule violation" are the most important elements of the incentive structure of rule compliance. Other elements include rewards for compliance and retribution for violation attached to the prescribed rules. Importantly, while rule violation brings commensurate retribution, rule compliance brings multiple returns, at least ten times and more.³¹ This relates to an important active and dynamic concept within the incentive structure of rule compliance in the Qur'an: the concept of *Barakah* that appear more than 30 times in the Qur'an, along with its derivatives.³²

THE CONCEPT OF *BARAKAH*

The Qur'an organizes the relations of humans to their Creator, and establishes human contact with the unseen (*Al Ghayb*), the "invisible" as the pivot of their activities. While it establishes one-to-one correspondence between rule violations as the "cause" resulting retribution as the "effect," there is a non-transparent phenomenon of additional multiple as the effect of rule-compliant behavior. This addition or multiple cannot be directly attributed to the action itself; it is over and above what would have been expected from compliance with the rule governing the specific action. This phenomenon the Qur'an refers to as "*barakah*" (plural: *barakaat*) as a multiple return to rule compliance. In most systems rule compliance is a duty and an obligation it is seldom rewarded. It is only Islam in which rule compliance brings not only reward, but also a multiple returns to a rule-compliant action as Allah's Blessings.³³ Mathematically, *barakah* can be defined as a non-linear scalar that multiplies the returns to a rule-compliant action. Depending on the nature of the action, the scalar increases non-linearly.

THE OBJECTIVES AND ROLE OF THE PROPHETS AND MESSENGERS

While delivering the Message of the Creator to humanity is the primary function of those chosen to do so, there are other duties they must perform. These are specified in the Qur'an and can be classified as short, medium and long term. In the short term they must transmit the message by reciting the revelation to humans, cleanse them of their base emotions that interfere with their effort to actualize human potentialities, teach them the rules prescribed by Allah (swt), and explain the rationale behind the rules.³⁴ In the medium term, it is the duty of the prophets and messengers to encourage and induce humans to establish social justice (*Qist*).³⁵ The long-term duty of the prophet and messengers is to help humans to achieve full liberation by ending their servitude to the base emotions that keep their soul in a darkened state of unawareness of their Creator and into full enlightenment of the human state.³⁶

Corresponding to the objectives and role of the prophets and messengers, humans are to listen and understand the revelation with the aim of internalizing the rules prescribed in the message of the revelation, cleanse themselves from the base emotions that enslaves them and personality characters that are unworthy of the human state, establish social justice, and move from the dark state of soul into the enlightened state of true human. All of these humans can achieve by being fully rule compliant. The Qur'an asserts that rebellion against the rules and rejection of the Creator's Message is the prime cause of human difficulties. The Qur'an uses many examples of by-gone people who destroyed themselves through their rule non-compliance by rejecting the message and the messengers. Doing so, humans serve their own best self-interests. This requires human awareness of their own best interests fully cognizant that these are not limited to their life span on this plane of existence but cover, in accordance with the third axiom, their life to come. In over 126 verses, the Qur'an assures humans that compliance with the rules is "best" for them (see, for example, Verses 183–184, 271–272, 280: Chap. 2; also, Verse 25: Chap. 4; Verse 19: Chap. 8; Verse 3, 41: Chap. 9). Humans have been given the gift of the faculty of *Al 'Aql*, the capacity of the heart and mind (the power of intellection and intelligence) by which they are capable of acting rationally, meaning that they have the capacity for reasoned, rule-compliant action directed at achieving the approval of their Creator.

THE NEW INSTITUTIONAL ECONOMICS AND INSTITUTIONAL SCAFFOLDING

Over the last four decades an important field of enquiry, the new institutional economics (NIE), has made a significant contribution to understanding how economic systems are designed and how they function. Importantly, the NIE has focused on reasons why some economies perform better than others. NIE explains that the reason for the differential in performance of various system is their “institutional scaffolding;” a network of institutions, or rules and norms governing economic behavior (so-called the “rules of the game”) in the society. Accordingly, how well an economy performs depends on the rules governing it. Key rules are: the rule of law, good governance, well-defined and protected property rights, efficient contract enforcement, and a high degree of trust.

INSTITUTIONAL SCAFFOLDING OF IDEAL ISLAMIC ECONOMY

The Qur’an provides the framework for envisioning all relevant conceptions of reality. In its self-revelation, Qur’an calls itself the *Kitab* (The Book), among other names. *Kitab* is the source, a collection of rules prescribed by the Creator applicable to all societies at all times; they are spatially and temporally immutable.³⁷ The collectivity of these rules constitutes the Metaframework. No one understood the Qur’an better than the Messenger (sawa) who was appointed by Allah (swt) to deliver it to mankind. In his capacity as the spiritual authority, he expounded, interpreted, and explained the content of the Qur’an. As temporal authority in Medina, he operationalized the Metaframework. The resulting economy is considered the *Ideal* model, the Archetype model of the Islamic economy. The Archetype model is composed of time-and-place invariant rules, because they were promulgated based on the Messenger’s authoritative operationalization of the rules prescribed in the Qur’an. Example is the set of rules governing inheritance. There were also rules that were time-and-place dependent which, while maintaining their underlying principles, methods of their application change. Example is the network of rules governing the behavior of market participants such as freedom of entry and exit, full and free flow of information in the market, non-interference with the flow of goods and services and others. These rules are not found explicitly in the Qur’an. They are based, however, on his understanding of the Qur’an as its highest interpretive authority. The

Metaframework specifies rules (institutions) that are, to a degree, abstract. The Archetype model articulates the operational form of these rules by demonstrating how these rules are operationalized in a human community. The abstract becomes operational in the hands of the one human being who was the one and only direct recipient of the Source of the Metaframework.

ROLE OF RULES

Network of rules and norms that define the institutional scaffolding of an economy are enormously important as they play vital roles in the society and in its economy. Rules establish social order³⁸ by setting limits on the manner in which each member of society is allowed to order her/his conduct towards others. They reduce demand on human cognition when faced with decisions by reducing the uncertainty that a decision maker would face regarding other people's actions and reactions. In other words, they make actions of others more predictable. They provide reference points by which justice or injustice of individuals or group actions can be judged. Rule violation constitutes an injustice because it frustrates expectations of all other members of society who assumed all would be rule compliant. Rules promote cooperation and coordination, and reduce transaction costs. These are the costs of making exchange possible, such as discovering exchange opportunities, negotiating an exchange, and monitoring and enforcing exchange contracts. Finally, rules promote social solidarity. The guarantor of these benefits of rules is that they are applied uniformly without consideration to the status of individuals.³⁹

RULES OF THE METAFRAMEWORK

An institutional perspective is employed in our book to answer the following questions: (1) How is the ideal economy structured, and what is the nature of its institutional scaffolding according to the Qur'an? (2) What does the Qur'an consider as the components of such an economy? (3) How are these elements related to one another? (4) If the Qur'an considers Islam as a rule-based system, what is incentive structure driving rule-compliance? (5) What will the ideal economy achieve for the society provided that there is full rule compliance and the full implementation of such an economy? And, finally, (6) does rule-violation explain the economic underperformance of Muslim countries?

Research into the Qur'an reveals a comprehensive set of interconnected rules governing the structure and operations of an ideal economy that extend well beyond what NIE would consider needed for a good-performing economy. The network includes the worldview of the Qur'an in terms of rules governing: (1) the Creator's relationship with humanity as whole as well as with its individual members; (2) the relationship of humans with their Creator; (3) the relationship of each individual with her/his self; (4) the relationship of humans with one another; and, (5) relationship of humans with the rest of the creation. The first set of relationships is governed by network of rules termed *Sunan* (singular, *Sunnah*) of Allah. A *sunnah* is defined as an action, which is repeated consistently and repeatedly over time that it becomes a rule. Rules governing these relationships issue from the primordial Covenant⁴⁰ between the Creator and the humanity, which established the relationship between *Rububiyyah* and *'ubudiyyah*. The former means recognition by the humanity that Allah is their *Rabb*: their One and Only Creator, Sustainer, Guide, Protector, and Lord. The latter means the recognition and acknowledgment of the absolute servitude of humans to their *Rabb*.

Central to the *Rububiyyah—'Ubudiyyah* relation is the principle of *Walayah*. This is an important concept in the Qur'an. Some 220 verses relate to this concept and its derivative. It connotes a love relationship between the Creator and His Creation and it is the prime reason behind creation. It is reciprocated⁴¹ by humans through love extended to one another and to the rest of the creation manifested in guardianship, trusteeship, loyalty, mercy and compassion. *Walayah* provides the foundation of the ideal Islamic society in which each of its segments have organic relationships with one another, each is invested in the other by a network of mutual rights and obligation, all built on a foundation of love.⁴²

OVERVIEW OF *SUNAN* OF ALLAH AND THEIR CHARACTERISTICS

As explained earlier, a *sunnah* can be defined, as a declared way of acting in a consistent manner repeatedly so often that it becomes an immutable rule of behavior. *Sunan* of Allah (swt) have the following characteristics: (i) they are general and consistent (see, for example, Verse 38: Chap. 33); (ii) they are immutable (see, for example, Verse 43: Chap. 35); (iii) they relate to human collectivity and the gift of human freedom of choice (see,

for example, Verses 11: Chap. 13 and 96: Chap. 7); (iv) they govern human life here with consequences in the hereafter (see, for example, Verse 59: Chap. 18); and (v) they are targeted to the best interests of humans (see, for example, Verse 178: Chap. 7). Some of these rules with economic implications are discussed below.

The first among the rules governing Allah's relationship with humans (*Sunan*) is that of Mercy. In more than 300 verses, the Qur'an asserts Allah's Mercy (*Rahmah*) as a rule He prescribed (*Kataba*: wrote) for Himself (see Verses 12, 54, 133, and 147: Chap. 6). Every chapter of Qur'an, except one, begins with an unequivocal declaration of Allah's Mercy. From this rule and the related concept of *Walayah* (for the Qur'an's own explanation of *Walayah* see Verses 32–44: Chap. 18) comes the set of Gifts that Allah (swt) endows humans including: the gift of life (see for example Verses 21, 28–29: Chap. 2); the Books (see, for example, Verse 52: Chap. 7); messengers and prophets (see the Qur'an, Verse 77: Chap. 17); *Fitrab*, the primordial human nature on which the testimony to the axioms of Islam are imprinted (see Verse 30: Chap. 30) and which becomes accessible to those whose consciousness has been raised due to rule compliance; *Al 'Aql*, the capacity of cognition by heart and mind which includes the power of intellection and reasoning (see Verse 242: Chap. 2) through "*tafakkur*," critical thinking (see Verse 219: Chap. 2) and "*taddabur*," the ability to focus attention on the Qur'an (see, for example, Verse 82: Chap. 4) as book of rules to ensure full consideration of consequences of action⁴³ once decision is made to act; ontological human dignity, "*karamah*" (see Verse 70: Chap. 17)⁴⁴; freedom of choice, a gift so clearly and unequivocally stated in the Qur'an that it covers the freedom to reject belief knowing the consequences of such decisions (see, for example, Verse 29: Chap. 18; Verse 3: Chap. 76; Verse 256: Chap. 2)⁴⁵; Resources, everything has been created for the use of humans (see, for example, Verses 32–34: Chap. 14) and assurance of provision of sustenance (see, for example, Verse 152: Chap. 6 and 11); and, the office of agency on earth, a gift that imposes both the right of action as authorized by Allah (swt) (the Principal) and the responsibility of doing so in accordance with the rules governing behavior of the agents (humans).⁴⁶ Also, included among the gifts of Allah (swt) to humanity is the ability to suplicate and the promise of its acceptance (see, for example, Verses 168: Chap. 2; 62: Chap. 27; 60: Chap. 40); and the gift of repentance (*taubah*: returning to Allah (swt) after turning away), which encourages humans to turn to Him if they violate rules, and declared that He loves those who

return to Him (see, for example, Verses 222: Chap. 2; 17: Chap. 4; 39: Chap. 5; 54: Chap. 6).

The second rule governing the Creator's relationship with humans is the Sunnah of creating an immutable and organic connection between changes in the condition of a collectivity and the changes within the psyche or soul (*nafs*) of the members of that society (see, for example, Verses 53: Chap. 8; 11: Chap. 13; 41: Chap. 30). Third is the provision of guidance (*hidayah*) for humans to achieve felicity in their lives here and in the hereafter. This is done through imprinting the message of the Unicity of Allah (swt) on their primordial nature and metaconsciousness (*Fitrah*), and through sending Books, messengers and prophets who remind humans of their Primordial Covenant with their Creators and warn them of the consequences of rule violation (see, for example, Verse 50: Chap. 20; 2–3: Chap. 87; 30: Chap. 30; 22: Chap. 36; 285: Chap. 2; 136: Chap. 4; 27: Chap. 43; 36: Chap. 16; 44: Chap. 23; 213: Chap. 2). Fourth is the provision of gifts to empower all humans to achieve felicity regardless of their belief or disbelief (see, for example, Verses 18–20: Chap. 17). Fifth is the return of the consequences of each action to the original actor (see, for example, Verses 23: Chap. 10; 7: Chap. 17). Sixth is repelling the oppression–aggression of one group of humans by another (see, for example, Verses 246–251: Chap. 2). Seventh is the Sunnah of the circular nature of worldly fortunes and misfortunes among humans (see, for example, Verse 140: Chap. 3).

The eighth rule governing the Creator's relation with mankind is that of testing. Ontologically, Allah (swt) is the source of testing, trials and tribulations. From the Qur'an, it appears that the reason for testing is so that humans can gain knowledge of themselves and Allah experientially. If human action in response to a trial or tribulation is rule compliant and exercised through patience, the relationship with the Creator is strengthened. The result of affirmation of servitude to Him through a rule-compliant response is greater serenity and certainty for the individual. On the other hand, a response to trials and tribulations that is not rule compliant leads to regret, and as a result of which the person has an opportunity to learn. The Qur'an affirms that all humans are subject to testing (see, for example, Verses 2–4: Chap. 29). All that is given to humans becomes an object of testing (see, for example, Verse 7: Chap. 18 and Verse 28: Chap. 8), even life and death (see Verse 2: Chap. 67). A Muslim has to treat even the mundane, every day decision-action events as a testing occasion requiring careful attention to consequences of the

decision (*tadabbur*). Trial and tribulations are means of preparing humans for their celestial journey. Each trial represents a choice point; a point that can bring humans closer to their Creator or take them further away. Each of these consequences could be very large or very small depending on the strength of compliance with prescribed rules. Their consequences of decisions, however, are never local, regardless of the action or whether they are related to the individual decision maker, to close relatives or other people. The Qur'an provides many examples of actions, apparently local and insignificant that had a butterfly effect (see, for example the story Prophet Abraham, or Ibrahim, relayed in the Qur'an in Verses 100–110: Chap. 37).

The ninth Sunnah relates to the setting of “appointed time,” or deadline or death line (*ajal*) for all elements of the creation including humans (see, for example, Verses 2, 6: Chap. 6; 3: Chap. 7; 49: Chap. 10; 2: Chap. 13; and Verse 8: Chap. 30). The implication is that knowing that there is an end-time, individually and collectively, as well as the belief in accountability, would induce humans to be conscious of consequences of their actions. Tenth is giving erring humans repeated chance for becoming rule compliant before their end-time (see, for example, Verses 36: Chap. 2; 2: Chap. 6; 11 and 49: Chap. 10; 2–3: Chap. 11; 99: Chap. 17; 58–59: Chap. 18; and, 45: Chap. 35). Eleventh is the Sunnah of progression according to which, and consistent with the tenth rule, those who reject the Message and who continue rule violation are led, by their own action, toward destruction step by step such that they remain unaware such that when it comes, they are caught completely off guard (see, for example, Verse 182: Chap. 7). Those who are rule compliant are also treated according to the process of progression in that their consciousness of Allah (swt) increases by degrees (see, for example, Verses 11: Chap. 58 and 162–163: Chap. 3). Twelve is that in response to conspiracies and plans of deceivers against the Message of Islam and the faithful, Allah devises superior schemes for their defeat (see, for example, Verse 30: Chap. 8) and the return of the adverse consequences of their plans back to the deceivers without them being aware (see, for example, Verse 124: Chap. 6).

The next rule is that of struggle of truth against falsehood and the eventual defeat of the latter (see, for example, Verses 31: Chap. 25; 34, 49: Chap. 34). Fourteenth is the Sunnah of provisioning the creation at any-time with resources in exact measure required for its sustenance (see, for example, Verse 21: Chap. 15; 27: Chap. 42; and 59: Chap. 54). This implies that cosmically there is no scarcity of resources to take care of

humanity at the global level. However, as has become increasingly clear, the problem is the way humans distribute these resources at local level. From the Qur'an's point of view poverty and destitution of many in the society is the result of massive accumulation of wealth by a few. This latter class in societies are called the "*Mutrifeen*," the opulent, are said to be the cause of destruction of societies (see, for example, Verse 16: Chap. 17). The final rule to be presented here is that of Allah's help to those who are rule compliant (see, for example, Verses 40: Chap. 22; 51: Chap. 40; 7: Chap. 47).

OVERVIEW OF RULES GOVERNING HUMANS' RELATION WITH ALLAH (SWT), WITH THEIR OWN SELF AND WITH ONE ANOTHER

The rules that govern the relationship of humans with their creator begin with the purpose of their creation: adoration of their Creator (see Verse 56: Chap. 51). There are specific rituals recommended by the Qur'an for this purpose, but, more importantly, the adoration of Allah (swt) requires compliance with rules of behavior prescribed in the Qur'an and a constant state of gratitude to Him for all His generosity and grandeur. Reciprocating and returning the Love of Allah (swt) (*Walayah*) through active love for His Creation is the most important manifestation of adoration of the Creator. Helping other humans giving them their dues, respecting their dignity, not destroying, degrading, or wasting natural resources created for all humans is an act of adoration of the Creator. As to the rules that govern the relation of humans to their own self, any rule violation that damages the self and its dignity, physically and spiritually, is forbidden. Every rule violation, mentioned in the Qur'an, damages the self and dignity. Rules governing human-human relations include those governing: contracts, property rights, trust, cooperation and coordination, consultation, worker and management behavior, no harm or injuries to third parties not involved in bilateral transactions, inducing rule compliance and discouraging rule violation, market behavior, distribution and redistribution, and justice.

Rules governing the relationship of Allah (swt) and humans are stated in the Qur'an, it appears, to assure the faithful of the omniscience, omnipresence, and omnipotence of their Creator. They undergird the idea of close involvement of the Creator with His creation, including humans.

However, the rules that are related to the subject matter of this book are those that govern economic relationships among humans. Given the importance of the *Suman* of Allah (swt) space was devoted to their discussion in this chapter. It is important to note that these rules are part of the ecosystem of decision making of a person who has, by her/his free choice, submitted to the Will of the Creator.

NOTES

1. Rima, Samuel, D. *Spiritual Capital*. Surrey: Gower Publishing Limited, 2013, p. 2 (Rima 2013).
2. Ibid., p. 3.
3. See, for example, Ormerod, P. *The Death of Economics*. New York: John Wiley & Sons, 1994/1997; McMurtry, J. *The Cancer Stage of Capitalism*. London: Pluto Press, 1999; Lawson, T. *Reorienting Economics*. London: Routledge, 2003; Stiglitz, J. *Globalization and its Discontents*. New York: W. W. Norton, 2003; Klein, N. *The Shocking Doctrine: The Rise of Disaster Capitalism*. New York: Picador, 2007; Ertuna, I. O. *Wealth, Welfare and the Global Free Market*. Farnham: Gower Publishing Limited, 2009; Bowles, S. *The Moral Economy*. New Haven: Yale University Press, 2016 (Ormerod 1994/1997; McMurtry 1999; Lawson 2003; Stiglitz 2003; Klein 2007; Ertuna 2009; Bowles 2016).
4. Ertuna (2009), p. 3.
5. Meadows, D. H., D. L. Meadows, J. Randers, W. W. Behrens III. *The Limits to Growth*. New York: Universe Books, 1972 (Meadows et al. 1972).
6. See Bordi, Ugo. (2011). *The Limits to Growth Revisited*. New York: Springer, 2011. The author details efforts to discredit the report since its original publication.
7. The authors published a 20-year update: Meadows, D. H., D. L. Meadows, and J. Randers. *Beyond The Limits*. White River Junction, VT: Chelsea Green Publishing Company, 1992. Two other updates followed: Meadows, D., D. Meadows, and J. Randers. *Limits to growth: The 30-Year Update*. White River Junction, VT: Chelsea Green Publishing Company, 2004. On the 40th Anniversary of the original book, one of the authors published a 40-year update: Randers, J. 2052: *A Global Forecast for the Next 40 Years*. White River Junction, VT: Chelsea Green Publishing Company, 2014 (Meadows et al. 1992; Meadows et al. 2004; Randers 2014).
8. Turner Graham, "Is Global Collapse Imminent? An Updated Comparison of The Limits to Growth with Historical Data," Research Paper No. 4, August (2014), Melbourne: Melbourne Sustainable Society Institute, University of Melbourne.

9. See Davenport, Stewart. *Friends of the Unrighteous Mammon*. Chicago: University of Chicago Press, 2008; also Boulding, Kenneth. *Beyond Economics*. Ann Arbor: The University of Michigan Press, 1968, pp. 179–211 (Davenport 2008; Boulding 1968).
10. Varoufakis, Yanis. *The Global Minotaur*. London: Zed Books, 2011, p. 249 (Varoufakis 2011).
11. Arrow, Kenneth. *The Limits of Organizations*. New York: Norton, 1974; see also Ng, Adam, A. Mirakhor, and M. Ibrahim. *Social Capital and Risk Sharing*. New York: Palgrave Macmillan, 2015 (Arrow 1974; Ng et al. 2015).
12. Hirsch, Fred. *Social Limits to Growth*. Cambridge: Harvard University Press, 1976, pp. 118–119.
13. Hirsch, ibid., p. 138.
14. North, Douglass C. *Understanding the Process of Economic Change*. Princeton: Princeton University Press, 2005.
15. Hirsch, 1976, pp. 139–143.
16. Hirsch, ibid., pp. 178–190.
17. Bowles, Samuel. *The Moral Economy*. New Haven: Yale University Press, 2016, pp. 220–223 and also 39–77 (Bowles 2016).
18. Qur'an Verse 57: Chap. 11; Verse 38: Chap. 47; for example of positive incentives that Allah (swt) promises to rule-compliant societies, see Verse 96: Chap. 7; for positive incentives promised rule-compliant individuals, see Verse 71: Chap. 33; Verse 17: Chap. 48; Verse 52: Chap. 24; Verses 69–70: Chap. 4. For examples of negative incentives see Verse 23: Chap. 72; 36: Chap. 33; Verse 14: Chap. 4.
19. Abu El Fadl, Khaled. *Reasoning With God*. Lanham, Maryland: The Rowan & Littlefield Publishing Group, 2014, p. 8 (Abu El Fadl 2014).
20. See the Qur'an Verse 32: Chap. 5.
21. Niebuhr, H. Richard. *Radical Monotheism and Western Culture*. Louisville: Westminster/John Knox Press, 1970, p. 32 (Richard 1970).
22. See: <http://islamicity-index.org/wp/>.
23. See Saliba, George. *Islamic Science and the Making of European Renaissance*. Cambridge: MIT Press, 2007; Morgan, Michael H. *Lost History: The Enduring Legacy of Muslim Scientists, Thinkers and Artists*. Washington DC: National Geographic, 2008; and Al Hassani, Salim T. S. ed. *1001 Inventions: The Enduring Legacy of Muslim Civilization*, 3rd edition. Washington DC: National Geographic, 2012 (Saliba 2007; Morgan 2008; Al Hassani 2012).
24. See “Miracles of the Qur'an: From arithmetic to astronomy” at: http://www.speedlight.info/miracles_of_quran/seven_heavens.htm.
25. See Verse 82: Chap. 17.

26. See: <http://www.islamicmedicine.org/medmiraclesofquran/medmiracle-seng.htm#eyedrop>. And contrary to popular Western belief about the place of women in Islam, an Iranian woman, Maryam Mirzakhani, was the first female winner of the Fields Prize in mathematics, a prize that is arguably more prestigious than the Nobel Prize in the fields that it is offered.
27. Abu El Fadl (2014), p. 88.
28. Ibid., p. 89.
29. See the Qur'an in which there are about 37 direct references to "*al bashar*," for example, Verse 20: Chap. 30. The Qur'an has some 65 verses of direct references to "*al Insan*." See, for example, Verse 3: Chap. 55. For a clear exposition of the difference between "Bashar" and "al Insan" in the Qur'an, see Al Dusuqi, F. Ahmad. *Mafaahim Qur'anyyah hawl Haqiqah Al Insan*. Beyrut, Lebanon: Al Maktab al Islami, 1986 (Al Dusuqi 1986).
30. See, for example, Verse 179: Chap. 7.
31. See the Qur'an, for example, Verse 160: Chap. 6; and Verse 261: Chap. 2.
32. See, for example, Verse 96: Chap. 7.
33. See, for example, Verse 17: Chap. 64.
34. See Verse 2: Chap. 62.
35. See Verse 25: Chap. 57.
36. See Verses 15–16: Chap. 5.
37. See Shahrur, Muhammad, 2011. *Al Kitab wa Al Qur'an: Ro'yah Jadeedah*. Beyrut, Lebanon: Dar Al Saqi, 2011. See his discussion of difference between "*Al Bashar*" and "*Al Insan*," pp. 308–314; also Shahrur, Muhammad. *Al Islam wa al Iman*. Beyrut: Lebanon: Dar Al Saqi, 2014 (Shahrur 2011, 2014).
38. Interestingly, David Little commenting on Max Weber's notion of "legitimate order," says: "Human social action, Weber believed, is fundamentally ordered action; it is organized in keeping with rules and patterns that are reasonably coherent and consistent. The coherent and consistent character of human action is the basis for the creation of patterns of social expectation, or of institutions. In simple terms, societies are systems of ordered or structured action." Little, David. *Religion, Order and Law*. Chicago: The University of Chicago Press, 1984, p. 6 (Little 1984).
39. For an interesting book on rules see Heath, Joseph. *Following the Rules*. Oxford: Oxford University Press, 2008 (Heath 2008).
40. See Shahrur 2014, pp. 130–144; Kadi, Wadad, "The Primordial Covenant and Human History in the Qur'an." Proceedings of the American Philosophical Society, vol. 147, no. 4, (2003) pp. 332–338; and Lumbard, Joseph E.B., "Covenant and Covenants in the Qur'an," *Journal of Qur'anic Studies*, vol. 17, no. 2 (2015) pp. 1–23 (Kadi 2003; Lumbard 2015).

41. Even those who do not profess publically a belief in the Creator argue that reciprocity is an important element of human morality, itself being “a key evolutionary adaptation.” See Gintis, Herbert, Joseph Henrich, Samuel Bowles, Robert Boyd and Ernest Fehr, “Strong Reciprocity and the Roots of Human Morality” *Soc. Jus. Res.* DOI [10.1007/s11211-008-0067-y](https://doi.org/10.1007/s11211-008-0067-y). Springer, 2008. Also see Gouldner, Alvin W., “The Norm of Reciprocity: A Preliminary Statement,” *American Sociological Review*, vol. 25, no. 2 (1960) pp. 161–178 (Gintis et al. 2008; Gouldner 1960).
42. See Hamid, Idris Samawi. *Islam, Sign and Creation: The Cosmology of Walayah*. New York: Global Scholarly Publications, 2011; also Bin Muhammad, Qazi HRH. *Love in the Holy Qur'an*. Chicago: Kazi Publications, 2010; also Tillich, Paul, “Being and Love” in Ruth Nanda Anshen, ed. *Moral Principles of Action*. New York: Harpers & Brothers, Publisher, 1952: 661–672 (Hamid 2011; Bin Muhammad 2010; Tillich 1952).
43. This is a crucial aspect of rules of decision making in Islam since rule violation leads to the displeasure of Allah, Muslims would want to minimize the probability of regret. While Allah (swt) encourages repentance and often, in at least 200 verses Allah (swt) promises forgiveness (see for example Verse 53: Chap. 39), nevertheless, as Daniel Kahneman suggests, post-decision regret (sometimes referred to as “buyer’s remorse”) is an “emotion, and is also a punishment that we administer to ourselves. The fear of regret is a factor in many of the decisions that people make...” (see Kahneman, Daniel. *Thinking, Fast and Slow*. New York: Farrar, Straus and Giroux, 2011, pp. 346–349.) The fear and anticipation of post-decision regret makes a Muslim highly risk averse and careful in “*tadabbur*” of consequences of decisions to be made. So the Muslim’s strategy of risk aversion includes “regret-aversion” as well. One of the contributions of Kahneman-Tversky “Prospect Theory” is the contention that evaluations by individuals are relative to the baseline they use (see Kahneman, D. and Amos Tversky, “Prospect Theory: An Analysis of Decision Under Risk,” *Econometrica*, vol. 47, (1979) pp. 263–291). In case of a Muslim decision maker, the rules prescribed in the Qur’an provide the baseline. It is within the framework of the rules that decisions are “framed” (Kahneman 2011; Kahneman and Tversky 1979).
44. See also Kamali, Mohammad Hashim. *The Dignity of Man: An Islamic Perspective*. Kuala Lumpur: Ilmiah Publishers, 2002; Nawwab, Al Sayyid abu Al Hassan. *Al Karamah Al Insaniyyah*. Tehran: Dar al Nashr Al Adyan, 2011, especially pp. 15–55 (Kamali 2002; Nawwab 2011).

45. Freedom of choice includes freedom of expression. See Kamali, Mohammad Hashim. *Freedom of Expression in Islam*. Kuala Lumpur: Ilmiah Publishers, 1998.
46. See Abu El Fadl, Khalid (2014), pp. 411–414.

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Institutional Structure of a Sound Economy

Since the early 1980s, New Institutional Economics (NIE) has made a significant contribution to our understanding of how economic systems function. NIE asserts that satisfactory explanation and understanding of why some economies perform strongly while others do not requires going beyond the austere assumptions about human behavior and the lean logic of neoclassical economic theory. NIE advocates that, in addition to factor endowment, human capital, investment and technological progress, the “institutional scaffolding” of a society plays a significant role in its economic performance. NIE defines institutions as rules and norms governing economic behavior (“rules of the game”) in the society and their enforcement characteristics. Accordingly, how well an economy performs depends crucially on the rules governing economic behavior. Principal among these are: the rule of law, well-defined and protected property rights, trust, efficient contract enforcement, and good governance. Empirical analysis of the importance of institutional structure has produced important results with significant policy implications.

The roots of this institutional explanation for economic performance dates back to the last decades of the nineteenth and the first few decades of the twentieth century in the writings of scholars who are now referred to as the “old institutional economists.”¹ The most important characteristic of this school of economic thought was the rejection of much of the assumptions as well as the methodology of the neoclassical economics.

The starting point for why institutions matter in economic development relates directly to the question of why countries with considerable resource endowments and access to finance are, nevertheless, economically underdeveloped. While differences in capital per worker, investment in human capital, investment and technology may explain differences in the level of per capita income among countries, none of these can be considered as fundamental reason for the underdevelopment of many countries. This is particularly important in the age of globalization since capital is mobile and will move to developing countries where the return to capital is higher because of its scarcity. Technology too can transfer either through foreign direct investments or licensing agreements. Moreover, investment in human capital should have higher return in countries with low investment in education. However, if the institutional structure of a country is weak, its ability to mobilize, organize and finance growth is constrained.

The neoclassical theory assumed, implicitly, that the economy possessed institutions that provide political stability; guarantee and enforce property rights; protect and enforce private contracts; and uphold the rule of law. In addition to assuming that the country had well-functioning markets, it was assumed to have in place the financial, legal, accounting and regulatory apparatus that ensure transparency, accountability and good governance. Moreover, one insight of Ronald Coase's classic paper was that the neo-classical theory holds under the assumption of zero transaction costs. Based on Coase's insight, Douglass North, the most distinguished contributor to the development of NIE, argued that while the growth of advanced economies is explained by productivity increases due to division of labor, specialization, technical progress and the competitive market, the key to their performance is the low transaction costs of these economies. This was the result of the institutional structure that had developed over the last two hundred and fifty years. Conversely, it is the existence of prohibitive transactions costs that represented "the key obstacle that prevent economies and societies from realizing well-being." According to Pejovich,² "[t]ransaction costs are the cost of all resources required to transfer property rights from one economic agent to another. They include (i) the cost of making an exchange (i.e. discovering exchange opportunities, negotiating exchange, monitoring exchanges, and enforcing contracts and agreements) and (ii), the cost of maintaining and protecting the institutional structure (i.e. the judiciary, police and armed forces)." Transaction costs are an impediment to economic and social progress and prosperity and are seen as the reason for development of institutions. They arise

because getting access to information is costly and held asymmetrically by parties to an exchange, unlike the assumption of neoclassical economics. NIE assumes that individuals have incomplete information and limited cognitive (mental) capacity.

As a result, Douglas and Ney³ see the growth of the ideas of institutionalists, especially the old institutionalists as well as the German historical school founded by Wilhelm Georg Roscher (1817–1894), as a reaction to the abstract, axiomatic, formal and deductive methodology of economics. The historical school had the view that economics should study the whole of society through careful historical analysis. Whereas the utilitarians defined rational behavior as self-interested, Roscher proposed a model that included human conscious along with self-interest. Whereas the classical and neoclassical schools were only concerned with the market and paid very little attention to other institutions of society, the old institutionalists argued that even the market itself cannot operate successfully without norms and rules (institutions) and that the economy should be studied from a perspective of evolutionary institutions. While sharing the old institutionalists' interest in the social, economic and political institutions that govern everyday life, the new institutionalists combine the neoclassical view of individual as utility maximizing with the former's idea of individuals as committed to "moral values and cultural loyalties." The first requires an appropriate incentive structure to motivate self-interest in collective and cooperative action, the second needs an appropriate institutional structure to encourage trust and social commitment.

Abramovitz and David refer to a related concept called "social capability," which "has to do with those attributes, qualities, and characteristics of people and economic organization that originate in social and political institutions and that influence the responses of people to economic opportunity. It includes a society's culture and the priority it assigns to economic attainment. It covers the economic constitutions under which people live, particularly the rights, limitations, and obligations involved with property, and all the incentives and inhibitions that these may create for effort, investment, enterprise, and innovation. It involves those long-term policies that govern particular forms of organization or activity, such as limited liability corporations and financial institutions, and the policies that may support or restrict such organizations. And it covers the policies that provide for the public provision of social services and those that support the accumulation of capital by investments in infrastructure and by public education or research." Their historical analysis makes it clear

to Abramovitz and David that the differences in social capability is much more pronounced between developed market economies and less developed countries than between advanced market economies as a group. It can be argued that the collectivity of institutions provides society with the social capability to establish a stable order by reducing uncertainties or ambiguities that members of society face.

A modern economy relies on a complex of impersonal relationships that, by their very nature, involve a great deal of uncertainty. North suggests that societies construct infrastructural “scaffolding” in the form of an institutional matrix that reduces uncertainties and provides confidence to all parties in exchange and social interrelationships. He goes on to make a distinction between institutions and organizations. Institutions are formal rules and their enforcement characteristics and informal norms and social conventions that together “define and limit the set of choices of individuals.”⁴ Difference between formal rules and informal norms is that the first has formal sanctions and the second does not. There are usually informal sanctions such as peer pressure or social exclusion. Organizations, on the other hand, are collection of individuals bound together by some shared goals and objectives. More specifically, the institutional structure of a society is composed of constitutions, laws and rules that govern the society, its government, its financial, economic and politics; written rules, codes, and agreements that govern contractual relations and exchange and trade relationships; and commonly-shared beliefs, social norms and codes governing human behavior. The clarity of rules, social norms and enforcement characteristics are important to the degree of compliance exhibited by the members of a society. The higher the degree of rule compliance, the more stable the social order and the lower the transactions costs in the society. For example, social norms that prescribe trust, trustworthiness and cooperation have a significant impact on encouraging collective action and coordination by inducing people to do the things they would not do without the relevant social norms.⁵

North believes that enough progress has been made in investigation of the process of growth and development to isolate the causes of poor economic performance as well as the necessary remedies. Poor performance, North believes, is due to path-dependencies resulting from past institutional structure, encompassing cultural heritage, which impose “severe constraints on the ability to effectuate change.” This is because path-dependence may be the result of the institutional structure that reflects a belief system that is difficult to change, either because the needed

changes that improve economic performance run counter to the belief system or these changes pose a threat to existing political or business leaders. Needed changes in the institutional structure may also be difficult because although formal rules can be changed by fiat, social norms may be less flexible and their enforcement characteristics respond much more slowly to policies to change them. Although acknowledging that improvement in economic performance may be slow to develop because of cultural factors and path-dependency, North nevertheless envisioned an ideal political-economic institutional structure that, in his view, has great potential for achieving good economic performance and societal well-being. Such an ideal framework would have:

- i. Institutions that protect individual rights, the individual person, property, speech, social/political participation and create incentives for the members of society and organizations to engage in productive activities.
- ii. A high level of trust and trustworthiness.
- iii. Rule of law and a government which is credibly committed to a set of political rules and enforcement that protects individuals, organizations and exchange relationships.
- iv. Contracts and contract enforcement as a result of norm internalization as well as coercive enforcement.
- v. A stable structure of exchange relationships in economic and political markets and an effective price system that leads to low transaction costs in production, exchange and distribution.⁶
- vi. Governance rules at all levels.⁷
- vii. An effective, independent and impartial legal system.

In the same vein, in *Capitalism, Institutions, and Economic Development*, Michael Heller proposes shortcuts for developing countries to achieve economic and institutional maturity. His proposal includes:

1. A proto-institutional ethic of honesty in market exchange... which fuses with an evolving legal system.
2. A formal, universally accessible and enforceable legal system ... enforcement of property rights and contracts, fair dealing.
3. A coordinated state administration of services oriented to formal normative procedures that ensure more or less consistent and objective means-end decision making ... with a minimum

case-by-case discretionary power. Its norms are non-discriminative, i.e. they are impartial.

4. Democratic institutions guaranteeing free political representation.⁸

Following a different analytical approach of reviewing the empirical research on the role of institutions in economic growth, Rodrik concludes that an appropriate framework for good economic performance would be composed of “property rights; regulatory institutions; institutions of macroeconomic stabilization; institutions for social insurance; and institutions for conflict management.” Rodrik suggests that these institutions can be acquired either by importation and adoption of a “blueprint” from outside or “developed locally, relying on hands-on experience, local knowledge and experimentation.”⁹

Contrasted with these conceptions of ideal institutional structure, North argues that the institutional framework of the poor performing economies does not provide the right incentive structure for activities that can improve productivity because path-dependency has created vested interests that resist change and because factor and product markets are ineffective in getting relative prices right. According to the NIE, it is possible to design institutional incentives, i.e. “rewards and penalties that will help other people to resist path dependency and fulfil the cultural purposes for which institutions have been set up.” A prerequisite for successful actions to improve economic performance is “a viable polity that will put in place the necessary economic institutions and provide effective enforcement.” The degree to which there is an identity between the objectives of the rules and the choices individuals make in a particular institutional setting depends on the effectiveness of monitoring and enforcement.

Enforcement is most effectively done by individuals themselves when they fully internalize the rules. This is self-enforcement which creates self-imposed codes of conduct. Alternatively, enforcement can be done by a second party in response to the first party’s behavior, for example retaliation. It can also be done by a third party—other members of the society or by the state. The stronger the enforcement of rules of conduct, the stronger the institutional setting and the weaker are the incentives to cheat, free ride, and undermine contractual obligations, therefore, the lower the costs of transaction and, consequently, the more efficient the economic system. Efficiency is measured in terms of costs of a given level of economic performance. Essential to efficiency are institutions that provide economic and political flexibility overtime to adapt to new challenges and

opportunities, rather than any specific design.¹⁰ Such adaptively efficient institutions are arguably what matters most for good economic performance by providing incentives for the acquisition of knowledge and learning, inducing technical innovations, and encouraging risk taking and creative activity.

An efficient institutional arrangement is one in which the divergence between the choices individuals actually make (in that institutional setting) and the choices expected of them (by the rules of conduct) is minimized. Under such circumstances, there will be no asymmetric information, no moral hazard, no adverse selection and all remaining risks in the society become insurable. The degree of convergence between actual behavior and expected behavior (by the rules) depend on the ideology of the individual participants in the economy. If individuals have internalized the rules of conduct, their ideology brings their actual behavior into convergence with the conduct expected of them by the rules. Denzau and North (1994) define ideology as a shared set of mental models possessed by groups of individuals to explain and evaluate the world around them.¹¹ They argue that ideology, along with institutions, helps agents cope with complex decisions.

The importance of ideology is a direct function of the degree to which the measurement and enforcement of contracts are costly. Basically, a contract is an enforceable agreement. Its essence is a commitment. Contracts are means of coming to terms with future risks and uncertainty. They allocate risks by providing for future contingencies and set obligations for each party and each state in the future as well as remedies for breach of contracts. Generally, there are three motives for entering into a contract: distributing risk (via sharing of risk, transfer of risk or shifting of risk), alignment of incentives, or to minimize transaction costs. Contracts that are designed to reduce transaction costs are usually aimed at establishing stable, long-term relationship between parties in order to avoid ex ante information, search and sorting costs as well as ex post bargaining costs (Kenny and Klein, 1983).¹² If the measurement and enforcement of contracts can be done at low cost, then it makes little difference whether people believe the rules are justified or not, make sense or not, are fair or not. However, since measurement and enforcement of contracts are costly, ideology matters for economic efficiency. Therefore, ideology is a key to individual choices that affect economic performance.

Douglas and Ney argue that conceiving of institutions as “vehicles for moral purposes” means that institutions should be considered

“as a way of living.” But this would mean that humans should be conceived of as “social beings” that are “exposed to the influence of other persons through the culture-bearing institutions.” But such a person is missing in social sciences whose history of evolution of ideas about humans is essentially based on the idea of the “economic man.” This conception of a human as rational economic man creates “intellectual conundrums about poverty and collective choice, and practical dilemmas about dealing with other persons whose political behavior we cannot even start to understand. We have noticed some perverse effects. Here are social sciences, so-called, which proceed as if rational humans are not primarily social beings... ...the theoretical posture seems to be justified because it protects objectivity, yet it is no protection against subjective bias, as we observe when we see how heavily biased are the social sciences against institutions.”¹³

To remedy for the “missing person,” Douglas and Ney suggest that there is a need for “a new theory of the person” that envisions “rational persons fully empowered to espouse political and moral choices, able to choose to abide by them or choose to abandon them, according to circumstances. These choices sum up the predilections of a lifetime, past hopes dashed or expectations fulfilled. The political and moral choices are about how to live in society.” Such a theory of the human being is necessary if many important issues of our time are to be faced “squarely or fairly.”¹⁴

Since institutions are defined as rules and norms, some form of rationality assumption is necessary to motivate rule compliance. The view of new institutionalists on rationality is evolving, nevertheless, the broad, basic idea of understanding rationality “as the capability to perceive means/consequence connections” remains essential since rules and norms are end-directed. North has argued for the idea of bounded rationality proposed by Herbert Simon who had noted that a strong presupposition of utility theory was that it required the rational individual to be capable of large, elaborate and, often, instantaneous calculations. This conception is different from that of “full rationality” assumed by neoclassicalists. The assumption was needed to justify a further assumption of perfect information, also rejected by NIE. Instead, Simon argued that, in reality, individuals operate within a zone of rationality rather than full rationality because of various constraints that hinder the large, elaborate and, often, instantaneous calculations required by utility theory.

On this basis, North proposed the idea of bounded rationality. In essence, both the power and scope of rationality is bounded. As a result,

rational individuals do not aim to maximize satisfaction, but to find a limited-scope-zone of operation within which the individual turns over part of the required immense calculation to habits, rules, social norms and customs, i.e., institutions. Thus, the individual aims to satisfy rather than maximize utility. The assumption of bounded rationality allows individual behavior to be influenced by cultural values, norms and rules of behavior. To a degree, therefore, bounded rationality modifies the image of “rational individual” as “the free-standing, self-contained individual” which the anthropologist Marilyn Strathern argues is the result of a “Euro-American” thinking “of individual persons as relating not to other persons but to society as such, and to think of relations as the fact of the individual personhood rather than integral to it.” This mode of thinking of individual-society link and its implication for “personhood” ran throughout the economic thinking over the last three centuries. This mode of thinking is so binding that in a framework in which “self-interest” is the only motive, the anomalous behavior stemming from “other-regarding” had to have a separate label as “altruism” to distinguish between “self-interested” and “other-interested” motives. This, of course, creates difficulties in understanding cultures and societies in which “the motives of selves are always thought to be other-directed.” In the first culture where motivation is self-interested, even in “altruistic” actions, conception of motivation for acquiring wealth would be quite different from a culture where wealth is acquired to be given away, as would be the case in the second type of culture or society.¹⁵

In summary, the NIE is well within the neoclassical tradition. It maintains the same fundamental axioms as orthodox economics, that is (1) scarcity; (2) self-interest; and (3) rationality with minor modification. NIE considers development as economic growth, which needs appropriate “institutional scaffolding” conceptualized as the institutional structure that propelled the industrial countries onto high-growth path. The most important of these institutions being laws protecting property, investor, and creditor rights; laws protecting contracts and ensuring their enforcement; and appropriate governance structure. Importantly, the NIE defines institutions as “rules, norms and their enforcement characteristics.”

Overall, the vast empirical research on the important role of institutions for economic performance has produced significant results. A large number of cross-country regression analyses have demonstrated statistically significant correlation between institutional variables and economic growth. A major conclusion of this research effort has been that without an

adequate institutional structure being in place, attempts to reform an economy in order to improve its performance—such as creating an incentive structure for private sector involvement or structural reforms in order to get the relative prices right—would fail to kick-start rapid and sustainable economic growth. It can be plausibly argued that NIE can provide a nexus between Islamic economics and conventional economics to facilitate communication between the two disciplines.

Each economic system has an “institutional matrix” that “defines the opportunity set, being one that makes the highest pay offs in an economy’s income distribution or one that provides the highest payoffs to productive activity.”¹⁶ North contends that in all economic systems, institutions (rules of behavior) are designed by humans to impose constraints on human interaction. These institutions “structure human interaction by providing an incentive structure to guide human behavior. But an incentive structure requires a theory of the way the mind perceives the world and its functioning so that institutions provide those incentives.”¹⁷ It is here where paradigms become relevant because paradigms in economics do have conceptions of man, society and their interrelationships. Such conceptions are themselves products of a meta-framework whose elements may or may not be explicitly specified but which, nevertheless, exist in the mind of the designer prior to the construction and presentation of a paradigm. There are basically two meta-frameworks that underlie all economic paradigms: Creator-centered or man-centered. The former derives its economic analysis from rules of behavior (institutions) prescribed by the Creator for individuals and societies. Examples are economic paradigms that are based on Abrahamic Traditions, Judaism,¹⁸ Christianity¹⁹ and Islam. The latter framework, the man-centered or the secular tradition, takes as given, or derives, rules of behavior (institutions) that are designed and approved by society.

A particularly important facet of the uniqueness of any system is the approach to solving the problems of the society it serves. Two fundamental problems that all societies face are *uncertainty* and *coordination*. Each society searches for its own unique ways and means of solving these two problems. Solutions to the problems of uncertainty and coordination determine the society’s stability and continuity. The first problem stems from the fact that the future is unknown. Yet, humans have to make decisions and take actions that affect their future as well as that of others. Making decisions is considered as one of the most fundamental capabilities of humans. It is inexorably bound up with uncertainty. Facing an unknown

and generally unknowable future, people make decisions and choose among alternative courses of action based on their expectations of future consequences of their actions. These expectations are subject to uncertainty.²⁰ Uncertainty, if severe, can lead to a state of inaction and paralysis both in the case of individuals and their collectivities. The problem becomes more complicated when uncertainty about the future is coupled with ignorance about how other individuals, or their collectivities, behave in response to unknown states of the world. A state of ignorance can take on a variety of forms. One taxonomy suggests the following: (a) all the things people are aware they do not know—this is the most recognized form of ignorance; (b) all the things people think they know but do not—this is ignorance based on error; (c) all the things people are not aware that, due to intuition, in fact, they do know; (d) all the things people could know but find them too costly or too painful to know; and (f) all the things of which people are unaware that they do not know—this is ignorance-squared.²¹ This taxonomy casts doubts on the generally held belief that information and knowledge are one and the same and that ignorance is an antonym to knowledge. In point of fact, however, not only are they not the same, information and knowledge are quite different.

The general public, as well as social and physical scientists, consider ignorance as the opposite of knowledge and uncertainty as a state of “unknowledge.” For example, Shackle suggests “... where is knowledge there is not uncertainty, unknowledge, is what confronts the chooser of action...”²² It is worth noting that the Qur’an does not consider ignorance (*jahl*) as an antonym to knowledge (*‘lm*), particularly if knowledge is taken to mean information. Instead, it represents ignorance as an elemental factor in unbelief and often suggests that ignorance does not come from lack of information but out of a stubborn, continuous rejection of truth about which unbelievers have been fully informed, i.e., they display a combination of types of ignorance in (b), (c), and (f) in the above taxonomy. Indeed, as Taleb²³ suggests, information can, and often does, become toxic to knowledge. Moreover, the Qur’an indicates that humans are subject to testing throughout their lives. It is difficult to imagine testing in the absence of risk and uncertainty.

The problem of decision-making under uncertainty is compounded by two additional factors, the competence of the decision-maker and the difficulty of selecting the most preferred among alternative possibilities, especially if there is once-for-all decision since, once made, it destroys the

possibility of making that decision again.²⁴ The gap between competence and difficulty enhances uncertainty leading to errors, surprises and regrets.

The level of uncertainty regarding the state of the world, as well as with respect to decision-action of other individuals, makes collective action necessary for society to survive and flourish. It then becomes crucial for societies to find ways and means of solving the problem of uncertainty and promoting coordination among individual decision-makers. Because of the interdependence among members of the society, decisions made and actions taken by individuals directly and indirectly affect others. Only omniscient individuals with no uncertainty are able to take the most preferred action regardless of the degree of complexity of the decision environment. This is not, however, the case for the members of society who must make decisions in an uncertain and complex environment. Consequently, societies have to devise mechanisms that render individual behavior under uncertainty more predictable in order to attenuate uncertainty and promote coordination. The problem of coordination rises due to conflict between the self-interests of individual members and the collective interests of society. When public and private interests clash, a situation arises referred to as the "problem of commons." There are two types of the problem of commons. First type arises when a certain action benefits an individual or a corporation but creates costs to the society. Environmental degradation caused by private business activities are of this type. Second type arises when an action or policy has significant social benefit but imposes a cost to private individuals or firms. Educational programs designed and implemented by the state, but supported by taxes imposed on individuals and business organizations, are of this type.

By and large, societies develop rules of behavior that are more or less restrictive depending on the perception of the degree of uncertainty and the impact of individual decisions on other members of the society. Heiner suggests: "In general, greater uncertainty (from either less reliable perceptual abilities or a more unpredictable environment) will both reduce the chance of recognizing the right situation to select an action, and increase the chance of not recognizing the wrong situation for selecting it... greater uncertainty will cause behavioral rules to be more restrictive in eliminating particular actions or response patterns to potential information. This will further constrain behavior to simpler, less sophisticated patterns which are easier for an observer to recognize and predict. Therefore, greater uncertainty will cause rule-governed behavior to exhibit increasingly predictable

regularities, so that uncertainty becomes the basic source of predictable behavior.”²⁵

Accordingly, rules of behavior are designed to accomplish three objectives: (a) to reduce the cognitive demand on individuals in the face of uncertainty; (b) to specify acceptable and unacceptable behavior; and (c) to make actions by individuals predictable. In totality these three reduce uncertainty of the environment by making the response of individuals to states of nature of their environment predictable. The new institutional economics refers to rules of behavior as institutions. As such, institutions impose constraints on behavior and shape interactions among individuals in society; they “define and limit the set of choices of individuals.”²⁶ They are “phenomena that coordinate, regulate and stabilize human activities.” They “facilitate” or “hinder human coordination;” they “can be regarded as both restriction and opportunities, in both cases facilitating action by reducing uncertainty.”²⁷ In situations of uncertainty, individuals form expectations about the consequences of their own decisions-actions as well as those of other members of the society. One crucial characteristic of institutions (rules of behavior) is to “absorb uncertainties.” Another is to reduce “the demand on the cognitive capacity of the human mind. Parallel with this, institutions also stabilize expectations and coordinate actions...”²⁸

The collection of the rules of behavior prescribed for individuals and collectivities in a given society constitute the institutional structure of that society and defines the overall system to which the society adheres. The rules of behavior—whether enshrined in instruments such as social contracts, constitutions and legal framework, or are embedded in social conventions, customs, habits and cultural values—are sustained by enforcement mechanisms that provide proper incentives of rewarding rule compliance and punishing rule violation. The incentive structure is such that “not only are deviates from the desired behavior punished, but a person who fails to punish is in turn punished.”²⁹ Not only the incentive structure must be such that rules of behavior become self-enforcing, it also must be such that it renders the enforcement mechanisms in place effective by providing “appropriate incentives... for the enforcers to perform their mission properly.” When and if “a mechanism that was designed with the purpose of achieving a prescribed social goal is not self-enforceable, then it needs to be supplemented...by enforcers (the courts, police, ombudsmen, etc.)...”³⁰ The stronger the rule compliance by individuals in society, the more self-sustaining and self-enforcing the rules become. For this outcome

to be attained, the rules must be internalized by individuals as endogenous elements of their own minds which find external expression when the rules become shared beliefs among individuals in society. The stronger are the shared beliefs, the stronger would be coordinated collective actions and the more stable the society. As Aoki suggests individual action-choice rules by coordinating their belief. These beliefs channel their actions in one direction against the many other directions that are theoretically possible...”³¹ Following North, Aoki conceives institutions as “rules of the game” and defines “an institution” as “a self-sustaining system of shared beliefs about how the game is played. Its substance is a compressed representation of the salient features of an equilibrium path, perceived by almost all agents in the domains as relevant to their own strategic choice. As such it governs the strategic interaction of agents in a self-enforcing manner and in turn is reproduced by their actual choices in a continually changing environment.” He defines “the domain” as a set of agents—either individuals or organizations—and sets of physically feasible actions open to each agent in successive periods.”³²

Each economic system has an “institutional matrix” that “defines the opportunity set, being one that makes the highest pay offs in an economy’s income distribution or one that provides the highest payoffs to productive activity.”³³ These institutions “structure human interaction by providing an incentive structure to guide human behavior. But an incentive structure requires a theory of the way the mind perceives the world and its functioning so that institutions provide those incentives”³⁴ It is here where paradigms become relevant because paradigms in economics do have conceptions of man, society and their interrelationships. Such conceptions are themselves products of a meta-framework whose elements may or may not be explicitly specified but which, nevertheless, exist in the mind of the designer prior to the construction and presentation of a paradigm.

When and where trust is weak, complicated and costly administrative devices are needed to enforce contracts. Problems are exacerbated when, in addition to lack of trust, property rights are poorly defined and protected (Sheng 2009). Under these circumstances, it becomes difficult to specify clearly the terms of contract since transaction costs—that is search and information costs, bargaining and decision costs, contract negotiations and enforcement costs—are high. Consequently, there is less trade, fewer market participants, less long-term investment, lower productivity and, in turn, slower economic growth. Weakness of trust results in the absence of credible commitment, which arises when parties to an exchange cannot

commit themselves or do not trust that others can commit themselves to performing contractual obligations. Empirical research has shown that where there is lack of significant commitment, it leads to disruption in economic, political and social interaction among people. Long-term contracting will not be possible and parties to exchange opt for spot market or very short-term transactions (see for example Keefer and Knack, 2005). Considering these issues, one is driven to place significant importance on trust, trustworthiness and on the need to fulfill terms and conditions of contracts, covenants and the promises one makes for creating a supportive landscape for sustained economic growth and prosperity. These rules solve the problem of credible commitment and trust, and thus facilitate long-term contracts. To illustrate the importance of trust, consider the role of complete contracts in the neoclassical theory of competitive equilibrium (Arrow, 1971). A complete contract fully specifies all future contingencies relevant to the exchange. In the real world nearly all, or at least a vast majority of contracts, are incomplete. This requirement, therefore, is considered too stringent and unrealistic. Not only ignorance about all future contingencies make writing complete contracts impossible, even if all future contingencies are known, it would be nearly impossible to write a contract that can accommodate them all. However, if the parties to a contract trust each other, they can agree to enter into a simple contract and commit to revising its terms and conditions as contingencies arise.

Conventional economics has clearly established the importance of institutions (rules of the game) including rule compliance, trust and societal coordination as important foundations, or pre-requisites, for sustained economic prosperity and growth.

In the next three chapters, we first take up the rules governing an Islamic economy that incorporate the rules from the Qur'an and their interpretation by the Prophet Mohammad (sawa) in Medina; we then examine the operational features of an Islamic economy; and we assess the degree of contemporary rule compliance in Muslim countries. The performance of Muslim economies must be logically compared to the Qur'anic rules and their operational features to determine if these countries have internalized the indicated Islamic rules and developed the indicated institutions before taking the next step and assigning favorable or unfavorable outcomes to Qur'anic rules and their interpretation by the Prophet (sawa).

NOTES

1. See, for example, the works of Thorstein Veblen; John R. Commons; Wesley C. Mitchell; and Clarence Ayres.
2. Pejovich, Svetozar. "The Effects of Formal and Informal Institutions on Social Stability and Economic Development," *Journal of Markets and Morality*, No. 2 (1999): 164–181 (Pejovich 1999).
3. Douglas, M. and Steven Ney. *Missing Persons*. Berkeley: University of California Press, 1998 (Douglas and Ney 1998).
4. "Institutional constraints include both what individuals are prohibited from doing and, sometimes, under what conditions some individuals are permitted to undertake certain activities." (North, 1990, p. 3); Douglass North. *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press, 1990 (North 1990).
5. North, D.C. *Understanding the Process of Economic Change*. Princeton, NJ: Princeton University Press, 2005, pp. 115–130 (North 2003).
6. North (2005), p. 157.
7. Williamson, Oliver E. *The Mechanisms of Governance*. New York: Oxford University Press, 1996, p. 5 (Williamson 1996).
8. See also Beck, T., and Levine, R. "Legal Institutions and Financial Development", in C. Menard and M. Shirley (eds.). *Handbook of New Institutional Economics*. Dordrecht, The Netherlands: Kluwer, 2004 (Beck and Levine 2004).
9. More recently, Alec Ross predicted that the future centers of innovation—and wealth and job creation—will be in societies with upward economic mobility, social, cultural and religious norms that are not set from a central authority, and respect for women and minorities; Ross, Alec. *The Industries of the Future*. New York: Simon & Schuster, 2016 (Ross 2016).
10. While North focuses on the design of a specific institutional framework, others—acknowledging that institutions are critical to any explanation of economic development—question why similar institutional structures produce different results in different countries. Symmetrically, different institutional structure appears to be equally conducive to growth. Some have concluded that it depends on how well institutions match their settings and how flexibly they adapt to changes.
11. Denzau, Arthur T. and Douglass North, "Shared Mental Models: Ideologies and Institutions," *Kyklos*, vol. 47, issue 1 (1994): 3–31 (Denzau and North 1994).
12. Kenney, Roy W. and Benjamin Klein, "The Economics of Block Booking," *The Journal of Law and Economics*, vol. 26, No. 3 (1983): 497–540 (Kenney and Klein 1983).
13. Douglas and Ney (1998), pp. 174–176.

14. Douglas and Ney (1998), pp. 183–185.
15. Strathern, M. *Reproducing the Future: Essays on Anthropology, Kinship and the New Reproductive Technologies*. New York: Routledge, 1992, pp. 124–125; Nelson, J. *Economics for Humans*. Chicago: The University of Chicago Press, 2006, pp. 27–61 (Nelson 2006).
16. North, Douglass. *Understanding the Process of Economic Change*. Princeton, New Jersey: Princeton University Press, 2005, p. 61 (North 2003).
17. Douglass North, 2005, p. 66.
18. See, for example, Meir Tamari. *With All Your Possessions: Jewish Ethic and Economic Life*. New York: The Free Press, 1987 (Tamari 1987).
19. See, for example, Stephen Long. *Divine Economy: Theology and the market*. London: Rutledge, 2000; John Paul II. *The Encyclicals*. Joseph G. Donders, ed. Mary Knoll, New York: Orbis Books: 2005 (Long 2000).
20. Klir, G.J. *Uncertainty and Information*. Hoboken, New Jersey: John Wiley and Sons, 2006; Smithson, M. *Ignorance and Uncertainty: Emerging Paradigm*. New York: Springer-verlag, 1989. and “Ignorance and Science.” *Knowledge: Creation, Diffusion, Utilization*. vol. 1, no. 2 (1993): 133–156. Also, Shackle, G.L.S., “A Student’s Pilgrimage,” *Banca Nazionale Del Lavoro Quarterly Review*, no. 145 (1983): 108–116 (Smithson 1989; Shackle 1983) .
21. M. Smithson, *Ignorance and Uncertainty*, 1989 and M. Smithson, “Ignorance and Science” 1993. Also, Frisch, D. and J. Baron, “Ambiguity and Rationality,” *Journal of Behavioral Decision Making* (1988): 149–157 (Frisch and Baron 1988).
22. Shackle, “A Student’s Pilgrimage,” 1983, p. 109.
23. Talb, Nasim Nicholas. *Foiled by Randomness*. New York: Random House, 2004; and *The Black Swan*. New York: Random House, 2007 (Taleb 2004).
24. Heiner, Ronald, “The origin of Predictable Behavior,” *American Economic Review* vol. 73 (1983): 560–595 (Heiner 1983).
25. See Heiner, p. 170.
26. Aoki, Masahiko. *Toward a Comparative Institutional Analysis*. Cambridge, Massachusetts: MIT Press, 2001, p. 3 (Aoki 2001a).
27. J. Groenwegen, J., C. Pitelis and S. Sjostrand, eds. *On Economic Institutions: Theory and Applications*. Cheltenham, UK: Edward Elgar, 1995, p. 20.
28. J. Groenwegen, J. et al. *On Economic Institutions*, 1945, p. 35.
29. Michihiro, Kandori, “Social Norms and Community Enforcement,” *Review of Economic Studies*, 59 (1992) (Michihiro 1992).
30. Masahiko Aoki. *Toward a Comparative Institutional Analysis*, 2001, p. 6 (Masahiko 2001).

31. Aoki, 2001, p. 13.
32. Aoki, 2001, p. 20.
33. North, Douglass. *Understanding the Process of Economic Change*. Princeton, New Jersey: Princeton University Press, 2005, p. 61 (North 2003).
34. Douglass North, 2005, p. 66.

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The Rules Governing an Islamic Economy

INTRODUCTION

After centuries of atrophy, Muslims have begun a process of becoming reacquainted with the Qur'an as the source of thoughts and solutions to mankind's problems in all fields of enquiry. Economics is no exception amidst concerns with the sub performance of Muslim societies. The search continues for an authentic Islamic framework where humankind can find solutions to contemporary economic problems. In this chapter, our aim is to provide a blueprint (i.e. rules or insititutions) of an ideal economic system based on the Qur'an, which provides solution for the intractable problem of how to achieve economic and social progress without sacrificing justice and social solidarity.

An economy based on the Qur'an can be defined as the collection of institutions designed by Allah (swt) and specified in the Qur'an for human societies to deal with the allocation of resources, production of goods and services, exchange, and distribution and redistribution of resulting income and wealth. The institutions specified by the Qur'an and implemented by the Messenger constitute the economic system of Islam. Even a cursory reading of the writings of Muslim scholars, social critics and pamphleteers—beginning perhaps with Jamaluddin Asadabadi (better known as Afghani), and his students such as Muhammad 'Abduh, Hassan al Banna, to Sayed Qutb, to Allamah Dr. Muhammad Iqbal, Sayyid Abl A'la Mawdudi, Shaheed M.B. Sadr, and Fazlur Rahman', and to social critics such as Malik Ben Nabi and Ali Shariati, and to contemporary scholars—reveals a

conviction that Islam has prescribed rules of behaviour for individuals and their collectivities compliance with which assures felicity here and in hereafter. The second conviction expressed, in one form or another, in these writings is that the malaise of Muslim societies stems from a general non-compliance with the rules of behaviour prescribed by the Law Giver (see Darraz 2003; Al-Hakimi et al. 1992; Cleary 1996; Al-Reyshahri and Al-Husseini 2001; Al-Masri 2005; Naqvi 2003).

Research into guidance from the Qur'an and the tradition of the Messenger in structuring an ideal economy has been proceeding over the past four decades (see Al-Sadr 1960/1980; Al-Masri, 2005; Naqvi, 1993; Essid, 1995; Askari et al. (2015); and Sadr 2016). Such efforts began with a focus on part of Verse 275 of Chap. 2 of the Qur'an where Allah (swt) ordains that He has permitted contracts of exchange and prohibited contracts of *al-Riba*, i.e. interest rate-based debt contracts. While to a usual interpreter this part of the Verse relates to prohibition of *al-Riba*, to an economist it specifies the organizing principle of an ideal economic system with important implications. A contract of exchange means that the two sides of a contract exchange two bundles of property rights claims. They could not do so unless they owned such property rights claim indicating the legitimacy of private property rights. But for exchange to take place, the parties to the contract must have access to a place where the exchange can take place, indicating market as the principle means of exchange in an Islamic economy. Markets need rules of behaviour for participants to guarantee an orderly process of exchange. Among these is the necessity of trust and reciprocity between parties to a contract of exchange. Moreover, contracts require guarantee of enforcement if they are going to serve as effective means of exchange in the economy just in case trust breaks down. Finally, a careful reading of the Qur'an would confirm the overwhelming emphasis in the Qur'an on the contract of exchange and, in turn, the necessity of the economic system to be structured on risk sharing as opposed to risk shifting or risk transfer. In the last three decades, important strides have been made in applying the rule of no *Riba*—based contracts. Still, there is a need for much more research focusing on the risk sharing aspects of the prescribed rules of the Qur'an specified in Verse 275 of Chap. 2.

We are convinced that the Islam of the Qur'an and the tradition of the Messenger (saw) provide a coherent, balanced and comprehensive framework for designing and implementing a well-functioning economic and social system. As Fazlur Rahman asserts, "The Qur'an's theme, first

and last, is man's conduct, both individual and collective...its central aim is directed toward guiding the affairs of mankind."¹ Rahman's firm belief is that the Qur'an contains a set of rules prescribed by Allah (swt) for humanity to conduct its affairs. It is through compliance with these rules that humanity can create societies of high moral order.

In a brief but eloquent few paragraphs, Fazlur Rahman articulates his belief: Islam means "to be safe, integral, whole" through accepting God's law. One who accepts God's law is a Muslim. The Qur'an calls all nature "Muslim" because nature obeys the law of God ingrained in it. Thanks to this, nature is one huge, well-knit system—a cosmos, not a chaos. But while nature is automatically Muslim, God was not content with nature's Islam and created man to be Muslim by choice—to be the unique locus of responsibility, and God's assistant on earth. The Qur'an's recurrent theme is that "man has not yet fulfilled this trust," the trust of moral responsibility. Humanity still needs to become a human cosmos rather than a chaos. This trust cannot be discharged by isolated good individuals, no matter how virtuous their intentions. Certainly, the locus for a fully developed consciousness of responsibility is the individual, but the task of assisting God falls upon humanity as a whole. It was for this purpose that the "Muslim Community" was set up by the Qur'an to "remove corruption from the earth and reform its affairs," to "commend good and prohibit evil," to establish a social order on a viable ethical basis. My whole statement up to now culminates in the following point: one God—one Humanity. This is the invitation with which the Qur'an started in 610 and with which it ended in 632. While it protested against the polytheism of the Meccan Arabs, it protested equally passionately against the grave socioeconomic unevenness in the corrupt, commercial Meccan market place. The Qur'an made a sustained effort to lift the downtrodden segments of society—have-nots, orphans, women and slaves. It abolished all distinctions based on ethnicity, colour, etc.: "We have made you into different nations and tribes only for the purpose of reference; otherwise the best of you in the sight of God is the one with the most sense of responsibility." The above task of reforming the earth has obviously not been filled by historic Islam... Nevertheless, I passionately believe that we Muslims owe it to ourselves and to the world to resurrect the Qur'anic vision from the debris of history, for in the Qur'an the real and the ideal coalesce. Medieval conservatism cannot, however, supply genuine and effective answers to today's problems... I am, therefore, confident of the eventual success of the pure Islam of the Qur'an, which is fresh, promising, and progressive."²

The message is clear, the Qur'an and its solutions to humanity's problems have to be understood in *contemporary context*. While quite familiar with philosophical, theological and intellectual achievements of the past,³ Fazlur Rahman held the view that as useful as the study of these sources (plus fiqh and interpretations) are, they must be strictly judged in the light of the Qur'an and *humanity's contemporary challenges*. Fazlur Rahman was not an economist but his preoccupation with socio-economic concerns runs consistently through his writings, as it does in all writings of Muslim scholars in the last 100 years. Systematic focus on economic issues, however, began in earnest in the 1950's with availability of Sayed Qutb's book on *Social Justice in Islam*.⁴ The challenge of the two dominant systems (capitalism and socialism) and their attraction to Muslim youth during the decades of 1950s, 1960s and 1970s made the task of articulating an Islamic response urgent. The first to respond to the challenge by a differentiated articulation, which located Islam's view on economic matters between capitalism and socialism, was Sayyid Abul A'La Mawdudi.⁵ His writings and those of his students, especially Professor (Senator) Khurshid Ahmad, became a major source of thought and standard bearer of ideas regarding Islamic economics.

The 1960s represented a watershed of progress in articulating a vision on Islamic economic system firmly grounded on the Qur'an and Sunnah. The publication of Shaheed M.B. al Sadr's book *Iqtisaduna*,⁶ or *Our Economics*, initiated a new approach to articulating Islam's vision for an economy that served society. Monzer Kahf suggests that the book *Iqtisaduna* became a shining beacon that began a new era in Islamic studies and the real birth of Islamic economics.⁷ The central focus of the book is to identify the architecture of the Islamic economic system and then study and understand the behaviour of its constituent elements. These are then the tasks of the discipline of Islamic economics. It is noteworthy that *Iqtisaduna* was written after the Shaheed had already published *Falsafatuna* (*Our Philosophy*), a book that established the ethico-philosophical framework within which *Iqtisaduna* was later envisioned.⁸

Our work is a modest effort in the tradition of *Iqtisaduna*. Our contention is that the Qur'an and the tradition of the Messenger provide all that is needed to draw up a blueprint of an economic system. Such a system is defined by the rules of behaviour prescribed in the Qur'an, in the abstract, and operationalized by the tradition of the Messenger (saw). During his time on this plane of existence, he was both the spiritual and temporal authority for his followers. In his capacity as the spiritual

authority, he expounded, interpreted, and explained the content of the Qur'an. In his capacity as the temporal authority the messenger operationalized the rules (institutions) specified in the Qur'an in Medina.

In consonance with current thought as explained in the previous chapter, in this chapter we envision an economic system as the collection, or the network, of rules of behaviour that constitutes the institutional structure of the system. An economic discipline with a specific prefix, such as capitalist economics, relates to a unique arrangement of economic institutions operative in the society. Even though some of the institutions (rules of behaviour) in one society may be shared by others, there must be an identifiably unique set of institutions to differentiate one prefixed economic discipline from another. Our contention in this chapter is that Islam prescribes rules of behaviour (institutions) that collectively define a unique system. Economic relationships and issues within that system can be studied by an equally unique discipline called Islamic economics. More specifically, Islamic economics can be considered a discipline concerned with: (a) the rules of behaviour (institutions) prescribed by Islam as they relate to resource allocation, production, exchange, distribution and redistribution; (b) economic implications of the operations of these rules and; (c) policy recommendations for achieving rule compliance that would allow convergence of the actual economy to the ideal economic system envisioned by Islam. What makes Islamic economics unique is that the primary source of these rules in an abstract form is the Qur'an, while the tradition of the Messenger provides their explication and application.

An economic expertise-dominated view of the relevant verses of the Qur'an reveals a comprehensive set of rules governing the structure and operations of an ideal economy, including rules that extend well beyond what the NIE considers a well-performing economy. These include rules governing property rights, trust, governance, contracts, market behaviour, production, consumption, savings, investment, and the distribution and redistribution of income and wealth. The Qur'an makes clear that full compliance with the prescribed rules guarantee economic development and growth.

Within each specific discipline there are varieties of conceptions of the reality. When a given conception is accompanied by the methods of analysis and coherent and internally logically consistent explanations that are accepted by a critical mass of practitioners that conception of reality may be referred to as a paradigm. Any paradigm is based on a set of axioms, propositions, or assertions about relationships between and among crucial

elements of its conceptualization of reality. In economics, these elements include, *inter alia*, concepts about the nature of man, society and the rules of behavior that describe the relationships between them. A particularly important facet of the uniqueness of any system is the approach to solving the problems of the society it serves. Two fundamental problems that all societies face are uncertainty and coordination. Each society searches for its own unique ways and means of solving these two problems.

Before presenting a conception of what Islam considers as an ideal economy, in the next section we consider the logic and organizing principles of Islamic paradigm, its conception regarding the nature of man, society, their relationships and how this paradigm proposes that societies solve these problems, and in the section after, we draw the rules of behaviour prescribed by the Qur'an.

ISLAMIC ECONOMIC PARADIGM

The fountainhead of all Islamic paradigms is the Qur'an. It provides the framework and source of all relevant conceptions of reality. This eternal source specifies rules of behaviour (institutions) applicable to all societies at all times. These rules are immutable temporally and spatially. The economic system established by the Messenger in Medina is the Archetype of Islamic economic systems. In this Archetype, there is a core of institutional structure which is immutable because they are firmly established based on the Messenger's authoritative operationalization of the rules prescribed by the Creator in the Qur'an. A typical example is the institution of inheritance where the specific procedure is described in the Qur'an on how the wealth of a person is to be distributed after his/her passing. There are also institutions which the Messenger established which, while not explicitly stated in the Qur'an, are based on his understanding of the Qur'an as its highest interpretive authority. An example of this type of institution is the rules of market behaviour. These two types of rules are immutable, i.e. any conception of how an Islamic economy works will have to take these two elements of the Archetype Model as given. There is a third type of institutions at the periphery of the Archetype Model that are temporally and spatially specific to the time and the place in which the Archetype Model was implemented. For example, the Messenger instituted rules of non-interference with market forces and the need for unhindered flow of information in the market. This rule is of and itself an immutable rule of the Archetype Model but the forces that would interfere with market

functioning may vary and are *time and place dependent*. For instance, before Islam one acceptable method of interfering with the market forces in Arabia was that middlemen would meet caravans bringing supplies some distance outside of the cities and purchase their supplies. The Messenger prohibited this procedure. Clearly, the principle of noninterference with the market forces is unchanged but this particular procedure is no longer relevant. The economic hermeneutics of this rule and its application to a particular time, place and market is part and parcel of what an Islamic economic paradigm would address (for more detail coverage of the policies of the Messenger (saw), see Sadr 2016).

The Meta-framework specifies rules (institutions) that are, to a degree, abstract. The Archetype Model articulates the operational form of these rules. The Meta-framework specifies the immutable, abstract rules. The Archetype Model demonstrates how these rules are operationalized in a human community. The abstract became operational in the hands of the one human being who was the one and only direct recipient of the source of the Meta-framework, i.e. the Qur'an. Through the words and actions of this perfect human, the Meta-framework given by the Creator in the Qur'an was interpreted, articulated and applied to the immediate human community of his time. The Meta-framework specifies general universal laws, rules of behaviour. The Archetype Model provides universal-specific rules of behaviour and the institutional structure needed for organizing a human society based on the immutable rules of the Meta-framework.

Islamic economic paradigm is a Creator-centered conceptualization of reality. Its view of man distinguishes between the exterior, physical form (*bashar*) and the non-physical, (substantive) and internal substance full of potentialities (*insan*). As we have said before, the two concepts roughly parallel Man and Human. In exteriority, they are similar in appearance, but there are significant differences between the two. The most important difference is an active awareness of the supreme Creator and Cherisher Lord of the Worlds which separates a "*bashar*" from an "*insan*." Both share the same general physical attributes and the same physical needs. What is different is what is inside them. Outwardly they are alike,⁹ inwardly, however, the attributes may range from being worse than animals in the sense of non-recognition of their full human potential yet possessing the powers invested in mankind such as cunningness, ability to carefully devise and execute premeditated plans that make this creature more dangerous than animals. At the other end of the spectrum, humans may be inwardly

so aware of the potentialities of the human state that, by actualizing these potentialities, they may surpass even the angelic state.

Those of mankind who become aware and conscious of their human state and its potentialities focus on continuous actualization of these potentials. The passage from *bashar* (man) to perfect human state—where all potentialities of the latter are actualized—is imbued with gradations represented by an upward spiral movement marked by the degrees of compliance with the rules of behaviour associated with the dynamic movement.

The Meta-framework of Islam specifies these rules of behaviour within the context of its fundamental principles. The first and most important of these principles is the Oneness and Uniqueness of the Creator (Tawhid), a corollary of which is the unity of the creation, particularly the unity of mankind. The second fundamental principle is the belief in the appointment and delegation from the Creator humans who serve as His messengers and prophets to others of their kind. Every messenger and prophet affirmed and confirmed the messages revealed before them and invited the people of their time and place to affirm the Unity of the Creator and comply with the rules of behaviour contained in the revelation. Every messenger confirmed previous messages and supplemented the rules of behaviour commensurate with the added complexity of human life and the growth of human consciousness. The final, universal, perfect message was then delivered by the last of the messengers, Mohammad (sawa). While delivering the message constituted the primary responsibility of their mission, messengers had other responsibilities and objectives to achieve. The latter can be represented in terms of short-term, medium-term and long-term objectives. The first included reciting the revelation to humans, cleansing them, teaching them the revelation, particularly the rules of behaviour vis-à-vis their own selves, other humans and the rest of creation, and their Supreme Creator (Qur'an, 2:24; 2:151; 3:164; 6:48; 8:24; 9:103; 14:30; 33:45; 34:28; 62:2). The last among the short-term objectives of messengers was the formation of a community of believers once a critical mass of followers attached themselves to the message and the messenger. The organizing principles of these communities were the belief in the Unity of the Creator and all other principles and rules of behaviour that follow from it.

Once the community of believers was formed, establishing social justice became the medium-term objective of the messengers and prophets in that community (Qur'an, 57:25). The messengers did so through their own

Archetype Model for operationalization of the Meta-framework contained in the revelation they brought and those that existed before them. The final objective of the messengers was to lead the people out of an existential darkness associated with unawareness of the Creator and potentialities of their own human state to the enlightened state of being an actualized perfect human (Qur'an, 14:1,5). Whereas all other messengers were commissioned by the Supreme Creator to a particular people—for example, Musa (as) was sent to his own people as were Isa, Nuh, Lut, Salih and others (as)—the Last of Messengers, Mohammad (sawa) was appointed as the Messenger of Allah (swt) to all mankind as was Allah's message the Qur'an (21:107; 34:28; 81:27). Along with the messengers and prophets were other select humans appointed to carry on the tasks of achieving the objective of the messengers.

The third fundamental principle of Islam relates to eschatology, the belief that there will come a day when all members of humanity will be called upon to account for all they have done during their life on Earth. Acceptance of these principles and all corollaries and implications that follow from them makes one a Muslim, a submitter to the Will of the Creator. The operational significance of this is the commitment to comply with the rules of behaviour that follow from the act of submission.

Corresponding to the objectives of the messengers and prophets, humans are to listen to the revelation with the aim of internalizing the rules of behaviour (institutions) prescribed in the message, cleanse themselves of character traits unworthy of the human state, develop the earth (Qur'an, 11:61), establish social justice, and finally, move from darkness into light and help others of their kind to do the same. All these the humans can achieve by being fully rule-compliant. In doing so, humans also serve their own self-interest. This requires that humans are fully conscious and aware of their true self-interests that are not limited only to the life on this plane of existence but cover, in accordance with the third fundamental principle, the life to come. This means recognition that no one knows the best self-interests of humans other than their Creator Who has prescribed rules of conduct compliance with which assures them of attainment of their best self-interests. In over 126 verses, the Qur'an assures humans that the prescribed institutional framework ensures that compliance with the rules is "best" for them. To emphasize that their Creator knows best, the Qur'an asserts that there are things that humans believe to be best for them but are in fact harmful to them, and there are things humans believe to be harmful to them but are best for them. This assertion is immediately followed by

the phrase that “Allah knows and you do not” (Qur’an, 2:216). In a number of verses after prescribing a rule of behaviour, the Qur’an immediately states that compliance with the rule “is best for you if you only knew,” (see for example, Qur’an, 2:184, 271, 280; 4:25; 8:19; 9:3, 41). Continuous consciousness and awareness of the need to be rule-compliant progressively actualizes the potential in humans to come to “know” why behaving according to a prescribed rule serves their best self-interest because their Creator provides them with “a light with which to traverse on earth” (Qur’an, 6:122).

Consciousness and awareness of their Creator and the prescribed rules render human’s rational decision-makers. Rational, meaning reasoned, action in a human who is aware, follows reasoning by a faculty with which every human is endowed by the Creator. This is intelligence (*‘aql*) which initiates a process of cognition by the heart. The faculty of *‘aql* (intelligence) is defined as the instrument by which the All-Merciful Creator is adored and through which final felicity (*al-Jannah* or Paradise) is achieved. The *‘aql* (intelligence) is distinguished from intellect which is a process of cognition by the mind. The ultimate operating rule of the *‘aql* is for its possessor to cognate the truth that the criterion for reason-based action is achieving the satisfaction of Allah (swt). This faculty is dormant in *bashar* (man). It is activated when man embarks on the path of becoming human (*insan*). Reading the Revelation to humans, cleansing them, and teaching them how to internalize the Revelation by the messengers, activates the *‘aql* (intelligence). When intelligence is dormant, man can only reason through intellection. Without *‘aql*, decision-making process takes place through reasoning via intellection alone. The process is faulty because without the cognition by the heart, reasoning is activated and governed by character traits unworthy of the human state. Reasoning through use of *‘aql* (intelligence) while choosing among alternative decision-actions available, the one selected is the one with the best chance of achieving the satisfaction of the Creator, i.e. choosing the action-decision compliant with the rules prescribed by Allah (swt). Choice of a decision-action, in the absence of *‘aql* (intelligence) would be governed by whims (*hawa’*) and in response to stimuli to the basic of instincts in man. This discussion demonstrates that while the postulates of self-interest and rationality are crucial in decision-making in both the conventional economic and Islamic paradigms, they are radically different in their substance.

A fundamental postulate of the classical-neoclassical economics tradition is that of scarcity; indeed, is seen as the reason, the *raison d’être*, for the

field and study of economics. In the Islamic paradigm, scarcity takes on three different aspects. First, the Qur'an repeatedly assert that from a macro-global standpoint, Allah (swt) has created all things in "exact measures" (Qur'an, 49:52), indicating that the Lord Cherisher and Sustainer of all creation provides sufficient sustenance for all in His creation including for mankind. The Qur'an, however, recognizes a second and a third aspect of scarcity. It acknowledges a micro-actual scarcity stemming from misdistribution of resources, greed and gluttony. Hence, one encounters in the Qur'an the overwhelming emphasis on social justice, rules against waste, accumulation of wealth, and extravagance. The third dimension of scarcity refers to the real scarcity arising from the fact of finite conditions of man on this plane of existence. The physical conditions of man impose a finitude constraint. Man is finite, mortal and aging, limited in time and space. Becoming aware of these constraints as well as of the potentialities of human state, human consciousness, once awakened, not only allows humans to grasp potentialities but also permits the realization of their ability to transcend the limits of their physical existence to imagine "what is and what could be." Humans, thus, realize that their physical-existential constraint imposes limits on how much of their potentialities they can actualize; they must then "choose between the alternatives grasped by transcending consciousness." This aspect of scarcity is addressed in the Qur'an where there is a constant reminder of limitation of time on this earth and the rapidity of its passage. This is symbolized by the question humans are asked on their transition to the next level of existence. They are asked, "How long did you spend on the earth?" and their answer is, "a day or part of the day!" (Qur'an 18:19). Similarly, the Qur'an clearly and repeatedly reminds humans about the natural aging process that erodes their physical and mental abilities (Qur'an, 68:36; 70:16). The "existential scarcity" caused by the finite conditions of existence of humans on the earth "leads to an allocation problem of scarce means to alternative ends... the resources which are ultimately scarce are life, time and energy because of human finitude, aging and mortality."¹⁰

The Meta-framework envisions an ideal society as one composed of believers committed to rule compliance. The individual members are aware of their "oneness" and conscious of the fact that their own self-interest is served by seeing "others as themselves." Such a society is one of "golden mean" that avoids extremes, and a society that is so rule-compliant that it serves as a benchmark for and a witness to humanity (Qur'an, 2:143). This is a society that actively encourages cooperation in socially beneficial

activities and prohibits cooperation in harmful ones (Qur'an, 3:104, 110, 114; 9:71). Moreover, in this society, consultation, both at the level of individual as well as collectivity, is institutionalized in accordance with the rule prescribed by Allah (swt) (Qur'an, 3:159; 42:38; 2:233). Similarly, all other rules of behaviour prescribed in the Qur'an are institutionalized with sufficiently strong incentive structure to enforce rule compliance. The objective being the establishment of social justice in society.

The internalization of rule of behaviour by individuals and their institutionalization, along with the incentive structure and enforcement mechanism, reduces uncertainty and ambiguity in decision-action choices confronting the individual and the society. Coordination problems too are resolved through compliance with the rule of cooperation. Moreover, there is a binding rule from the Archetype Model that resolves the negative aspects of the collective action problem. Not only cooperation is ordained as a rule-based feature of society's institutional structure, the rule of negation of harmful externalities and reciprocation of one harmful act by another, i.e. the rule of not harming third parties by one's action and the right of not to be harmed by anyone's action without reciprocation,¹¹ mitigates the risk of emergence of collective action problems like the tragedy of commons.¹²

To establish the ideal society by its members is the mission objective of all humans. To facilitate achieving this objective, humans have been provided with a cornucopia of divine endowments, the most important elements of which are: *Walayah*. This is the Love of the Creator for His creation.¹³ As discussed earlier, *walayah* is one of the richest concepts of the Qur'an. Its root and its derivatives appear in more than 200 verses (see, for example, Qur'an, 18: 32–44; 3:68; 2: 195&222; 3:76, 146 & 159; 5:42). The most fundamental activity denoted by *walayah* is coming or working towards being in the closest proximity to someone. That is, when one person has *walayah* relationship with someone else, they are so close that nothing seems to separate them. From the basic idea of proximity flow a number of dimensions of *walayah* at the heart of which is the kernel of love. The kind of love that motivates the activity of *walayah* also creates affection, fondness and attachment between the lover and the beloved. One of the most important dimensions of *walayah* is comforting in the sense of strengthening, assistance or support, given out of genuine love for the helped party. This aspect of *walayah* is frequently polar. The respective role of each party to *walayah* has a bearing on the precise manifestation it projects with respect to each party. One pole of *walayah* manifests as

guardianship and authority. The other pole manifests as allegiance, loyalty and obedience. If the love that is the essential axis between these two poles weakens or vanishes, then *walayah* diminishes or vanishes accordingly.

The one who is doing the *walayah* is called a *wali*. In the guardian-to-ward relationship, each is the *wali* of the other. The axis of an idea, healthy *walayah* relationship is mutual, reciprocal and symmetric loving; the manifestation is polar and complementary. Each entity involved symmetrically loves the other, though the relationship of guardian-to-ward is a polar one. In this relationship, the word *wali* indicates a comforter as in the Qur'an (2:257): "Allah is the Comforter of those who are true believers; He extracts them from all manner of darkness into light." "The Comforter" here is used in the sense of strengthening help. At the other pole, that is when *walayah* refers to loyalty and allegiances, the word *wali* denotes a "devotee," meaning ardent, strongly attached, and intimate follower and lover as in the expression "*wali* of Allah" appearing in the Qur'an (10:62): "Indeed! The devotees of Allah will have no fear upon them nor will they grieve." Here, "fear" refers to the apprehension regarding the future and "grief" is the result of regrets over the past. It is important to note that the stronger the rule compliance on the part of humans, the stronger the *walayah* relationship with the Creator. And, the stronger this relationship, the less the uncertainty of decision-action and the regret over decisions made and actions taken. What, in effect, humans are missioned to do is to pass on the *Walayah*, the Love, of the Creator to His creation including importantly, to others of their kind. The Love of Allah (swt) for His Creation is manifested through His gifts to humanity (see Hamid 2006, 2011; Ghazi, 2010). These include:

The dignity (*Karamah*) which Allah (swt) has invested in His Creation especially in humanity. The most direct declaration of the dignity with which humanity is endowed by the Creator is found in the Qur'an (17:70): "We have bestowed dignity on the progeny of Adam [...] and conferred on them special favors above a great part of Our creation." Among these "special favors" are the priority of access to all created resources (Qur'an, 20:31), guarantee of sustenance (Qur'an, 151:6; 31:17; 6:11), the primordial nature of humans (*fitrah*); freedom of choice, and the status of agency on earth (*khilafah*) (Qur'an, 2:30; 6:165; 35:39). All of these are manifestations of the *Walayah* of Allah (swt) for humans.¹⁴

The primordial nature of mankind or *Fitrah* is a gift of the Creator to all humans at the time of their creation. It is the crucial essence of human dignity. The reason for the lofty position of *fitrah* is that it carries the

immutable imprint of the cognition of the Oneness and Uniqueness of the Creator (Qur'an, 30:30). *Fitrah*, in effect constitutes the meta-consciousness towards which human consciousness experientially gravitates. Consciousness and meta-consciousness converge when the cognition of the Oneness and the Onlyness of Allah (swt) and His ever-presence become a permanent, intimate and fully active fixture of the human awareness. This is a gradual process likened to an inner torch of awareness which grows in luminosity. When fully lit, it is called *taqwa*.¹⁵ At this stage, consciousness and meta-consciousness have converged. The entire experiential process of Islam can be summed up as a process by which humans recover *fitrah*, their primordial nature, which is dormant until human consciousness begins its awakening process.

The gift of human dignity and *fitrah* are accompanied by the gift of freedom of choice, without which the human state and its potentialities and endowments would fail to actualize. This gift is so crucially important that in one sense, Allah (swt) considers His own adoration (*'ibadah*) by humans worthy only when they choose freely to adore Him. This is so important that the fundamental principles of Islam mentioned earlier can only be meaningful if and only if they are accepted through the exercise of free choice and as a result of unencumbered contemplation by intelligence. It cannot be done through emulation or following one's parents, teachers or anyone in authority. The significance of the gift of free choice can be grasped more fully when it is realized that humans have the choice of rejecting their own Creator. This is clear from an astonishing verse which, in addressing the Messenger, the All-Powerful Creator declares: "Had your Cherisher Lord so wished the totality of everyone on earth would have become believers" (Qur'an, 10:99, see also Qur'an, 2:256; 6:146; 10:35; 13:31; 16:93; 26:3-4; 30:30; 32:13; 42:8; 80:20; 91:8). Yet, Allah (swt) chose to allow humans to exercise their freedom of choice, therefore, rendering Islamic totalitarianism an oxymoron. Instead of negating the freedom of choice of humans, even to choose to accept or reject their own Creator, messages and messengers were sent with revelations, the self (*nafs*) of humans was "inspired" to recognize right from wrong, truth from falsehood, and humans were endowed with the pure *fitrah*, which constitutes their immutable meta-consciousness, then the choice is left to the humans. Accordingly, the Qur'an declares: "Say (O Messenger) Truth has come from your Cherisher Lord. Therefore, whoever wishes will become believer and whoever wishes will reject," (Qur'an, 18:29; see also Qur'an, 73:19; 81:28; 76:29; 78:39; 74:73).

Once humans were endowed with these and other gifts, they were collectively asked to testify to the Oneness and Uniqueness of the Creator as the *One* and the *Only* Cherisher Lord (*Rabb*) of all creation and everything else that this declaration implies, including the necessity of complying with rules of behaviour which their Lord Creator has ordained and prescribed for a life of felicity on earth. All members of this cycle of humanity, i.e. all the progeny of Adam testified so (Qur'an, 7:172; 5:7). Facilities, such as *'aql* (the intelligence of the heart), human dignity, *walayah*, *fitrah* (the primordial nature of mankind), gifted to mankind by their Creator, were to be employed in cognition, remembrance, and fidelity to this primordial covenant (*Mithaq*). The crucial importance of fidelity to this covenant drives the necessity of remaining faithful to all covenants, contracts and promises often emphasized in the Qur'an (e.g. Qur'an, 5:1). The commitment to remain faithful to the terms and conditions of the primordial covenant and equipped with the gifts of their Creator, humans were then assigned the role of Trustee-Agent (*Khalifah*,¹⁶ or viceroy) of the Divine on earth (Qur'an, 2:30). This mission consisted of, *inter alia*, developing the earth (Qur'an, 11:61); establishing social justice through the exercise of *walayah* towards their kind and the rest of the creation, as a reflection of the *Walayah* of the Creator; and removing the obstacles from the path of others of their kind towards Allah (swt), i.e. their passage from the darkness of personality traits unworthy of the human state towards the light of nearness to their Creator. Once again, it is the compliance with the rules of behavior prescribed by the Creator that makes treading the path feasible.

THE IDEAL ECONOMY

The institutional framework of the ideal economy is composed of a collection of institutions—rules of conduct and their enforcement characteristics—designed by the Law Giver, prescribed in the Meta-framework and operationalized by the Archetype Model to deal with the allocation of resources, production and exchange of goods and services, and distribution-redistribution of resulting income and wealth. The objective of these institutions is to achieve social justice (*Qist*). Important among their functions is reduction in uncertainty for members of the society to allow them to overcome the obstacles to decision-making caused by paucity of information. Rules specify what kind of conduct is most appropriate to achieving just results when individuals face alternative choices and must take action. They

impose restrictions on what society's members can do without upsetting the social order on whose existence all members count in deciding on their own actions and forming their expectations of others' responses and actions. Compliance with the rules determines the degree of certainty in the formation of these expectations, prevents conflict, reconciles differences, coordinates actions, facilitates cooperation, promotes social integration and social solidarity, and strengthens the social order. Central among the rules that constitute the institutional structure of the ideal economy are rules governing: property; production, exchange, distribution and redistribution; and, market conduct. Once instated in Medina, as the spiritual and temporal authority, the Messenger exerted considerable energy in operationalizing and implementing the property rights rules, the institutions of the market, the rules of exchange and contracts as well as rules governing production, consumption, distribution and redistribution. He also implemented rules regarding the fiscal operations of the newly formed state as well as governance rules.

Rules Governing Property

The Qur'an makes clear that all property belongs to the Creator created all the resources for humans to empower them to perform what their Creator expects of them (see, for example, Qur'an, 2:107; 3:26; 5:120; 40:16). Property, here, includes natural resources as well as human, physical and mental capabilities. This ultimate ownership will remain constantly preserved for the Creator and never diminishes.¹⁷ Humans are allowed to combine their physical labour with the created resources to produce the means of sustenance for themselves and others of mankind. Not only the original resources belong to the Creator, all of the value added belongs to Him too since the human capabilities that made these possible belong to Him as well (see for example Qur'an, 3:180). Furthermore, this right of access to resources created by the Cherisher Lord belongs universally to all of mankind (Qur'an, 2:29) so that they may produce and develop the earth (Qur'an, 11:61).

There are only two ways in which individuals can gain legitimate property rights in the limited sense of the previous two rules governing property. Individuals can gain property rights through a combination of their own creative labour and other resources or through transfer—via exchange, contracts, grants or inheritance (from others who have gained property rights title to an asset through their own labour)

(Qur'an, 4:11–12; 17:26; 24:22; 30:38; 53:40). Fundamentally, therefore, work is the basis of acquiring rights to property. Work is considered a duty; its importance is reflected in the fact that it is mentioned in a large number of verses in the Qur'an. Work is a foundation of "belief": "Indeed there is nothing for the human other than (what is achieved through) effort and that (the results of) his effort will be seen and then he will be repaid fullest payment," (Qur'an, 53:39–41). The next rules governing property forbids gaining instantaneous property rights claim without commensurate work (exception is transfer via gifts from others). The prohibition covers theft, bribery, gambling, interest from money lent, or, generally, income from unlawful sources. When asked which way of earning a sustenance is best, the Beloved Messenger (sawa) said: working with the hand: meaning production and rule-compliant exchange.

Resources are created for all of mankind, therefore, if a person is unable to access these resources, due to physical or other constraints, her/his claim to resources (as an extension of the invariant ownership of the Creator) cannot be violated. All individuals have property rights and claim to resources, even if they are unable to participate in the act of production. These rights must be redeemed, in kind or in monetary equivalence, after the process of resource utilization-production-exchange-distribution is completed (Qur'an, 51:19; 24:33). This is the foundation of the rule of sharing ordained by the Creator. Allah (swt) ordains sharing and threatens those who violate the rule of sharing (Qur'an, 3:180; 4:36–37; 92: 5–11). In effect, the more able access greater resources because others may not be able to access their share. Therefore, the more able uses resources additional to their own share but do so knowing that others' shares are held in trust with them. Sharing is implemented through redistributive mechanisms, such as *zakat*, which are redemption of rights and not charity.

The next rule governing property imposes limitation on disposing legitimately owned property. Unlike the conventional system of property rights, which grants the owner absolute freedom to dispose of property, property owners have a severely mandated obligation not to waste, squander or destroy (*itlaf* and *israf*), use property opulently (*itraf*) or as means of attaining unlawful (*haram*) purposes. Moreover, property rights must not lead to accumulation of wealth as the latter is considered the life blood of the society which must constantly circulate to create investment, employment, income and economic growth opportunities (Qur'an, 9:34; 70:15–18). Once the rules governing property rights claims are observed and related obligations, including sharing, are discharged, property rights

on the remaining part of income, wealth, and assets are held sacred and no one has the right to force appropriations or expropriation. If, on the other hand, individuals' possession of resources, that is private property, comes into conflict with collective interests, society is empowered to exercise priority rights over these resources in protection of collective interests and wellbeing (Qur'an, 4:5).

Rules Governing the Market

Rules governing the market relate to appropriate behaviour of all participants in the market. The Qur'an acknowledges markets and affirms their existence, placing emphasis on contracts of exchange (*bay'*) and trade (*tijarah*). Before the advent of Islam, trade had been the most important economic activity in the Arabian Peninsula. A number of dynamic and thriving markets had developed throughout the area. Upon arrival in Medina, the Messenger of Allah organized a market for Muslims structured and governed by rules prescribed by the Qur'an, and implemented a number of policies to encourage the expansion of trade and to strengthen the market. Unlike the already existing market in Medina, and elsewhere in Arabia, the Prophet prohibited imposition of taxes on individual merchants as well as on transactions. He also implemented policies to encourage trade among Muslims and non-Muslims by creating incentives for non-Muslim merchants in and out of Medina. For example, travelling non-Muslim merchants were considered guests of the Muslims and their merchandise were guaranteed by the Prophet against (non-market) losses. The market was the only authorized place of trade. Its construction and maintenance was made a duty of the state. As long as space was available in the existing one, no other markets were constructed. The Prophet designated a protective area around the market. No other construction or facility was allowed in the protective area. While trade was permitted in the area surrounding the market in case of overcrowding, the location of each merchant was assigned on a first-come, first-served basis but only for the duration of the trading day (for rules governing market behavior see Al-'Aameli, 1998; Mhammad 1998; Al-Hakimi, et al. 1992; Al-Reyshahri and Al-Hussaini, 2001; Sadr 2016).

After the conquest of Mecca, rules governing the market and the behavior of participants were institutionalized and generalized to all markets in Arabia. To ensure rule compliance, the Messenger appointed a market supervisor and encouraged internalization of these rules by

participants before their entrance into the market. These rules included, *inter alia*, no restriction on inter-regional or international trade, including no taxation on imports and exports; free movement of inputs and outputs between markets and regions; no barrier to entry to or exit from the market; information regarding prices, quantities and qualities were to be known with full transparency; every contract had to fully specify the property being exchanged, the rights and obligations of each party to the contract and all other terms and conditions; market participants were responsible for their own as well as other participants actions in the market in accordance with the duty of commanding the good and discouraging inadmissible behavior; in addition the state and its legal apparatus guaranteed contract enforcement; hoarding of commodities were prohibited as were price controls; no direct interference with the price mechanism was permitted, so long as market participants were rule-compliant, even though the legitimate authority had the power and the responsibility of supervision of market operations; no seller or buyer was permitted to harm the interests of other market participants; for example, no third party could interrupt negotiations between two parties in order to influence the outcome in favour of one or the other party; short changing, i.e. not giving full weights and measure, was prohibited; and sellers and buyers were given the right of annulment depending on circumstances.

These rights protected consumers against moral hazard of incomplete, faulty or fraudulent information. Interference with supply before market entrance was prohibited as they would harm the interests of the original seller and the final buyer. All in all, these rules prohibit fraud, cheating, monopoly practices, coalition and combination among buyers or among sellers with the intention to exploit market forces, underselling of products with the intention to harm competition, dumping actions, speculative hoarding of products to force prices up, and bidding up prices without the intention to purchase (Mirakhor and Askari 2010).

Among these rules, five constitute the pillars of the market's institutional structure: (a) property rights, (b) free flow of information, (c) trust, (d) contract, and (e) the rule of the right not to be harmed by others and the obligation not to harm anyone by one's activities. In combination, these five pillars reduce uncertainty and transaction costs as well as allow cooperation and collective action to proceed unhindered. The first, second and last of these five pillars were discussed briefly earlier. Here, the other pillars will be covered also in summary fashion.¹⁸

As a rule, the Qur'an places emphasis on mutual consent as a basis for market transactions, therefore, based on freedom of choice and freedom of contract which, in turn, requires acknowledgment and affirmation of private property rights (Qur'an, 4:29). Islam forcefully anchors all social-political-economic relations on contracts. More generally, the whole fabric of the Divine Law is contractual in its conceptualization, content and application. Its very foundation is the Primordial Covenant between the Creator and humans—the *Mithaq* (see Qur'an, 7:172–173). The covenant imposes the obligation on humans to remain faithful to its affirmation that they recognize the Supreme Creator as its Cherisher Lord (*Rabb*). From an operational point of view, that cognizance is an affirmation that in their conduct on earth, they will comply with the rules prescribed by their Cherisher Lord. In Islam, as a way of life in surrendering to the Will of Allah (swt), faithfulness to the terms of all contracts entered into, establishing justice, reward for rule compliance and punishment for rule violation on the Day of Accountability are aligned to the fulfilment of obligations incurred under the stipulation of terms and conditions of the Primordial Covenant. This proposition links humans directly to their Creator and to one another.

The rule of remaining faithful to the discharge of obligations under the stipulation of terms and conditions of contracts between humans derives its power and authority from the generalization of the responsibility of remaining faithful to the Primordial Contract. In a direct, clear, and unambiguous verse, the Qur'an commands: "... fulfill the Covenant of Allah," (Qur'an, 6:152). In an equally clear verse it generalizes this imperative to all contracts: "...fulfill all contracts," (Qur'an, 5:1. See also Qur'an, 17:34; 16:91–92.). Thus, faithfulness to the terms of every covenant, contract, promise or oath to carry out obligations one contracted become a reflection of the Primordial Covenant. A believer, fully and consciously aware of the ever presence of Allah (swt), will only take on contractual obligations intending to fulfill them (Qur'an, 23:8). It is worth noting that throughout the history of Islam, a body of rules, based on the Qur'an and the tradition of the Messenger has been formulated constituting a general theory of contract. This body of rules covering all contracts has established the principle that any agreement not specifically prohibited by the Law is valid and binding on the parties and must be enforced by the courts, which are to treat the parties to a contract as complete equals.

In the Qur'an, there is strong interdependence between contract and trust Qur'an (23:8). Without trust, contracts become difficult to negotiate

and conclude, and costly to monitor and enforce. When and where trust is weak, complex and expensive administrative devices are needed to enforce contracts. Both the Qur'an and the tradition of the Messenger stress the importance of trustworthiness as the benchmark that separates belief from disbelief (Qur'an, 2:282; 4:105, 107–108; 6:152; 8:27). Trustworthiness and remaining faithful to one's promises and contracts are absolute. When a believer enters into a contract or is trusted with a commitment, money, pledge, or wealth by someone, the believer has to honour the obligation regardless of costs involved, or whether the other party is a friend or a foe. A verse of the Qur'an commands the Messenger and his followers not to break a covenant existing between them and their enemies and fulfill their conditions to full term (Qur'an, 9:4). There is also a network of micro-level rules that ensure transparency and unhindered flow of information. This includes, *inter alia*, the requirement incumbent upon sellers that they must inform the buyers of prices, quantities and qualities; a body of rules governing consumers' options, under various circumstances, of annulment of a transaction; the rule of non-interference with market supplies; the rule against hoarding; and the rule against collusion among market participants. Added to these are elements of trust, binding contracts, the requirement of faithfulness to the terms and conditions of contracts, and finally, reliance on the commitment of the Creator to assure humans, particularly those who are rule compliant, that they need not be afraid of the future nor regret the past, ensures reduction in uncertainty (Qur'an, 10:62).

In combination, these five pillars reduce uncertainty and transaction costs as well as allow cooperation and collective action to proceed unhindered. Furthermore, compliance with the rules of market behaviour ensures the emergence of prices that are fair and just.

Rules Governing Distribution-Redistribution

Under the just rules of conduct governing the behaviour of market participants, it is possible for one individual to gain much through a single just transaction and for another to lose much through an equally just transaction. Indeed, full compliance with the rules of just conduct may have consequences, which, if they were deliberately brought about through rule violation, would be regarded as unjust. Therefore, market outcomes may lead to inequalities that are created equitably because of full compliance with the prescribed rules of just conduct. Moreover, inequalities are created because some members of society may be physically or otherwise unable to

access resources to which they are entitled, according to the property rights rules of Islam. Finally, there are risks such as idiosyncratic risks that when they materialize play havoc with people's income and wealth leading to inequalities.

These inequalities, if not corrected, carry over from one generation to next. Thus, disrupting the objective of achieving social justice, which is a crucial mission of all messengers and prophets, as was mentioned earlier, and indeed of all Muslims. To correct these circumstances, Islam has made provisions for sharing the risks that lead to emergence of inequalities thus cushion society against adverse consequences of materialization of risks. This is done in two ways: those who are financially able should use risk-sharing instruments of Islamic finance, and those who are economically more able are ordained to share the risks of the less able via transfers that redeem their rights in the income and wealth of the more able. These rights have priority claim on the surpluses produced by the more able. In fact, these rights are exercised at the first post-production stage where various levies are imposed to redeem the rights of the less able. Collectively, these instruments constitute the most important economic institution that operationalises the objective of achieving social justice that of the *distribution/redistribution* rule of the Islamic economic paradigm. Distribution takes place post-production and sale when all factors of production are given what is due to them commensurate with their contribution to production, exchange and sale of goods and services. Redistribution refers to the post-distribution phase when the charge due to the less able are levied.

To cushion society against adverse consequences of materialization of risks, the Islamic paradigm envisions a financial system based on risk-and return-sharing. The central proposition of Islamic finance is the prohibition of interest-based transactions in which a rent is collected as a percentage of an amount of the principle loaned for a specific time period *without* the full transfer of the property rights over to the money loaned to the borrower. One result of this type of transaction is that the risks of the transaction are shifted to the borrower. Instead, Islam proposes *al-bay'*, a mutual exchange in which one bundle of property rights is exchanged for another, thus allowing both parties in the exchange to share the risks of the transaction. The emphasis on risk-sharing is evident from one of the most important verses in the Qur'an with respect to economic relations. The verse states in part that: "...they say that indeed an exchange transaction (*bay'*) is like a *riba* (interest-based) transaction. But Allah has permitted exchange

transactions and forbidden interest-based transactions,” (Qur’an, 2:275). The nature of property rights inherent in these two transactions hints at one of their crucial differences. *Al-bay’* is a contract of exchange of one commodity for another where the property rights over one commodity are exchanged for those over the other. In the case of a *riba* transaction, a sum of money is loaned today for a larger sum in the future without the transfer of the property rights over the principle from the lender to the borrower. Not only does the lender retain property rights over the sum lent but also the property rights over the additional sum to be paid as interest is transferred from the borrower to the lender at the time the contract of *riba* is entered into, leading to adverse distributional effects.

These expenditures are essentially repatriation and redemption of the rights of others in one’s income and wealth. Redeeming these rights is a manifestation of belief in the Oneness of the Creator and its corollary, the unity of the creation in general and of mankind in particular. It is the recognition and affirmation that Allah (swt) has created the resources for all of mankind who must have unhindered access to them. Even the abilities that make access to resources possible are due to the Creator. This would mean that those who are less able or unable to use these resources are partners of the more able. The expenditures intended for redeeming these rights are referred to in the Qur’an as *Sadaqhat*, which is the plural of the term *Sadaqah*, a derivative of the root meaning truthfulness and sincerity; their payments indicate the strength of the sincerity of a person’s belief (Qur’an, 2:26; 2:272). The Qur’an insists that these are rights of the poor in the income and wealth of the rich; they are not charity (Qur’an, 91:26; 38:30; 70:25; 19:51; 2:177). Therefore, the Qur’an asks that extreme care be taken of the recipients’ human dignity of which the recipients themselves are fully aware and conscious to the point that they are reluctant to reveal their poverty. The Qur’an consequently recommends that payment to the poor be done in secret (Qur’an, 2:271–273). Moreover, the Qur’an strictly forbids that these payments be made either reproachingly or accompanied by ill treatment of the recipient or with annoyance displayed by the person making the payment (Qur’an, 2:262–265).

In practical terms, the Qur’an makes clear that this means creating a balanced society that avoids extremes of wealth and poverty, a society in which all understand that wealth is a blessing provided by the Creator for the sole purpose of providing support for the lives of *all* mankind. The Islamic view is that it is not possible to have many rich and wealthy people who continue to focus all their efforts on accumulating wealth without

simultaneously creating a mass of economically deprived and destitute. The rich consume opulently while the poor suffer from deprivation because their rights in the wealth of the rich and powerful is not redeemed. To avoid this, Islam prohibits significant wealth accumulation, imposes limits on consumption through its rules prohibiting overspending (*israf*), waste (*itlaf*), ostentatious and opulent spending (*ittraf*). It then ordains that the net surplus, after moderate spending necessary to maintain modest living standard, must be returned to the members of society who, for a variety of reasons, are unable to work, hence the resources they could have used to produce income and wealth were utilized by the more able. The Qur'an considers the more able as trustee-agents in using these resources on behalf of the less able. In such a framework, property is not a means of exclusion but inclusion in which the rights of the less able in the income and wealth of the more able are redeemed. The result would be a balanced economy without extremes of wealth and poverty. The operational mechanism for redeeming the right of the less able in the income and wealth of the more able are the network of mandatory and voluntary payments such as *Zakat*,¹⁹ *Khums*, *Qardh Hassan* and payments referred to as *Sadaqhat*.

Importantly, there are reports that the Noble Messenger instructed *Zakat* collectors to forecast the level of production in order to collect taxes. This is the first known use of presumptive taxation in history. Again, these levies should in no way be considered as charity. This is important because *Zakat* and *Sadaqhat* are often referred to as charity. One meaning of *Zakat* indicates cleansing meaning that the surplus produced is subjected to a cleansing process to purify it from the rights of others. Considering all the categories of transfer receivers mentioned in the Qur'an (see for example Verses 177, 215, and 273: Chap. 2; Verse 41: Chap. 8; Verse 60: Chap. 9; Verse 26: Chapter 17; Verse 7: Chapter 59), makes it clear that these are members of the society who have not been able to participate in the production and exchange processes, or if they have, for one reason or another, they have been unable to participate fully, or they have experienced misfortunes due to materialization of idiosyncratic risks so that they are no longer able to have a viable source of income to support their consumption. The payment of levies is a contractual obligation between individual surplus producer and Allah (swt) to redeem the rights of others in the surplus because the individual has used the resources that is rightfully theirs. Therefore, these levies cannot be called charity. Allah (swt) encourages humans to go even beyond these obligatory levies in transferring their surplus income and wealth to share the risks facing the less able. To

motivate this kind of transfer and as mentioned earlier, Allah (swt) has provided the incentive of multiple returns to these expenditures (see for example Verse 261: Chap. 2) so that the income and wealth of the giver will not diminish but increase as a result of this giving.

To correct the pattern of distribution to the next generation, the Qur'an prescribes exact rules of inheritance that breaks up and distributes income and wealth of a person at the time of passing among heirs (see Verses 11–12: Chap. 4). The rules of inheritance are based on the principle that the property rights of the owner cease at the time of passing. The person will have control over one-third of income and wealth. Muslims in the past often transferred even this amount to *Waqf* funds to projects intended to assist the unable and less fortunate members of society.

To summarize, in order that humans are able to carry out the mission associated with their *Khalifah* state, i.e. serving as trustee-agent of the Divine on the earth, Allah (swt) has created resources and placed them at the disposal of humans. All humans have the right of unhindered access to these resources. Some are endowed with greater physical-mental abilities and, therefore, are able to use more of these resources than others, thus enhancing their ability to create income and wealth. They are, however, not entitled to keep the resulting wealth solely for themselves and must share it with those less able because the latter are, in effect, partners in wealth creation. These rights must be redeemed. Believer must remain fully conscious of this partnership throughout the process of wealth creation and the fact that they must redeem the rights of others in the created income and wealth. Being unable to access resources to which they have the right does not negate the share of the poor in income and wealth of the more able. Moreover, even after these rights are redeemed, the remaining wealth is not to be accumulated, wealth is considered as the lifeblood of the economy and means of support for society. Therefore, it must not be withheld from circulation through accumulation. Non-circulation of wealth among the members of society creates a sclerosis in the body-economic of society, restricting the flow of resources needed for the growth of its economy.

The above verse renders exchange and trade of commodities or/and assets the foundation of economic activity in the Islamic Paradigm. From this, important implications follow: Exchange requires freedom of parties to contract. This in turn implies freedom to produce, which calls for clear and well-protected property rights to permit production to proceed. To freely and conveniently exchange, the parties need markets. To operate

successfully, markets need rules of behaviour and enforcement mechanisms to reduce uncertainty in transaction and ensure the free flow of information. They also need: trust to be established among participants, competing among sellers, on the one hand, and buyers, on the other; transaction costs to be reduced; and the risk to third parties in terms of having to bear externalized costs of two-party transactions mitigated. The rules prescribed by the Meta-framework and the Archetype Model accomplish these tasks. These rules plus others mentioned earlier, when observed, reduce the incidence of informational problems that plague the conventional interest-based financial system. A further implication is that finance based on risk-return sharing means that the rate of return to finance is determined *ex-post* by the rate of return on real activity rather than the reverse which is the case when interest-based debt contracts finance production. This has a further economic implication in that risk-return sharing finance removes interest payments from the pre-production phase of an enterprise and places it in the post-production as a rate of return determined as a percentage of the net gain from the profit, and after sale, distributional phase. This, in turn, has price-quantity consequences.

It should be clear that compliance with the behavioural rules prescribed by Islam reduces risk and uncertainty. When risks to income materialize they play havoc with people's livelihood. It is, therefore, welfare enhancing to reduce risks to income and lower the chances of its volatility in order to allow consumption smoothing. This is accomplished by risk-sharing and risk diversification. By focusing on trade and exchange in commodities and assets, Islam promotes risk sharing. Arguably, it can be claimed that through its rules (institutions) governing resource allocation, property rights, production, exchange, distribution and redistribution, financial transactions, and market behaviour, the Islamic paradigm orients all economic relations toward risk-reward sharing. This can be said to be a logical consequence of insistence on the unity of mankind since through risk-sharing social solidarity is promoted through Islamic finance. Shiller asserts that once risk sharing achieves a significant presence in society, it will not only help reduce poverty and income inequality, but it would also generate substantial energy for human and economic progress because of large-scale reduction in risk.²⁰ The most meaningful human progress is achieved when all distinctions on the basis of race, colour, income and wealth, and social-political status are obliterated to the point where humanity, in convergence with the Qur'an declaration (Qur'an, 31:28), truly views itself as one and united. It can be argued that implementation of

Islamic finance will promote maximum risk sharing, thus creating the potential for enhanced social solidarity.²¹

In addition to the risk-sharing characteristics, an Islamic financial system has the potential of greater stability than its conventional counterpart. The main reason for this is the fact that when production is financed entirely by risk-return sharing or equity finance, in case of rapid changes in the price, assets and liabilities both move in the same direction simultaneously—thus the financial structure adjusts in tandem on both sides of the ledger. A number of analytic models have investigated the adjustment process and have demonstrated the stability of Islamic finance in response to shocks as well as the growth implication of such a system in closed and open economies.²² An important feature of these models was the assumption of 100% reserve banking based on the understanding of bank deposits as a safekeeping operation (*amanah*) fire-walled from the risks involved in investment operations, i.e. the so-called two window model.²³ This feature of requiring banking depository institutions to hold 100% reserves against demand deposits removes two sources of instability associated with conventional interest based, fractional reserve banking. Non-availability of interest-based financial transactions and 100% reserve banking eliminate the ability of the financial system to create money out of thin air and limits the ability to leverage an asset base into much larger liabilities. Deposits that are intended for investment, of which there can be many varieties, depending on term and risk, would be invested by what would be akin to an investment bank on a pass through basis. In this way, the two activities of the banking sector—safekeeping and financing projects—would not expose bank capital to leveraged risk, only bank capital that is also invested would be at risk.

Moreover, when risk-return sharing replaces an interest-based debt system, a much closer relationship is forged between the financial and the real sectors of the economy. As early as the 1930s, the negative consequence for real activities, in terms of income and employment, of interest-based debt-financing has been the subject of discussion by economists.²⁴ A number of economists have also drawn attention to the drawbacks of a fractional reserve system as a mechanism of generating instability. The world has witnessed repeated, periodic episodes of financial crises originating in systems with interest-based debt-financing at their core in the last two centuries. The frequency of these crises increased in the last decades of the twentieth century and culminated in the devastating global financial crisis of 2007–2008.²⁵ As unfortunate as these crises have been,

they have held lessons for Islamic finance still in its nascent stage of development, especially since Islamic finance is operating in an institutional framework, which is basically that of the conventional interest-based debt-driven system.

CONCLUSION

This Chapter has been a modest attempt to present a vision of the Islamic economic paradigm discerned from the Qur'an and the tradition of the Messenger. We have briefly sketched the institutional structure (network of prescribed rules of behaviour and their enforcement characteristics) of a vision of an ideal Islamic economy. It envisions a system as a collection of rules of behaviour. Accordingly, an Islamic economic system is defined as a collection of rules of behaviour prescribed by the Law-Giver, and is the discipline that extracts these rules from the Meta-framework (derived from the Qur'an) and the Archetype Model (the tradition of the Messenger). Islamic economics then explains and analyzes the implications of this framework and these fundamental building blocks in the setting of contemporary society.

Finally, the discipline designs policies to help the contemporary economy to converge to its ideal, based on the framework obtained from the Qur'an and Sunnah. These contemporary policies, addressing the economic issues faced by humans in today's world, are thus built on the Divine Rules. The major rules of behaviour from fundamental axioms of Islam are: the Unity of the Creator and His Creation, the mission of messengers and prophets, the accountability on the Day of Judgment. The specific rules governing economic behaviour include, *inter alia*, rules governing property, trust, contracts, governance, market behaviour, distribution, redistribution and, the financial system that would facilitate transactions in such an economy. Compliance with the prescribed rules of behaviour reduces uncertainty and promotes coordination as well as growth with minimal levels of poverty. Rules governing transactions, such as trustworthiness, truthfulness, faithfulness to the terms and conditions of contracts, transparency in market transactions, and non-interference with the workings of the markets and the price mechanism, so long as market participants are rule-compliant, create a strong economy where information flow is unhindered and participants engage in transactions confidently with minimal concern for uncertainty regarding the actions and reactions of other participants. Because of the high level of trust, transaction costs can be

assumed to be minimal. Risk–return-sharing in financing production, moderate spending and avoidance of extravagant and opulent consumption would provide financial resources for investment. Rules regarding redistribution and the prohibition of idle wealth accumulation would reinforce the availability of resources for saving and investment. The mission of developing the earth arising from the *Khalifal* state (trustee-agency) with which the Creator has charged humans provides the imperative for growth and development with minimal level of poverty, while preserving the environment for all future generations.²⁶ In the Islamic economic system, humans, endowed with freedom to choose, are given rules of behaviour that would create flourishing and socially just economies. In the next chapter, we turn to the operational features of an Islamic economy.

NOTES

1. Rahman, Fazlur. *The Courage of Conviction*, edited by Philip L. Berman. New York: Dodd, Mead, 1985, p. 197. As a fundamental basis for creating inducement to rule compliance that would “guide the affairs of mankind” Fazlur Rahman’s Archemedis Point is the Tawhidi or Unitary Consciousness facilitated by the “inner torch” of *taqwa*, see his Major Themes of the Qur’an. This Unitary of Tawhidi Consciousness is quite palpable even in the few paragraphs quoted here (Rahman 1985).
2. See *The Courage of Conviction*, p. 197.
3. An echo of this view is discernible in the position of Dr. Nejatullah Siddiqi with respect to the influence of fiqh on contemporary development of Islamic economics. For a brief discussion of this issue see Abbas Mirakhor, “A Note on Islamic Economics,” Jeddah: Islamic Development Bank, (2007), pp. 10–11 (Mirakhor 2007).
4. The book was first published in or about 1945 in Egypt but did not become available in the rest of the Muslim world until the 1950s. It was translated into English much later by John B. Hardie as *Social Justice in Islam* (Lahor: Islamic Book Services, n.d.) (John n.d.).
5. For a recent rendition of Maulana Mawdudi’s ideas on Islam and economics see Khurshid Ahmad, ed. *First Principles of Islamic Economics*. Markfield, Leicestershire: The Islamic Foundation, 2011. This book competently culls and integrates the Maulana’s ideas from various pamphlets, speeches, sermons and writings. See also a review of the book by Arshad Zaman in the *Islamic Studies* (Ahmad 2011).
6. Al Sadr, M.B. *Iqtisaduna*. Beyrut: Dar al Fikr, 1968, second printing. See also an enlightening essay by a brilliant student of Al Sadr, Ammar Abu

- Raheef in: *Iqtisad*, Al Hassani and Mirakhor, ed. New York: Global Scholarly Publication, 2003 (Al Sadr et al. 2003).
7. Kahf, Monzer, "Definition and Methodology of Islamic Economics based on the views of Imam al Sadr," Paper presented in the International Conference on Imam Sadr's Economic Thoughts, Qum, Islamic Republic of Iran, May (2006) (Kahf 2006).
 8. Al Sadr, M.B. *Falsafatuna*. Beyrut: Dar al Ta'aruf, 1980. This book was published first in 1960 and as *Iqtisaduna* in 1961. There is a parallel with Adam Smith who wrote his ethic-philosophical work, *The Theory of Moral Sentiment*, long before his more famous book, *The Wealth of Nations*. Until very recently, as mentioned in our Chap. 1, the economics profession made no serious attempt to connect the two. The result of this disconnect has been the development of a "science" of economics divorced from the ethical foundations so strongly articulated and advocated in the *Theory of Moral Sentiments* by its authors who is acknowledged as the "father" of economics. A study of *Falsafatuna* could provide a more complete understanding of *Iqtisaduna*. See also the essay by Ammar Abu Ragheef, perhaps the most brilliant of Shaheed's students, in *Iqtisad*.
 9. A good example is the story of Sayyidah Maryam told in Cha. 19 of the Qur'an when the Holy Spirit was sent to her outwardly shaped and looked like a man.
 10. See Weisskopf, Walter A. *Alienation and Economics*. New York: Dell Publishing Co. Inc., 1971, pp. 20–24. But also see the excellent paper of Asad Zaman on The Ethical and Political Foundations of Scarcity, Mimeo, 2009 (Weisskopf 1971).
 11. "la Dharar wa la Dhirar."
 12. See Mirakhor, Abbas and Hossein Askari. *Islam and the Path to Human and Economic Development*, 2010 (Mirakhor and Askari 2010).
 13. See an excellent coverage of this topic by Ghazi bin Muhammad bin Talal. *Love in the Holy Qur'an*. Chicago: Kazi Publications, Inc., 2010. See also Reza Shah-Kazemi, "God as 'The Loving' in Islam," *IAIS Journal of Civilizational Studies*, vol. 1, no. 1 (2008):147–183; and William C. Chittick, "Love in Islamic Thought," *Religion Compass*, vol. 8 (2014): 229–238 (Shah-Kazemi 2008; Chittick 2014).
 14. See Kamali, Mohammad Hashim. *The Dignity of Man: An Islamic Perspective*. Kuala Lumpur, Malaysia: Ilmiyah Publishers, 2002. For a secular view see Kateb, George. *Human Dignity*. Cambridge, Massachusetts: Harvard University Press, 2011 (Kamali 2002; Kateb 2011).
 15. The idea of "*taqwa*" as an "inner torch" is from Fazlur Rahman (1980), *The Major Themes of the Qur'an*.
 16. See Rafic Yunus Al-Masri (1992) for an alternative view on the concept of *Khilafah*.

17. This is the concept of “*Thubat Milkiyyah*,” discussed in detail in Shaheed M.B. Sadr, *Iqtisadna*.
18. For an interesting view on the societal importance of contracts and how this concept could help bring about a new consciousness regarding ethics and morality in business dealings, see Thomas Donaldson Thomas, and Thomas Dunfee. *Ties that Bind*. Boston, Massachusetts: Harvard Business School Press, 1999 (Thomas and Dunfee 1999).
19. Rafic Yunus Al-Masri points to the tendency of some contemporary jurists and economists to “think that zakat, in comparison with taxes, is of two kinds: zakat on wealth, as in the cases of zakat on cattle, money and merchandise and zakat on income as in the case of zakat on cereals and fruits.” (p. 29). He contends that “zakat, including the zakat on land produce and fruits, is a zakat on growing capital and that the rates of zakat are such that the zakat is paid from the increase in capital rather than from the original capital (principal)” (p.30). Furthermore, he claims that “Islam tends to impose zakat on manifest wealth whenever possible rather than on hidden wealth and leaves zakat on hidden wealth to the conscience and the religious convictions of the person. Taxes on income are levied on hidden wealth” (pp. 30–31).
20. Shiller, R. J. *The New Financial Order: Risk in the 21st Century*. Princeton, New Jersey: Princeton University Press, 2003 (Shiller 2003).
21. See Askari, Hossein, Zamir Iqbal, Nouredine Krichene and Abbas Mirakhor. *Risk sharing in Finance: The Islamic Finance Alternative*. Singapore: John Wiley and Sons, 2012 (Askari et al. 2012a).
22. See Askari, Hossein, Zamir Iqbal, Nouredine Krichene and Abbas Mirakhor. *The Stability of Islamic Finance*. Singapore: John Wiley and Sons, 2012; Askari, Hossein and Abbas Mirakhor. *The Next Financial Crisis and How to Save Capitalism*. New York: Palgrave Macmillan, 2015 (Askari et al. 2012b; Mirakhor 2015).
23. Khan, Mohsin, “Islamic Interest-Free Banking.” In *Theoretical Studies in Islamic Banking and Finance*, edited by Mohsin Khan and Abbas Mirakhor. Houston, Texas: IRIS Books, 1987 (Khan 1987).
24. Mirakhor, Abbas and Nouredine Krichene. *The Recent Crisis: Lessons for Islamic Finance*. Kuala Lumpur, Malaysia: Islamic Financial Services Board, 2009 (Mirakhor and Krichene 2009).
25. See Reinhart, Carmen and Kenneth Rogoff. *This Time is Different*. Princeton: New Jersey: Princeton University Press, 2009 (Reinhart and Rogoff 2009).
26. For a detailed discussion, see Abbas Mirakhor and Hossein Askari, 2010.

APPENDIX

The Economic Perspective to Belief Dimensions (see also Al-Hakimi et al. 1992; Darraz 2003; Al-Masri 2005) with Reference to Qur'anic Verses and Major Sunnan of Allah (swt)

1. Belief that Allah (swt) is the creator of all resources. 2:29
2. Belief that Allah (swt) is the provider of sustenance without limit and without need for any cause or medium. 2:60, 3:37, 5:112&115
The Muslim is to work hard (Sa'iy) and entrust destinies with Allah swt, whose bounty is endless.
3. Belief that the growth of crop is but by Allah (swt's) command. 56:63–64
4. Belief that righteousness and rule-compliance are associated with development. 7:96
5. Belief that Allah (swt's) blessings are beyond counting. 14:34, 16:18
6. Belief that Allah (swt) is the All-Provider. 2:22
7. Belief that there is *Barakah* in sustenance (multiple returns to a certain action). 5:65–66, 7:96
8. Belief that certain fiducial acts, such as *Shukur* and making *Istighfar*, increase sustenance by Allah (swt's) will and order alone. 11:3, 14:7
9. Belief that Allah (swt) provides subsistence for all of mankind, regardless of their rule compliance or non-compliance (belief or disbelief). 2:126, 35:3
10. Belief that denying blessings reduces means of sustenance. 6:112
11. Belief that rule non-compliance or rule violation (*Dhulm*) reduces means of sustenance (*Rizq*) except when Allah (swt) decides to give a respite to the rule violators (Dhalimeen) to test them. 22:45, 21:11, 10:13
It is narrated that the Prophet Salla Allah 'alaihi wa Aalih wa Sallam said that Allah (swt) gives a respite to the rule violators until such time when He (swt) seizes him to no escape.
12. Belief that sinning (*Ma'siyah*) eliminates means of sustenance (*Rizq*) by Allah (swt's) decree. 6:6
13. Belief that Allah (swt) tests His adorers with shortcoming in sustenance. 2:155, 7:130
14. Belief that Allah (swt) tests His adorers with blessings. 7:163
15. Belief in Allah (swt's) promise of providing the best sustenance (*Tayyib*) for his most rule-compliant adorers. 8:74

16. Belief that Allah (swt) provides sustenance according to a known measure. 15:21
17. Belief that denying blessings is a dimension of rejecting HIM (swt) (*Kufr*). 16:83
18. Belief that opulence (*Taraf*) leads to destruction of society. 17:16
19. Belief that Allah (swt) has promised *Hayat Taysyibah* (good life) to those who are righteous. 16:97
20. Belief that sustenance and wealth are all means by which Allah (swt) tests mankind. 2:155, 21:35
21. Belief that Allah (swt) provides sustenance to whomever HE (swt) wills without limit. 3:27, 13:26
22. Belief that Allah (swt's) provision of sustenance (*Rizgh*) to the rule violators (*Dhalimeen*) and those who rejects Him (swt) (*Kafireen*) is a means of giving a respite to test them. 3:178, 22:48
 Belief that rule non-compliance or rule violation (*Dhulm*) reduces means of sustenance (*Rizgh*) except when Allah (swt) decides to give a respite to the rule violators (*Dhalimeen*) to test them. 22:45, 21:11, 10:13, 18:59, 6:6
23. Belief that Allah (swt) in His *Hikmah* gives more sustenance to some than others. 16:71
24. Belief that Allah (swt) provides for one's children and off-spring. 6:151, 17:31
25. Belief that it is Allah (swt) who bestows authority on earth. 7:10, 22:41
26. Belief that there is a positive return (*Thawab*) from Allah (swt) to righteous (rule-compliant) action. 11:23, 14:23
27. Belief that Allah (swt) is watching and observing all human's behavior. 9:105, 10:61
28. Belief that sincerity of intending is only due to Allah (swt). 98:5
29. Belief that it is Allah (swt) that teaches the principles of industry and manufacturing. 21:79–80, 18:94–95
30. Belief that income and social inequality is a fact of life as intended by Allah (swt) in His wisdom. 6:165
31. Belief that Allah (swt) gives essential *Karamah* to all of mankind. 17:70
32. Not to be deceived by the apparent economic well-being of those who reject Allah (swt) (*Kuffar*). 3:196–197
33. Belief that differences in income and wealth level is necessary for the pyramid of social life. 43:32

Differences in wealth are not to be a means of superiority to others, that which has to be taken into account is Allah (swt's) consciousness.

34. Belief that income and wealth differences are of Sunan of Allah (swt) for His creation. 16:71
35. Belief that property, wealth and income are all means by which Allah (swt) tests humans. 8:28
36. Belief in the precedence of *Halal* income. 20: 81, 5: 88, 16: 114
37. Belief that Allah (swt) compensates expenditure in His way and increases the return. 2:245
38. Belief that envy (*Hasad*) is a fact of life, the consequences of which are destined by Allah (swt). 4:54, 113:5
39. Belief that Allah (swt), alone, is the owner of everything (*Al Malik*). 3:26
This is not to deny that, while absolute ownership of everything belongs to Allah (swt), Man is entrusted with them by the virtue of his agency contract
40. Belief that the squanderers (*al Mubadhdhireen*) were brothers of the devils. 17:27
41. Belief that *Halal* and *Haram* are all solely matters determined by Allah (swt). 10:59
42. Belief that humans are made agents (*Khala'if*) of Allah (swt) on earth. 2:30, 24:55
43. Belief that *Riba* is a means that clears one's pathway to hellfire. 2:275
44. Belief that procurement of fiducial virtues is more important than wealth accumulation. 10:58
45. Belief that *Dunya* (life on this earth) is a means to obtain Allah's (swt) satisfaction and not an end in itself. 22:41
46. Belief that Allah (swt) has featured all of its creation with qualitative reproduction. 51:49
47. Belief that spending in the way of Allah (swt) increases wealth in this life (*Dunya*) and is a cause of best if rewards (*Husn athThawab*) in the hereafter. 2:261, 34:39, 57:18
48. Belief that Allah (swt) has promised those who are rule compliant and Allah-conscious *Barakat* (multiple returns) in sustenance (to a certain action). 7:96
49. Belief that perseverance in rule-compliance leads to continuation of blessings. 8:53
50. Belief that Allah (swt) will provide unlimited blessings to those who are Allah-aware. 65:2-3, 12:95

51. Belief that Allah (swt) has promised increase in sustenance as long as humans remain rule compliant, admit their *Dhunnub* and make *Istighfar*. 11:3;52–53, 71:10–12
Rasoulu Allah Salla Allah ‘alaihi wa Aalihi wa Sallam is reported to have said: “Whoever maintains *Istighfar*, Allah (swt) will make a way for him out of every difficulty, alleviate his hardship and provide for him from where he does not expect.”
52. Belief that *Shukur* increases sustenance by Allah (swt). 14:7, 2:152
Rasoulu Allah Salla Allah ‘alaihi wa Aalihi wa Sallam said: “the best *Dhikr* is la Illaha illa Allah and the best prayer is AlhamduliLlah.”
Belief that all transactions in Islam must be based on contracts of *al Bay’* (Exchange). Risk sharing is the essence of all transactions. Parties to mutually agreed contracts have to be fully committed to the terms of contracts and breach of contracts and promises are prohibited.
53. Belief that perseverance on the path of Allah (swt) leads to multiple returns (*Barkat*). 6:66, 7:96
54. Belief that one can and should trust Allah (swt) to serve as one’s agent in all matters (*Tawakkul*). 65:2–3
55. Belief that rule violations and non-compliance destroy economies. 34:15–17, 20:114, 16:112
56. Belief that Allah (swt) has promised destruction of rule violators. 10:13, 11:102, 18:56, 21:11, 22:45
57. Belief that Allah (swt) has warned those who are stingy and unwilling to do good for others (*al-Bakeehl*) reduction in their sustenance. 89:24–25
58. Belief that pride (*al-Kibriya’a*) is preserved for Allah (swt); as he is al *Mutakabbir*. Self-importance (*al-Kibr*) by mankind is a rule violation and damage economies. 18:32–34, 28:76–81
59. Belief that not acknowledging blessings is a rule violation. 16:112, 28:58
60. Belief that the opulent are the foremost rejecters of Prophets and Messengers’ messages and resistant to their calls for reform; as the latter pose a threat to their corruption and exploitation-based interests. 34:34, 43:23
61. Belief that refusal to comply with *al Amr bi al Ma’rouf wa al Nahy ‘an al Munkar* is a rule violation. 5:79, 9:67
62. Belief that Allah (swt) is observing all human’s behavior. 49:18, 59:7, 58:6, 31:23
63. Belief that Allah (swt) is constantly watching and witnessing all deeds. 10:61, 58:6, 6:60, 11:111, 4:108, 8:47, 18:49, 45:21

64. Belief that Allah (swt) has dignified Man and favored him over many of his creation. 17:70
65. Belief that Allah (swt) has guaranteed Man's sustenance. 11:6, 51:22–23, 6:151, 17:31
66. Belief that sincere intending is a prerequisite to the righteousness of an act and that it essentially originates from turning towards Allah (swt) in all matters. 6:162–163, 39:11–14
67. Belief that Allah (swt) has made it a duty to work hard (*Sa'iy*). 5:93, 38:24&28, 40:58
68. Belief that there is a positive return (*Thawab*) from Allah (swt) to righteous (rule-compliant) action. 2:25, 4:124, 10:9, 24:55, 16:97, 40:40
69. Belief that trust betrayal is a cause of Allah (swt's) anger. 3:161
70. Belief that lying, cheating, violating promises and contracts and hiding information, are all rule violations that are punishable. 39:60, 29:68,
71. Belief that exhorting one another to truth and patience is an important fiducial trait that is avoided by a Muslim who is afflicted with loss, so much that it is a cause of regret on the Day of Judgment. 103:1–3
72. Belief that *al Amr bi al Ma'rouf wa al Nahy 'an al Munkar* is a rule, compliance with which is everyone's duty. 3:110
73. Belief that generosity and making the conditions of repayment of non-interest based loan easy on those who face difficulty in repayment of loans is pleasing to Allah (swt). 2:280–282
74. Belief that contracts and transactions have to be based on free choice and mutual consent. 4:29

Major Sunan of Allah (Swt)

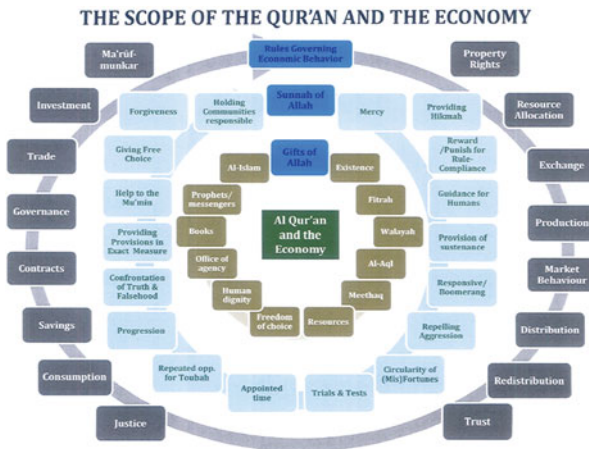
Rules that govern the relationship of Allah (swt) with Humanity can also be denoted as Sunan of Allah (swt). A Sunnah can be said to be a declared way of doing something repeatedly and consistently so often that it becomes a rule.

1. Sunnah of Mercy: Allah (swt) has ordained mercy on Himself. 6:54; 133; 147, 15:56, 8:53, 7:156
2. Sunnah of creating an organic, immutable relationship between collective changes in human societies and the changes within the psyche of the members of societies. 8:53&63, 13:11, 30:41

3. Sunnah of provision of guidance for humans, to achieve felicity in their lives, through:
 - i. Imprinting of *fitrah* of humans;
 - ii. Appointment of prophets and messengers; and
 - iii. Sending of books containing prescribed rules of behavior.
20:50, 87:2–3, 30:30, 36:22, 2:285, 4:136, 43:27, 16:36, 23:44, 2:213
4. Sunnah of provision of Gifts to empower all humans to achieve felicity in their lives regardless of belief or disbelief. 17: 18–20
5. Sunnah of return of consequences of human action to the original actor. 13:11, 10:23, 17:7
6. Sunnah of repelling oppressions of one group of humans by other humans. 2: 246–251
7. Sunnah of circular nature of worldly fortunes and misfortunes among humans. 3:140
8. Sunnah of testing. 67:2, 18:7, 29:2
9. Sunnah of setting “appointed times” (deadlines) for all elements of creation including humans. 13:2, 30:8, 7:3, 10:49, 6:2&6
10. Sunnah of giving erring humans repeated chances for becoming rule-compliant before their “appointed time.” 2:36, 6:2, 35:45, 17:99, 10:11&49, 11:2–3, 18:58–59
11. Sunnah of progression. 7:182–183, 68:44, 2:253, 3:163, 6:132&165, 58:11
12. Sunnah of deception in response to plans and conspiracies of deceivers. 8:30, 7:99, 10:21, 6:123–124
13. Sunnah of confrontation of Truth (represented by messengers and prophets) and falsehood (represented by opulent, powerful elements in society) and the defeat of the falsehood. 14:13–15, 25:31, 6:123–124, 17:16, 34:34, 21:18, 17:81, 34:49, 8:8
14. Sunnah of providing in exact measure. 25:2, 65:3, 33:38, 13:8, 15:21, 23:18, 42:27, 54: 49
15. Sunnah of inheritance of the earth by the righteous. 21:105, 7:128
16. Sunnah of reward and retribution for rule compliance and rule violation. 23:111, 6:146, 10:13, 16:97, 14:51, 41:27
17. Sunnah of Allah (swt’s) help to believers. 37:116, 47:7, 40:51, 22:40

Characteristics of Sunan of Allah (Swt)

1. Generality and consistency: no exceptions (33:38).
2. No apparent nor any qualitative change (35:43).
3. Relate to human societies collectively and Allah (swt's) Gift of freedom to choose (13:11, 7:96).
4. Relate to the life on earth even though actions here have consequences for the life to come (18:59).
5. Targeted to the best interest of human (7:178).



Rules regarding trust and trustworthiness

Rules regarding governance

Rules regarding honesty and transparency in social dealing

Rules regarding consultation

Rules regarding cooperation

Rules regarding reciprocity

Enforcement of all rules through the capstone rule of *al Amr bilMa'ruf wa al Nahya 'an al Munkar*

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The Operational Features of an Islamic Economy

An ideal Islamic economy is embedded in a rule-compliant society. Its operations and results emanate from decisions-actions of rule-compliant individuals who have become Allah-conscious. This means that they have responded to the call by Allah (swt) and His Beloved Messenger. In Verse 24 of Chap. 8 of the Qur'an, Allah asks believers to "respond affirmatively to Allah and to His Messenger as he calls you to what makes you alive..." This verse is addressed to those who have already submitted to their Creator and have already testified that Mohammad (sawa) is the final Messenger of Allah (swt); they are *mu'mineen* (singular: *mu'min*). They are those who have freely chosen to submit; they are rule compliant. As explained below, a *mu'min* is someone who has found refuge in the safety and security in the sanctuary of Allah (swt), Iman. As was explained earlier, there are, however, gradations of the passage from being a *bashar* who is unconscious of anything except the heedless animal state responding to the most basic physical needs (see, for example, Verse 179: Chap. 7) to *insan* the height of the human state that surpasses the angels. Each of the progressive states represent higher degree of consciousness.

It appears, and Allah knows best, that the call referred to in Verse 24: Chap. 8 refers to the deep awakening of consciousness and its passage to full liberation from all servitudes except that to its Creator. This means movement from unsundered consciousness to full surrendered consciousness. An unsundered state of consciousness is represented by the prevailing view of the mythology of modernity whose chief characteristics are belief that: there is no Creator, there is nothing intrinsically purposeful

or meaningful about the creation or the universe, man is rational and free to manipulate anything, everything and everyone in existence with impunity, life here and now, is all there is and there is nothing after death (see, for example, Verse 35: Chap. 44), there is no accountability except to human laws, and wealth means power and might is right.

A surrendered consciousness is one that has entered deeply and effectively the safety and security of Allah's (swt) Sanctuary. This consciousness has achieved a state of experiential knowledge, propelled by repeated testing through trials and tribulations, that the created does not have intrinsic, independent power to help, hurt, give or take. It is at that stage that, exercising its free choice, surrenders its will to the Will of Allah (swt), knowing that neither, it nor anyone or anything else, can do any better for itself than its Creator. The point of surrender represents a negative and a positive current. In the former, the person gives up his own free will. In the positive sense, the person places full reliance on Allah (swt) but rejects all other dependency. He relies fully on Allah (swt) for everything, and is in a state of serenity with whatever the Creator provides. The person is now alive fully as she/he is in a state of *Tawakkol*, full dependency on Allah (swt) (see, for example, Verses 122, 159: Chap. 3; 51: Chap. 9) Who now provides him with a "light with which he walks among people" (Verse 122: Chap. 6). Such a person's state is no longer what was before. She/he is now endowed with special insight (*Baseerah*) that cognates the reality of things (Verse 16: Chap. 13; Verse 20: Chap. 35).

The ideal Islamic economy defined by the institutional scaffolding discernible from the Qur'an is populated by a critical mass of those who have achieved Allah-consciousness. In order to conceive the ideal economy within the Metaframework, consider a verse in the Qur'an that contains the necessary and sufficient condition for the existence of an ideal society and economy. The verse states that: "If the members of the collectivity were to be rule-compliant (*mu'min*)¹ and ever-conscious (had *tagwa*) surely We would have opened them blessings from the sky and from the earth. But they rejected (the Divine messages), therefore, we seized them on account of their (non-compliant) deeds," (Qur'an, 7:96). According to this verse then, the necessary condition for an ideal economy is *iman*. From the root *AMN*, security and safety, *iman* means achieving a state of serenity, security and safety in the heart and the mind that comes from having full trust in the Will of the Creator, a state that is assured by being rule compliant.

Those who believe may at times experience lapses in rule compliance. This is a human problem Aristotle called *akrasia*. It occurs when humans,

fully aware of what they should do, act in a contradictory manner and, often, against their best interest. It is the famous problem of believing and saying one thing but acting in contradiction to one's beliefs. The Qur'an admonishes the believers on this score: "O you who believe, why you espouse that which you do not. It is most hateful in the sight of Allah that you say that which you do not," (Qur'an, 61: 2–3). The sufficient condition of *taqwa*, i.e. the activated inner torch of consciousness of the ever-presence of the Creator, requires that there be no lapses in rule compliance whatsoever.² That is, the ideal society is one in which its members are fully rule compliant. They comply with rules specified generally for all in the society and specific circumstances such as those relating to economic behaviour. The first include, *inter alia*, the rule of enjoining the good and forbidding evil behaviour, consolation, cooperation, avoiding harm to others, and establishing social justice. These have already been mentioned in earlier chapters. Of these, by far, the first rule is the most crucial. It is an imperative without which compliance with all other rules, general and specific, will be weak or avoided altogether. It is a foundational rule that empowers all other decreed rules of behaviour compliance with which allows humans to tread the absolutely desirable path of closeness to Allah (swt). Commanding oneself and others to rule compliance derives directly from cognizance and acknowledgement of the love-bond (*Walayah*) between the Creator and mankind as well as its derivative love-bond among humans. This rule and its observance is so fundamental that the Qur'an makes references to communities in the past that were destroyed because they ignored or violated this all-important duty (Qur'an, 25: 37; 27: 54; 29: 28; 11: 81–83; 11: 51–58; 11: 61–68). Among these are communities in which members were not only non-compliant with the rule but the most powerful among them (rulers) did exactly the opposite, i.e. commanding evil and forbidding the good and righteous conduct.

Rules specify the appropriate conduct to achieving just results when individuals face choices and must take action. They impose restrictions on what society's members can do without upsetting the social order on whose existence all members count in deciding on their own actions and forming their expectations of action and responses of others. Compliance with rules determines the degree of certainty in the formation of these expectations, prevents conflict, reconciles differences, coordinates actions, facilitates cooperation, promotes social integration and social solidarity, and strengthens the social order. To obtain these results, two conditions must exist; one is necessary and the other sufficient. The former requires

that rules compliance is enforced, through persuasion if possible, but coercion if necessary. The latter, the sufficient condition, requires that the rules of conduct are enforced universally in all cases irrespective of circumstances and/or consequences. The degree of effectiveness of rule enforcement is determined by the degree to which the objective of achieving social justice becomes an integral part of the subjective interiority of the members of society. The Qur'an makes clear that rule compliance is the guarantor of social justice, social cohesion, unity and order in any human collectivity (Qur'an, 5: 2; 3: 103; 8: 46). This is so central among the objectives of the Metaframework that it can also be claimed that all rules of behaviour prescribed are those that lead to social justice, integration, cohesion, solidarity and unity. Conversely, all prohibited behaviour are those that ultimately lead to social injustice and disintegration.

The source of the duty of commanding rule compliance and strongly discouraging rule violation is *walayah*, the love, of the members of the society for one another, as the reflection of the *Walayah*, the Love of Allah (swt) for humanity. When believers faithfully discharge this duty, they are in effect expressing their love for others in urging righteous conduct because of the beneficial results that accrue to all members of the society. Similarly, in pressing others to avoid rule violation, believers wish to ensure that their fellow humans do not suffer the adverse consequence of non-compliance. This is because the believers see "the others" as themselves in accordance with Islamic teachings. The Qur'an calls attention to the fact that despite all apparent multiplicity, humans are fundamentally of one kind. They were created of one *self* (*nafs*) and will return to their Creator ultimately as one *self*: "Neither your creation (was) nor your resurrection (will be) other than as one united self," (Qur'an, 3: 28), and, "As He brought you into being, so will you return," (Qur'an, 7: 29). It is this unity, itself a reflection of the Unity of the Creator, that leads humans to extend *walayah* (loving care) to one another. The Qur'an (4: 1) addresses the humanity: "O humanity! Be aware of your Cherisher Lord (*Rabb*) who created you from a single self and from her created her mate and from them Has spread forward a multitude of men and women, and be consciously aware of Allah, in Whom you claim (your rights) of one another, and the wombs. Lo! Allah Has been a Watcher over you." It appears that the "wombs" in this verse means the "womb of humanity," which connects all humans to one another as the beginning of the verse indicates. Another verse of the Qur'an, "O humanity! Lo! The Promise of Allah is true. So let not the life of this world beguile you, and do not be beguiled regarding

Allah. Indeed, Satan is your enemy, so treat him as an enemy,” (Qur’an, 35: 5–6), seems to assert that humanity’s shared objective is the felicity of the eternal life and its common enemy is the Satan. If so, then it implies that a Muslim’s love for other humans is central to the way of life that Allah (swt) has ordained; it is a belief through which a Muslim seeks nearness to the Creator. It is this love for other humans which is the ultimate enforcer of rule compliance. And, it is this love that leads to commanding rule compliance and forbidding rule violation.

The duty of “commanding the good and forbidding evil,” incumbent on individuals as well as the whole community, is the most important means of enforcement of prescribed rules of the Metaframework and the Archetype Model. It is also an effective promoter of social solidarity and preserver of social order. Existence of oppression, corruption, massive inequality and poverty in a society is *prima facie* evidence of non-compliance with or outright shirking of this duty. Coupled with the prescribed rule of consultation (Qur’an, 42: 38), this duty gives every member of the society the right and a responsibility of participating in the affairs of the community; *no one is absolved from the necessity of performance of the duty of commanding rule-compliance and forbidding rule-violation. This is particularly binding vis-à-vis the rulers.* Even though there is particular emphasis both in the Qur’an and in the sayings and actions (sunnah) of the Messenger on just (rule-compliant) political authority, the individual members of the society are not absolved from the duty of commanding the authorities, at all levels, to righteous conduct and forbidding them from rule violations whenever the individuals recognize the necessity of doing so.³

The Qur’an identifies legitimate authority as those who know and adhere unflinching to the prescribed rules and are recognized as such by the people over whom they rule as those with a strong track record of rule compliance. Such humans are identified in the Qur’an as the *Ulu al-Amr*. This concept is made up of two terms *Ulu* and *al-Amr*. The first term (meaning possessor) indicates that these humans are such adoring-servants (*‘Ibad*) of the Cherisher Lord, i.e. are consistently and fully rule compliant, that they are deemed worthy to carry the responsibility of exercising authority in the overall implementation of rules in the society. The second term *al-Amr* refers to command and decree, i.e. the set of rules decreed and prescribed for the community of believers. It is important to note that it is the strength of rule compliance in these humans, recognized by the members of the society, which legitimizes their authority. It is not their cunning, adeptness in playing political games, mental or physical prowess, their riches or other

worldly advantage that gives them the status of *Ulu al-Amr*. They draw their legitimacy first from their Creator who knows their full devotion to and compliance with the rules He prescribes. Second, they draw their power to implement the rules in society from the willingness of the people to follow them. This willingness itself comes from the fact that people recognize and acknowledge the depth of these leaders' knowledge of the rules and the strength of their rule compliance. This recognition leads the people to exercise their free choice to follow and obey these leaders.

Addressing those who are already rule compliant, the Qur'an decrees: "O believers, obey Allah and obey the Messenger and those among you possessors of the full knowledge of the rules decreed (*Ulu al-Amr*). If then you disagree about anything refer it to Allah and the Messenger if indeed you believe in Allah and the Last Day, this is the best and fairest (way) for final settlement," (Qur'an, 4: 59). This verse makes it clear that the final authoritative reference for rules and the degree of compliance with them are the Metaframework (specified in the Qur'an) and the Archetype Model (the way the Messenger understood and implemented the rules). The legitimate authority has been left no degrees of freedom to rule according to its whims. Every decision must draw its legitimacy from the two fundamental sources—the Qur'an and the tradition of the Messenger. The community and its members, commit through a contract, to following and obeying the legitimate rules so long as the authority in charge is itself fully rule-compliant. In turn, the legitimate authority commits not only to comply with all the prescribed rules, among which is the imperative of consultation, but also to preserve the cohesion and the wellbeing of the community in accordance with the duties of trusteeship and agency. It must be clear that the strength of rule-compliance of the legitimate authority must surpass that of a representative believer—meaning that those in authority must possess stronger *taqwa*, otherwise not only their own legitimacy becomes questionable but also the foundation of rule implementation by members become shaky. The legitimate authority serves as a symbol of operationalization of the rules prescribed by the Metaframework and the Archetype Model. And, the strength of its legitimacy is derived from implementation of the rules. No authority has any legitimate basis for creating rules that contradict those specified in the two fundamental sources.

Verses 44–48: Chap. 5 mentions the Torah and Injeel as examples of books that have been sent earlier to have contained rules prescribed by Allah (swt) for earlier people to follow. These two books are mentioned as

examples of all other books sent to humans. A book *Kitab* (plural, *Kutub*), is a collection of rules of behaviour along with narratives of consequences of rule compliance or non-compliance (rule-giving in the Qur'an is mentioned as *KATABA* (He wrote, Ordained) or *KUTIBA*, (it is written, ordained; see for example Verse 54: Chap. 6 and, Verses 178, 180, 183, 21). For example, The Qur'an contains narratives of what happened to earlier peoples who did or did not follow the rules contained in the books sent to them as lessons for those who have been given the Qur'an with its rules of conduct. The last Verse (48) mentions that for everyone Allah (swt) has designated a *Shir'ah* and a *Minhaj*. The latter, *Minhaj*, is a "well-laid, clear, apparent, solid, well-defined, and an open Road." The former, *Shir'ah*, is "the manner, tilt law, and rules" that complied with make reaching the objective, the end of the road, possible. It is worth noting that the Qur'an mentions both the *Minhaj* and the *Shir'ah* as necessary for the human journey on this plane of existence. A well-defined, manifest, clear Road and the way, the law, the rules with which to traverse the Road are needed to help humans to reach the final objective at the end of the Road. Also worth noting is that *Minhaj* gives a sense of dynamism and movement not one of static stagnation. As we have said earlier, along with Books—collection of rules prescribed by the Creator—supremely exceptional humans are appointed by Allah (swt) as messengers and prophets and sent each with the mission to remind the people of the primordial covenant of *Rububiyyah/Ubudiyyah* they had entered with Allah (swt) containing commitments to rule compliance and to establish *Qist* (socio-economic justice) in the society (see Verse 25: Chap. 57). Final part of the mission of the Prophets and messengers is to lead humans out of the darkness of attachments to the worldly existence.

While Islam focuses on justice, the new institutionalism (NIE) focuses on transactions costs as the reason for development of institutions, which "are put together piecemeal and episodically, by a mixture of chance and intelligent opportunism, not deliberately designed, not engineered, but strengthened by habits and convenience..." These institutions are founded on "conventions" that societies adopt to deal with coordination problems. Which conventions are adopted depends on their strength to reduce transaction costs and how well they deal with path-dependency, and this would explain the evolution of institutions as small changes but "highly consequential slithers." According to the NIE, it is possible to design institutional incentives, i.e. "rewards and penalties that will help other people to resist path dependency and fulfil the cultural purposes for which

institutions have been set up.” An important insight of the new institutional economics (NIE) is that rules reduce uncertainty and transaction costs, promote coordination and make collective action possible, and that rule-compliance promotes social solidarity.

In the wake of rapid industrialization and resulting socio-economic dislocations, much of the intellectual effort of major thinkers in the eighteenth and nineteenth centuries was focused on the search for appropriate ways and means of establishing social order in face of radical changes. Perceptively, Douglass North considered, “establishing and maintaining social order in the context of dynamic changes has been an age-old dilemma of societies and continues to be a central problem in the modern world. Disorder (via revolution, for example) is endemic to all societies at some time; but although all societies quickly reestablish stable order, in others disorder persists for long periods of time and even when order is reestablished, its survival is extremely fragile. The persistence of disorder is, on the face of it, puzzling because disorder increases uncertainty and typically the great majority of players are losers. It is not so puzzling when perceived in the context of human consciousness. We have not only a vision of the way an economy and society is working, but a normative view of how it should be working and views about how it could be restructured to work better. This consciousness can lead to the construction of a set of beliefs that induce players to believe that revolution is a perfect alternative to a continuation of what is perceived as a deteriorating condition. At the other extreme, consciousness can lead to the construction of a set of beliefs in the “legitimacy” of a society. North argues that what determines whether social order will be established quickly, after a period of disorder resulting from radical changes and crises, depends on the stability of the institutional structure of the society. Societies with “a heritage of stable institutions will recover rapidly in contrast to those without such a heritage.” The collectivity of institutions provides society with the social capability to establish a stable order by reducing uncertainties or ambiguities that members of society face.

Again, North suggests that societies construct infrastructural “scaffolding” in form of an institutional matrix that reduces uncertainties. This matrix is composed of “a complex mix of formal and informal constraints that determine the pattern of human interaction.” To him, social order means reduction in uncertainties through institutions. Institutions, North defines, as formal and informal rules and their enforcement characteristics. Uncertainties or ambiguities which are a characteristic of human interaction are reduced because these interactions become more predictable when

they are subject to rules. Once rules are in place, they then allow coordination among individuals because they now share a belief in the rule and its outcome. It is the ability of rules to reduce ambiguity about the behaviour of others that allows coordination in human interaction and emergence of collective action. The clarity of rules, social norms and enforcement characteristics are important to the degree of compliance exhibited by the members of a society. The higher the degree of rule compliance, the more stable the social order and the lower the transactions costs in the society. For example, social norms that prescribe trust, trustworthiness and cooperation have a significant impact on encouraging collective action and coordination by inducing people to do the things they would not do without the relevant social norms.

Institutions (rules and norms plus their enforcement) have been found to play a crucial role in determining total factor productivity (TFP). The closer the compliance of actions—in production, exchange, distribution, and redistribution—of society with the governing rules, the higher the total factor productivity, the rate of growth, and the level of economic development. According to Allawi, “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 of problems that face humanity, both in the rich and 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.”⁴ In Islam, rules do not represent direct exercise of power by the Creator to enforce them. Rather, there is a large measure of autonomy with actualization of incentives as a response to rational (meaning reasoned) decisions of humans. There is asymmetry in the sanctioning of rules, where the rewards of compliance with the rules are manifold compared to the negative rewards of non-compliance. This way incentives for compliance are reinforced.

In Islam, the objective of these institutions is to achieve social justice. At the same time, among their functions is reduction in uncertainty for

members of society in order to allow them to overcome the obstacles to decision making caused by paucity of information. Rules specify what kind of conduct is most appropriate to achieving just results when individuals face alternative choices and must take action. They impose restrictions on what members of society can do without upsetting the social order on whose existence all members count in deciding on their own actions and forming their expectations of responses and actions of others. Compliance with the rules determines the degree of certainty in the formation of these expectations, prevents conflict, reconciles differences, coordinates actions, facilitates cooperation, promotes social integration and social solidarity and strengthens the social order. The degree of effectiveness of rule enforcement is determined by the degree to which the objective of achieving social justice becomes an integral part of the mindset of members of society. The Qur'an makes it clear that rule compliance is the guarantor of social justice, social cohesion, unity and order in any human collectivity (Qur'an, 5: 2; 3: 103; 8: 46). Conversely, all prohibited behaviours are those that ultimately lead to social injustice and disintegration.

Rules regarding distribution and redistribution of income and wealth, derived from property rights principles, ensure that unemployment and poverty are at a minimum; rules regarding contracts and their enforcement, and the admonition to honesty and transparency in economic dealings, ensure that there are no informational problems and that transaction costs are minimized; rules governing market behaviour obviate undue and unjustified monopoly power and economic exploitation; and finally, rules embracing good governance and the collective responsibility of ensuring rule compliance eliminate the exploitation of political power for economic gain. As was also argued earlier, the economic and financial stability of such a society is assured.

Islam envisions economic growth and poverty alleviation in human societies through its rules of property rights. The latter is accomplished through the discharge of the obligation of sharing derived from the property rights principles which envision the economically less able as the silent partners of the more able. In effect, the more able are trustee-agents in using resources created by Allah (swt) on behalf of themselves and the less able. In contrast to property rights principles of the conventional system, here property rights are not means of exclusion but of inclusion of the less able in the income and wealth of the more able as a matter of rights that must be redeemed. In the conventional system, rich help the poor as a demonstration of sympathy, beneficence, benevolence and charity. In

Islam, the more able are *required* to share the consequences of the materialization of idiosyncratic risks—illness, bankruptcy, disability, accidents and socio-economic disadvantaged—for those who are unable to provide for themselves. Those who are more able diversify away a good portion of their own idiosyncratic risks using risk-sharing instruments of Islamic finance. The economically well off are commanded to share risks of those who are economically unable to use the instruments of Islamic finance. It can be argued plausibly that unemployment, misery, poverty and destitution in any society are *prima facie* evidence of violation of property right rules of Islam and/or non-implementation of Islamic instruments of risk sharing. In Islam, the risks that would face the future generations are shared by the present generation through the rules of inheritance. These rules break up the accumulated wealth as it passes from one generation to another to enable sharing risks of a larger number of people. When met, the *necessary and sufficient conditions of Islamic Economy would result in a stable, growing economy in which Islamic criteria of justice would prevail.*

The institutions specified by the Qu’ran and implemented by the Messenger (saw) constitute the economic system of Islam. The prosperity, efficiency, growth and development of such an economy are guaranteed by Allah (swt) in Verse 96 of Chap. 7 of the Qu’ran: “And if the people of townships (any human collectivity) *Aamanu* (had believed) and *Attaqaw* (if they had guarded themselves against evil and evil doing by being fully rule-compliant because their consciousness would have been fully aware of ever-presence of Allah (swt) surely We would have opened for them *Barakaat* (blessings) from the heavens and the earth. But they belied (denied the truth of the Messages of Allah (swt), i.e. rejected and refused to comply with the rules of conduct ordained by Allah (swt). Therefore, we seized them (consequent to rule violations) with what they had attained results of their non-compliance.” It can be discerned from this Verse that if humans are active believers, meaning that they not only know the rules of conduct (institutions) specified by Allah (swt), they strive to behave according to these rules. Here, a nuance can be noted. There is reference to *‘iman* (belief). The person who does *Iman*, i.e. who acts according to the dictate of the belief, is rule-compliant, is one who has internalized the rules of behaviour as ordained by Allah (swt), In other words, *Iman* has entered the heart (see Verse 14: Chap. 49) that is the rules have been internalized. A person who has *Iman* has internalized the rules and behaves in compliance with them at least most of the time. Therefore, that person can be referred to as an “active believer”, i.e. a *mu’mina/mu’min*.

Iman means believing that Allah (swt)—the One, the Only and the Unique Creator of everything—Has Created and Placed Humans on this earth. Has given them Guidance and rules of conduct, Sent them books and messengers to remind them of their commitment to be rule compliant in order to pursue their own perfection on this earth and felicity in the life to come; it is believing that the orbit of human existence is much longer and broader than the material aspects of life in this world; it is believing that at some point there will come a Day when Allah (swt) Will call forth all humans for the Final and Complete Judgment of their performance in this life; it is believing that Allah (swt) is never away, that He is Omniscient, Omnipotent and Omnipresent; it is believing that all human actions, no matter how mundane, are recorded and preserved and for which humans, individually and collectively, are held accountable. The rules of conduct prescribed by Allah (swt), specified in the Qu’ran, and implemented by the Noble Messenger constitute an integrated, consistent, coherent and unified whole.

ECONOMIC IMPLICATIONS OF RULES

What follows is a brief coverage of the economic implication of some of these rules in case of an active believer—someone who combines belief (*Iman*) with “righteous action” (*Amal Salih*) i.e. rule-compliant action (see for example Verse 57: Chap. 3; Verse 57: Chap. 4).

An active believer knows that Allah (swt) alone is responsible for providing sustenance and material wellbeing of His Creation including humans (see for example Verse 6: Chap. 11). The active believer works and expends effort not because rewards are tied to the effort but because Allah (swt) has ordered it. The believer knows that amounts and levels of sustenance, much or little, are the Will of Allah (swt) (see for example Verse 30: Chap. 17). This knowledge in effect couples the assumed relationship between work and sustenance. For the active believer knows Allah (swt) is the source of all reward and appreciation of the effort the believers expend in whatever they do (see for example Verse 195: Chap. 2; Verse 30: Chap. 18) so long as the work is done in compliance with the rules ordained by Allah (swt) and His Beloved Noble Messenger (see for example Verse 33: Chap. 47).

On the other hand, an active believer for whom the work is being performed knows that he/she has to pay those who work for her/him their due wages and rewards. A further set of rules decouple the relationship usually assumed in the secular thought between consumption and income

that as income grows so does consumption. For active believers, this is only true to a limited extent because there are limits to their consumption. That is, at low levels of income consumption grows with income but after a threshold is reached, consumption levels off as additional income earned are channelled back to the economy through investment or transfers to more needy humans (see for example Verse 31: Chap. 7; Verse 67: Chap. 25; Verse 64: Chap. 23; Verse 16: Chap. 17; Verse 34: Chap. 34; Verse 26–27: Chap. 17). The limit on personal consumption derived from the rules has immediate implication for savings, investment and transfer of resources to those less able. Surpluses in the form of savings must be put immediately to work because they cannot be hoarded. This has implications for investment, capital formation, growth and development. Moreover, the believers know that they must be trustworthy and never betray the trust placed in them (see for example Verse 27: Chap. 8; Verse 58: Chap. 4; Verse 8: Chap. 23; Verse 32: Chap. 70). Furthermore, active believers know that whenever they enter into a contract or give a promise, they must do so with full honesty, truthfulness, and intention to remain faithful to the terms and condition of contracts (see for example Verse 1: Chap. 5; Verse 177: Chap. 2; Verse 34: Chap. 17; Verse 8: Chap. 23; Verse 32: Chap. 70). This has implication for the cost and efficiency of transactions as it eliminates informational problems such as moral hazard, adverse selection and, in general, asymmetric information problem.

The economic implications of only a few aspects of the term *Aamanu* in Verse 96 of Chap. 7 are that the active believers work hard, consume relatively little of their income—depending on their income level—save and make available for investment or transfer the resulting surplus. They are trustworthy, truthful and faithful to contracts they enter into and perform their part of the contract without withholding any information from other parties to contracts or transactions.

The term *Attaqaw* in the Verse refers to actively protecting oneself against committing wrongs by complying with the rules prescribed by Allah (swt). The verbal noun of the term *Tagwa*, which is the power internal to an active believer to protect against transgressions, comes with the growth of ‘*iman*’ in the heart. As we have said earlier, there is a feedback process between *Iman* and *Tagwa*. The latter (*Tagwa*) is likened to an inner torch of awareness of ever-presence of Allah (swt). It is a powerful consciousness of a love-bond with Allah (swt) that enforces rule compliance for fear of displeasing Allah (swt) by non-compliance with His orders. So, one can consider *Tagwa* as referring to an intense and increasing awareness of Allah

(swt) in everything one does. *Taqwa* strengthens and reinforces active belief, *Iman*, (see for example Verse 102: Chap. 3). Where being a *Mu'min* may not mean that one always and everywhere remains faithful to and does not transgress the rules (see for example Verse 2–3: Chap. 61; Verse 136: Chap. 4), when *Iman* is strengthened by *Taqw'a* it means never violating the rules. *Taqwa* is what ensures full rule compliance. When *Taqwa* itself is strengthened it becomes *Ihsan*. This term is generally understood as “doing good.” It has, however, a much deeper meaning. The Noble Messenger responding to a question about the meaning of *Ihsan* is reported to have said that: it is adoring Allah (swt) as if you see Him and knowing that even if you do not see Him, He sees you. Once consciousness expands to this level (merging with Meta-Consciousness, that is *Fitrab*, the primordial nature of humans at the time of their creation) it intensifies the awareness of Allah (swt) to new heights making it impossible to transgress against His rules of conduct. This process is clearly, succinctly, and comprehensively described in Verse 93 of Chap. 5 of the Qu’ran.

Two more key terms in Verse 96: Chap. 7 need explanation. The term *Barakah*, translated as “blessing,” refers to increasing returns, a non-linear scalar applied by Allah (swt) to rule-compliant actions. The magnitude of the scalar depends on the type of just and righteous conduct undertaken with the aim of pleasing Allah (swt). It is a positive rule-enforcement in the incentive structure with which Allah (swt) has endowed compliance with His rules. As was mentioned above a “righteous conduct” (*‘Amal Salih*) can be operationally defined as conduct in compliance with the rules established by Allah (swt). The stronger the compliance of a given action with the rules, the greater is the presence of *Barakah*. Allah (swt) has Created natural resources for all of mankind (see for example Verse 29: Chap. 2; Verse 13: Chap. 45). All can benefit from these resources. There is, however, a significant qualitative difference when work and action, combined with these resources, is undertaken in full compliance with the rules prescribed by Allah (swt), they have greater returns through the mechanism of *Barakah*. Since the availability of natural resources and their utilization influence the performance of an economy, an economic understanding from the Verse can mean that the closer conducts in a society come to full compliance with the rules prescribed by Allah (swt), the more efficient the economy, the higher its growth and faster its economic development and the increase in its prosperity.

Islam organizes the relation of humans to Reality. It establishes human contact with the “unseen,” the “invisible” as the pivot of activity. It

explains and mediates between human conduct according to the rules. While it establishes one-to-one correspondence between non-compliant behaviour as the “cause” and its results as the “effect,” the Qur’an refers to a non-transparent phenomenon of an “excess” in “effect,” which cannot be attributed to the rule-compliant conduct as the “cause.” That is, a rule-compliant conduct, the “cause,” earns a “return” over and above what would have been expected from the “cause” (the rule-compliant behaviour). This phenomenon Qur’an refers to as *Barakah*, as a multiple return (the effect) to rule compliant conduct (the cause) guaranteed by the Creator (Qur’an, 6: 160).

The next key term in the Verse is *Qaryah* (plural *Qura*) usually translated as “a township,” refers to a collectivity of humans in a geographic location or a society. It is an important element of the Verse because it has reference to the fact that Islam is a call to the collectivity of humans no less than it is to individuals. Islam is the first system of thought that has given societies an independent corporate identity. In the Qur’an, there are references to societies associated with the messengers and prophets sent to them by Allah (swt). These societies are identified as *‘tie Qawm* (people, in a number of/-efse-s—they are also identified as *ummah*) of the prophet sent to them such as *Qawm Ibrahim*, *Qawm Lut*, *Qawm Nuh*, *Qawm Sho’ayb*, *Qawm Salih*, and *Qawm Musa* (see for example Verse 43: Chap. 22; Verse 44: Chap. 23; Verses 12–13: Chap. 38; Verses 77–78: Chap. 21, also relevant verses in Chap. 11) and received reward and retribution in accordance with their behaviour and compliance with the orders of Allah (swt) collectively as well as individually.

In a series of verses the Qur’an urges humans to form collective, unified and successful social life, undertake cooperative social action as well as maintain the solidarity of society and avoid social disunity (see for example Verse 103–105 Chap. 3; Verse 153: Chap. 6; Verse 159: Chap. 6; Verses 191–193: Chap. 2; Verse 39: Chap. 8; Verse 2: Chap. 5). These and other verses emphasize social unity and solidarity and its maintenance. The unity of mankind and its preservation is a crucial objective of the Qur’an so much so that in one sense it can be plausibly argued that all prohibited conduct is those that, unchecked and uncorrected, lead to disintegration of social solidarity. Conversely, all rule-compliance behaviour strengthens social solidarity and unity of the society. The Qur’an calls attention to the fact that despite all apparent multiplicity and differences, humanity is of one kind, came from one substance and will be resurrected as one unity as well (see Verse 1: Chap. 4; Verse 28: Chap. 31). Behaviour of individual

members of mankind is also similar. These facts establish the concrete basis for social relations. Active believers, especially, are to strive for expansion of strong social solidarity (see for example Verse 200: Chap. 3) through patience, endurance, perseverance, and strengthened awareness.

As mentioned a number of times before, societies face two inter-related problems—uncertainty and coordination. Uncertainty stems from the fact that the future is unknown. Facing an unknown and generally unknowable, future, people make decisions and choose among alternative courses of action based on their expectations of future consequences of their actions. These expectations are inevitable subject to uncertainty.⁵ Uncertainty, if severe enough, can lead to a state of inaction and paralysis both in the case of individuals and their collectivities. The problem becomes more complicated when uncertainty about the future is coupled with ignorance about how other individuals, or their collectivities, behave in response to unknown states of the world. As mentioned in an earlier chapter, the state of ignorance can take on a variety of forms. The taxonomy we cited cast doubts on the generally held belief that information and knowledge are one and the same and that ignorance is an antonym to knowledge. In point of fact, however, not only are they not the same, information and knowledge are quite different.

The general public, as well as social and physical scientists, consider ignorance as the opposite of knowledge and uncertainty as a state of “unknowledge.” For example, Shackle suggests “...where is knowledge there is not uncertainty, unknowledge, is what confronts the chooser of action...”⁶ As we stated earlier, it is worth noting that the Qur’an does not consider ignorance (*jahl*) as an antonym to knowledge (*‘lm*), particularly if knowledge is taken to mean information. Instead, it represents ignorance as an elemental factor in unbelief and often suggests that ignorance does not come from lack of information but out of a stubborn, continuous rejection of truth about which unbelievers have been fully informed. Indeed, as Taleb⁷ suggests, information can, and often does, become toxic to knowledge. Moreover, the Qur’an indicates that humans are subject to testing throughout their lives. It is difficult to imagine testing in the absence of risk and uncertainty.

The problem of decision-making under uncertainty is compounded by two additional factors, the competence of the decision-maker and the difficulty of selecting the most preferred among alternative possibilities, especially if there is once-for-all decision since, once made, it destroys the possibility of making that decision again.⁸ The gap between competence

and difficulty enhances uncertainty leading to errors, surprises and regrets. The level of uncertainty regarding the state of the world, as well as with respect to decision-action of other individuals, makes collective action, necessary if the society is to survive and flourish a challenge. It then becomes crucial for societies to find ways and means of solving the problem of uncertainty and promoting coordination among individual decision-makers. Because of the interdependence among members of the society, decisions made and actions taken by individuals directly and indirectly affect others. Only omniscient individuals with no uncertainty are able to take the most preferred action regardless of the degree of complexity of the decision environment. This is not, however, the case for the members of society who must make decisions in an uncertain and complex environment. Consequently, societies have to devise mechanisms that render individual behaviour under uncertainty more predictable in order to attenuate uncertainty and promote coordination. The problem of coordination rises due to conflict between the self-interests of individual members and society's collective interests.

By and large, societies develop rules of behaviour that are more or less restrictive depending on the perception of the degree of uncertainty and the impact of individual decisions on other members of the society. Heiner suggests: "In general, greater uncertainty (from either less reliable perceptual abilities or a more unpredictable environment) will both reduce the chance of recognizing the right situation to select an action, and increase the chance of not recognizing the wrong situation for selecting it ... greater uncertainty will cause behavioral rules to be more restrictive in eliminating particular actions or response patterns to potential information. This will further constrain behaviour to simpler, less sophisticated patterns which are easier for an observer to recognize and predict. Therefore, greater uncertainty will cause rule-governed behaviour to exhibit increasingly predictable regularities, so that uncertainty becomes the basic source of predictable behaviour."⁹

Accordingly, rules of behaviour are designed to accomplish three objectives: (a) to reduce the cognitive demand on individuals in the face of uncertainty; (b) to specify acceptable and unacceptable behaviour; and (c) to make actions by individuals predictable. In totality, these three reduce uncertainty of environment by making the response of individuals to states of nature of their environment predictable. Rules of behaviour as institutions impose constraints on behaviour and shape interactions among individuals in the society; they "define and limit the set of choices of

individuals.”¹⁰ They are, “phenomena that coordinate, regulate and stabilize human activities.” They “facilitate” or “hinder human coordination;” they “can be regarded as both restriction and opportunities, in both cases facilitating action by reducing uncertainty.”¹¹ In situations of uncertainty, individuals form expectations about the consequences of their own decisions-actions as well as those of other members of the society. One crucial characteristic of institutions (rules of behaviour) is to “absorb uncertainties.” Another is to reduce “the demand on the cognitive capacity of the human mind. Parallel with this, institutions also stabilize expectations and coordinate actions...”¹²

The collection of the rules of behaviour prescribed for individuals and collectivities in a given society constitute the institutional structure of that society and define the overall system to which the society adheres (see Heath 2008). The rules of behaviour—whether enshrined in instruments such as social contracts, constitutions and legal framework, or are embedded in social conventions, customs, habits and cultural values—are sustained by enforcement mechanisms that provide proper incentives of rewarding rule compliance and punishing rule violation. The incentive structure is such that “not only are deviates from the desired behaviour punished, but a person who fails to punish is in turn punished.”¹³ Not only the incentive structure must be such that rules of behaviour become self-enforcing, it also must be such that it renders the enforcement mechanisms in place effective by providing “appropriate incentives ... for the enforcers to perform their mission properly.” When and if “a mechanism that was designed with the purpose of achieving a prescribed social goal is not self-enforceable, then it needs to be supplemented...by enforcers (the courts, police, ombudsmen, etc.)...”¹⁴ The stronger the rule compliance by individuals in the society, the more self-sustaining and self-enforcing the rules become. For this outcome to be attained, the rules must be internalized by individuals as endogenous elements of their own minds which find external expression when the rules become shared beliefs among individuals in society. The stronger are the shared beliefs, the stronger would be coordinated collective actions and the more stable the society. As Aoki suggests an individual action-choice rules by coordinating their belief. These beliefs channel their actions in one direction against the many other directions that are theoretically possible...”¹⁵ Following North, Aoki conceives of institutions as “rules of the game” and defines “an institution” as “a self-sustaining system of shared beliefs about how the game is played. Its substance is a compressed representation of the salient

features of an equilibrium path, perceived by almost all agents in the domains as relevant to their own strategic choice. As such it governs the strategic interaction of agents in a self-enforcing manner and in turn is reproduced by their actual choices in a continually changing environment.” He defines “the domain” as a set of agents—either individuals or organizations—and sets of physically feasible actions open to each agent in successive periods.”¹⁶

Each economic system has an “institutional matrix” that “defines the opportunity set, being one that makes the highest pay offs in an economy’s income distribution or one that provides the highest payoffs to productive activity.”¹⁷ These institutions “structure human interaction by providing an incentive structure to guide human behaviour. But an incentive structure requires a theory of the way the mind perceives the world and its functioning so that institutions provide those incentives.”¹⁸ It is here where paradigms become relevant because paradigms in economics do have conceptions of man, society and their interrelationships. Such conceptions are themselves products of a meta-framework whose elements may or may not be explicitly specified but which, nevertheless, exist in the mind of the designer prior to the construction and presentation of a paradigm.

Facing an unknown, and generally unknowable future, individuals make decisions by forming expectations about payoffs to alternative courses of action. They can do so using subjective estimates of payoffs to actions based on personal experiences. Alternatively, the person can use known probability techniques to form an expectation of returns to an action. Either way, the expected outcomes will form an expression in terms of probability of occurrence of consequences to an action. In other words, uncertainty is converted into risk. Risk, therefore, is a consequence of choice under uncertainty. Generally, “even in the most orderly societies the future is by no means certain. Even if an individual or organization has defined goals they must reflect their attitude toward risk. In some cases risk may be evaluated statistically ... when a population is large enough, some odds can be calculated with fair accuracy as is exemplified by some calculations in life insurance area. In general, however, many of the aspects of uncertainty involve low probability or infrequent events.”¹⁹ This makes decisions difficult and actions risky. Risk exists when more than one outcome is possible. It is uncertainty about the future that makes human lives full of risks.

Question may arise how can existence of uncertainty and its overwhelming influence in human life be explained within the context of Islamic thought? Why is life subjected to so much uncertainty necessitating risk

taking? Since Allah (swt) is the Creator of all things why create uncertainty? A full discussion of possible answers is well beyond the present endeavour. Suffice it to say that in a number of verses the Qur'an makes reference to the fact that this temporary existence is a crucible of constant testing, trials and tribulations (see for example Verse 155: Chap. 2 and 2: 76). Not even the believers are spared. In Verse 2 of Chap. 29 the Qur'an asks: "Do humans think that they will be left alone when they say: we believe, and they therefore will not be tested?" The fact that this testing is a continuous process is reflected in Verse 126 of Chap. 9: "Do they not see that they are tried every year once or twice? Even then they do not turn repentant to Allah, nor do they remember" (see also Verse 155: Chap. 2). To every test, trial and tribulation in their life-experience, humans respond and in doing so they demonstrate their measure of being self-aware and Allah-conscious. If the response-action is in compliance with the rules of behaviour prescribed by the Supreme Creator, that is it is "*Absanu 'Amala*," the "best action" (Verse 7: Chap. 11), meaning completely rule compliant, then the trial becomes an occasion for self development and strengthened awareness of Allah (swt). Even then, uncertainty remains. No one can be fully certain of the total payoff to one's life within the horizon of birth-to-eternity. Muslims are recommended not to ever assume they are absolutely certain of the consequences of their action. They are to live in a state of mind and heart suspended between fear (*khawf*) of consequences of their actions and thoughts, and the hope (*raja'*) in the Mercy of the All-Merciful Lord Creator. All actions are risky because the full spectrum of future consequences of action is not known. The Qur'an refers to this idea of uncertainty by suggesting that "... at times you may dislike a thing when it is good for you and at times you like a thing and it is bad for you. Allah knows and you do not" (Verse 216: Chap. 2).

Implication of Rules for Economic Justice and Income and Wealth Distribution

As we have stressed throughout this book, establishing social and economic justice is a central objective of the Islamic system and a principal objective of all the prophets on this earth (for Verses of the Qur'an and Traditions of the Messenger (sawa) in support of the text of this section see Al-Hakimi et al. 1992; Jordac 2000; Lakhani 2006; Reza 2000; Al-Reyshahri, Al-Husseini 2001 and Sadr 2016).

Today what we commonly refer to as justice may be broadly divided into two, "commutative" and "distributive" justice. The conception of

commutative justice—the effective prevention of harm to members of society and to their property by others—has remained more or less intact through time, and it is generally agreed that governments have a critical role to support and enforce commutative justice. On the other hand, the conception of distributive justice—the “just” division of the economic pie (production and wealth) among the members of society that includes owners of capital, workers, those that cannot provide for themselves and the animal species—has evolved in the Western system, is evolving and is far from settled, and while some see a role for governments in its enforcement others do not.

While Western thinking on distributive justice has evolved from the time of Aristotle to the present, the Islamic framework and conception of a just society has not changed with time because Muslims believe that the Qur'an represents Allah's (swt) divine words and is time immutable. The Qur'an's basis for justice is that societies do not need a separate theory of justice, such as those espoused by Marx, Rawls and others, but that compliance with rules of behaviour handed down in the Qur'an and interpreted by the Prophet *assures* the emergence of justice as a *natural outcome* of the practice of a rule-compliant society. Justice and a just social and political system is thus an essential outcome of the Islamic system *if* Muslims comply with Divine Rules; thus justice is endogenous to the Islamic system. Simply said, a society will be just if the rulers and the people are rule-compliant. Justice, or *'adl*, literally means placing things in their rightful place and also affording equal treatment to others. In other words, Islam has two simple propositions for a just society: (i) place everything in their rightful position and (ii) give everyone their rightful due.²⁰ The first can be merged into the second. The rightful place and right dues are guaranteed by compliance with the rules. The question arises who will decide where the rightful place of everything is and who will decide what the rightful share of everyone is in the society? The answer to both is Allah (swt). He has ordained rules of behavior that guarantee justice and these rules were operationalized by the Noble Messenger (sawa). Hence by being rule compliant a society establishes justice. That society also guarantees its own survival, solidarity and prosperity through rule compliance. The Messenger (sawa) said that “a society may survive in disbelief but never in injustice.”²¹

Since Allah (swt) is Just (*'Aadil*), the rules He and His Messenger prescribe for the felicity and well-being of humans are also just. There are two terms in the Qur'an referring to Justice: *al-'Adl* (general Justice) and *Qist* (inter-relational or socio-economic justice) which constitute the foundation of all rules of behaviour. The antonym for both is *Zulm*

(injustice). ‘*Adl*’ requires that everything, every action and every thought be placed where Allah (swt) has specified. Any misplacement, that is rule violation, leads to injustice. ‘*Adl*’ is comprehensive. It refers observing the rules not only with respect to conducts that affects others but also those that affect oneself. That is one can be ‘*Aadiḥ*’ or ‘*Zalim*’ to oneself. *Qist* refers to compliance with rules that affect others. Complying with rules prescribed by Allah results in achieving both ‘*Adl*’ and ‘*Qist*’, while violating them leads to injustice.

Justice (*al ‘Adl*) is a fundamental objective of the Creator for humans; it is a crucial axiom of *Iman* that Allah (swt) is Just and prescribes justice for humans (see, for example, Verse 115: Chap. 6; Verse 90: Chap. 16). They are asked to be just (‘*Aadiḥ*’) to themselves as well as to others (see, for example, Verses 8: Chap. 5; 152: Chap. 6) and observe inter-personal justice (*al Qist*) when dealing with others of his/her kind and to the rest of the creation (see, for example, Verses 231: Chap. 2; 64: Chap. 4; 23: Chap. 7). As Mentioned earlier, inducing humans to establish inter-personal justice is a crucial function of prophets and messengers (see, for example, Verses 25: Chap. 57; 29: Chap. 7).²²

Foundation of all rules of behaviour in Islam is the conception of justice. All behavior, irrespective of their content and context, must be based, in their conception and commission be based on just standards as prescribed by the Qur’an. Economic justice is an inseparable part of social justice (*Qist*). Islam considers an economy in which the behaviour of economic agents are so conceived as an enterprising, purposeful, prosperous, and a sharing economy in which all members receive their just share. Such an economy is envisioned as one in which there is an absence of gross economic disparities that lead to social disparities, segmentations, divisiveness and disintegration.²³

The components of economic justice in an Islamic society are: (1) pre-production justice; (2) justice in production; (3) catallactic justice; (4) distributive justice; and (5) redistributive justice. The first is justice in resource allocation. It requires equality of liberty and opportunity of access to natural resources created for all human beings. Liberty means that a person is not prevented from combining her/his creative labour with resources created by Allah (swt) for all humans. Opportunity, on the other hand, represents favourable conjunction of circumstances that give the individual the chance to try to produce goods and services. Whether the individual succeeds or not depends on his efforts and abilities. Both liberty and opportunity must be secured deliberately by society.

The equality of opportunity not only covers free and equal access to resources, but generally extends to education, technology and environmental benefits as well. The basis for equality of liberty of access to resources and equality of opportunity in their use is Islam's position that natural resources are not of human creation but are provided by Allah (swt) for all members of humanity (that encompasses all generations); therefore, liberty and opportunity must be freely made available to all equally. If opportunity to use these resources is not available to some, either naturally or due to some other factors, their original claim to resources remains intact and is not nullified. They must be enumerated, at some point in time, for their right to these resources by other members of society having greater opportunity to use them. Once resources are allocated justly, production can proceed. Justice in production is assured when there is no waste in use of human and natural resources. Production is constraint to the extent required to ensure that human and natural resources are not used to produce prohibited products and services.

Catallactic justice refers to justice in exchange. The idea is that by utilizing their labour in conjunction with natural resources, individuals create claims of equity on the assets produced and in which they can participate through exchange. To allow exchange to take place on the basis of just standards, the Messenger (sawa) placed great emphasis on the market and its moral and just features and efficient operation. Even during his own lifetime, the Messenger devised rules of behaviour for market participants and required that these rules be internalized by all economic agents before entering the market.²⁴ These rules intend to remove all factors inimical to catallactic justice. They thus insure that the workings of the market yield just prices for factors, products and services (see Sadr 2016). These rules govern sources of supply of and demand for factors, products and services, behaviour of buyers and sellers, and a price-bargaining process free of prohibited factors. Hence, market imperfection refers to existence of any non-permissible element. Rules regarding supply and demand not only govern the permissibility of factors, products and services supplied and demanded, but also their origin. Not all demand for products and services are considered legitimate, nor are all act of supplying the market permissible. The means by which purchasing power embodies demand and the manner in which commodities and services are produced must originate from just standards.

As mentioned, rules governing the behaviour of market participants are designed to insure justice in exchange. Namely, the freedom of contract

and the obligation to fulfill all terms and conditions of contracts, consent of parties to a transaction, non-interference with supplies before their entrance into the market, full freedom of entry to and exist from the market, honesty in transactions, provision of free and full information regarding quality, quantity, and prices of factors and products to buyers and sellers before the start of negotiation and bargaining, and provision of full weights and measures are all prescribed to achieve justice in exchange. Behaviours such as fraud, cheating, non-natural monopoly practices, coalitions and combinations among sellers or buyers in attempts to influence prices, selling products below the market price to damage competitors, dumping actions, speculative hoarding to on the part of the sellers to influence prices, and bidding up prices on the part of consumers without the intention to purchase are prohibited.

Islam's emphasis on moral and just conduct in the market place is remarkable in its vigor. A producer or trader whose behaviour is rule compliant is considered by the Messenger (sawa) to be like "prophets, martyrs and the truthful friends of Allah (swt)." He has also said that "to do business in this world with justice and honour is to earn for oneself a place in the hereafter with the prophets, the faithful, the martyrs and the righteous."²⁵ Such a person is like prophets because, like prophets, the person is following the path of justice, like martyrs because both fight on the path of truth, honesty and justice and like the truthful friends of Allah (swt) because both are steadfast in their resolve o struggle against injustice. Not only market participants must guard themselves against rule violation, the capstone rule of "enjoining rule compliance and discouraging rule violation" creates an obligation for each *mu'min* to help others to avoid rule violation (see, for example, Verse 71: Chap. 9). It requires that Muslims participating in the market must also help others to avoid rule violation and ensure rule compliance. The Qur'an and the Traditions of the Messenger (sawa) maintain that when a person witnesses an injustice being done and fails to struggle against it, she/he becomes a part of that injustice.²⁶

The set of rules governing the conduct of market participants not only insures justice in exchange, it is conducive to coordination of actions of economic agents, a major challenge for societies. While in an Islamic economy, market is not an ideology and does not dominate the economy or economic decision-making process, it is an important institution in the economy. When independent plans of individual participants in an economy synchronize and become compatible, they are said to be coordinated. The problem of

coordination arises due to conflict between the interests of individuals and the collective interests of the society. Rules make predictable the behaviour of participants in the market. By reducing errors in predicting the response of other people to one's action, rules promote coordination as it becomes an unintended consequence of rule compliance in their decision making. As rules reduce uncertainty also, in combination, they make decision making more efficient. Compliance with the rules prescribed by the Qur'an and implemented by the Messenger (saw), create a similar, stable and predictable pattern of behaviour among market participants even though each decision maker is free to make her/his own plan.

While the Qur'an specifically condemns any form of corrupt practices, the set of rules governing the conduct of market participants further re-enforces this objective. Hard work, investment of savings and calculated risk taking are the sources of income and wealth (in addition to gifts and inheritance), and not influence peddling and dishonest practices.

Turning to distributive and redistributive justice, the mechanism by which equal liberty and equity are reconciled, without the least infringement of either, is distributive justice. Insofar as the pattern of distribution of natural resources is just, the claim to equity on an asset, on the basis of effort and reward, is just. Primacy in the moral basis of property is given to equity and is derived directly from human efforts and achievements. The basis of equity claim in Islam is composed of two principles. A claim to property is created from combinations of personal effort and natural resources. The other principle that legitimizes a property rights claim is through transfer (say through inheritance) or exchange.

Assuming allocative justice, whenever work has to be performed for production of wealth, the output of different people may vary greatly both in quality and quantity. Equity demands that, commensurate with their productivity, different people receive different levels of returns. Hence, starting from equality of liberty and opportunity of access to resources, equity may lead to inequality. Moreover, the allocation of resources arising from the operation of the market will reflect the initial distribution of wealth as well as the structure of the market. If both are just, there is no logical reason to assume that market outcome, by and of itself, will lead to equality in income and wealth distribution. Consequently, the result may be, and often are, inequalities equitably created. In turn, this will have inter and intragenerational implications. It is here that redistributive mechanisms of Islamic economic justice attempt to modify the pattern of wealth and income distribution in favour of the less-economically able and future

generations. Thus, Islam recognizes a right for the less able in the income and wealth of those more able to create greater income and wealth (see, for example, Verse 19: Chap. 51). This right has the first claim on the surplus wealth and income produced by individuals in the sense that these rights have to be redeemed before the wealth holder can use it for other purposes. In other words, income and wealth have to be cleansed through redemption of the rights of the less able before they become personal disposable income and wealth. Various levies are legislated for this purpose which must be paid as a matter of obligation. As mentioned earlier, these are not taxes or charity. The nature of these levies (such as *zakat*) is returning to others what rightfully belongs to them. Islam also encourages payments over and above these levies as something pleasing to Allah (swt). Shirking in these duties causes maldistribution of wealth and income. Islam asserts unambiguously that poverty is neither caused by scarcity or paucity of resources nor is it due to lack of proper synchronization between the mode of production and the relation of distribution.

The existence of poverty in any society is *prima facie* evidence of rule violation or non-compliance. It arises as a result of waste, opulence, extravagance, and non-redemption of what rightfully belongs to the less able segment of the population (see, for example, Verses 15–20: Chap. 89). As Rahman observes “in the absence of concern for the welfare of the poor, even prayers become hypocritical.”²⁷ Rahman is echoing the saying of the Messenger (sawa) that “nothing makes a poor man starve except that with which a rich person avails of luxury.”²⁸ This is why waste, abuse of wealth, extravagance and luxury consumption are condemned as unjust, particularly when they occur in the presence of poverty that they can help to relieve. In the morality of property, Islam unequivocally considers all individuals entitled to a certain standard of living. This is an entitlement that requires redemption of the right of less able as a matter of equity and justice and not of charity or beneficence.

To modify patterns of distribution in transition to the next generation, Islam prescribes specific rules of inheritance. These rules break up and distribute the accumulated wealth of its holder whose rights cease at his death. Before death, the right of the wealth holder to distribute her/his wealth as he/she pleases is recognized but is limited to a maximum of one-third of the net wealth. The rest has to be distributed according to strict rules prescribed in the Qur’an (see Verses 11–12: Chap. 4). Coulson observes that “the inheritance arrangement that appears to accomplish the fullest dispersion of ownership and work to cut persistent patterns of concentration is

unquestionably the Arab arrangement codified by Muhammad and tending to shape the property patterns of Islamic society.”²⁹

The basis of the law of inheritance in Islam is, of course, the Qur'an that prescribe the exact manner in which the share of heirs are to be determined in the distribution of inheritance. Among the same category of heirs, there is neither preferential treatment nor discrimination. Men and women are all heirs; none can be excluded since, beyond the one-third, the wealth owner cannot exercise any right to exclude any heir. It is crucially important to appreciate that the context of the rules of inheritance in the Qur'an is intergenerational. Again, as mentioned earlier, in the Islamic rules of inheritance wealth is not allowed to accumulate and create a basis for exercise of political power in society that would, eventually, threaten social solidarity and stability; this redistribution allows each generation to share in the risk that the next generation will face; and the institution makes it possible that a large number should receive a modest portion rather than a single heir or a small number should receive large blocks of wealth.

CONCLUDING REMARKS

The contour of an Islamic economy is one where everyone who is able works hard, using knowledge to combine with their own labour and the resources provided by the Creator, to produce goods and services for society. Economic, social, and political affairs are conducted with the goal of removing barriers to the progress of all humans and in full compliance with rules, including those governing property rights, market behaviour, exchange and trade, and contracts and trust. Knowing that they are responsible and accountable, individually and collectively, they invest allegiance in a legitimate authority to carry out their affairs, with the legitimacy of the authority established by rule-compliance.

The rule “commanding the good and forbidding evil,” applicable to individuals and society, assures that leaders are selected by the community and are answerable for their actions; leaders acquire legitimacy by being more rule-compliant than members of the community; and leaders must be confronted if they do not uphold Divine Rules and enforce them. In turn, this capstone rule assures the full and active participation of all in the affairs of society. The existence of absolute and relative poverty, along with significant income inequality, is evidence of rule-violation and governance failure, for which members of society are, individually and collectively responsible.

Based on the Islamic vision, we expect the ideal Islamic solution to differ in the following important ways from the conventional capitalist market-based system: greater degree of justice in all aspects of economic management, higher moral standards, honesty and trust exhibited in the marketplace and thus lower transaction cost, poverty eradication, a more even distribution of wealth and income, no hoarding of wealth (in particular financial wealth), less opulence in consumption, leaders and rulers with lifestyles that reflect the lives of the disadvantaged, no exploitive speculation, little or no corruption, risk sharing in all aspects of life including in financial contracts (as opposed to debt and risk shifting), little or no private and public debt tied to interest payments, enhanced financial stability, better social infrastructure and provision of social services, better treatment of workers, higher education expenditures relative to GDP, higher savings and investment rates, higher trade/GDP, higher foreign aid/GDP, higher degree of environmental preservation, and vigilantly supervised markets and contract performance. It would be expected that these differences would be reflected in more unity and cooperation among the members of society and higher quantitative and qualitative economic growth if the Islamic rules and objectives were adopted. One would expect a higher rate of growth as higher investment rate, higher educational expenditures, higher social awareness, better functioning markets, higher level of trust, and institutions that have empirically been shown to be critical for growth. While income and wealth redistribution—an Islamic preoccupation—has traditionally been seen as undermining growth, but increasingly empirical studies are finding a positive relationship between equality and growth. Much more research is needed to establish the relationship and its mechanisms, including human qualities and values such as trust, cooperation, risk sharing, solidarity and unity that are stressed in Islam.

In the Islamic system, the government may have little to do if the community has internalized the Divine Rules, follows them and adheres to the capstone rule. Moreover, the government would have little or no interest-bearing debt on its books. However, if rule compliance is lacking, then the government must supervise and enforce the rules. Additionally, the government is commanded to use policies (monetary and fiscal that are the practice today) to ensure that the economy is operating at or close to full employment.

Finally, we should again stress and repeat that any valid assessment of the Islamic system must be based on the Qur'anic prescription and not on

the prevailing state of Muslim economies, which by any assessment are grossly non-rule compliant. We turn to this assessment in the next chapter.

NOTES

1. Etymologically, a *Mu'min* is a person who has found refuge in the sanctuary of safety and security of the Love (*walayah*) of Allah (swt).
2. For an expanded explanation of the concept of "*taqwa*," see Fazlur Rahman. *The Themes of the Qur'an*.
3. One only needs eyes to see that this crucial rule is not widely practiced in most Muslim countries by ordinary Muslims and by rulers.
4. Ali Allawi, "Forward," to Mirakhor, Abbas and Hossein Askari, *Islam and the Path to Human and Economic Development*. New York: Palgrave MacMillan, 2010 (Mirakhor and Askari 2010).
5. Klir, G.J. *Uncertainty and Information*. Hoboken, New Jersey: John Wiley and Sons, 2006; Smithson, M. *Ignorance and Uncertainty: Emerging Paradigm*. New York: Springer-verlag, 1989 and "Ignorance and Science," *Knowledge: Creation, Diffusion, Utilization*, vol. 1, no. 2 (1993): 133–156. Also, Shackle, G.L.S., "A Student's Pilgrimage," *Banca Nazionale Del Lavoro Quarterly Review*, no. 145 (1983):108–116 (Klir 2006; Smithson 1989; Shackle 1983).
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Contemporary Muslim Economies and Rule Compliance

In earlier chapters, we have outlined the Divine Qur’anic Rules and their interpretation and practice by the Prophet Mohammad (sawa). These rules and their practice are the bedrock and scaffolding of an *ideal Islamic economic system* (as well as the political and social, as all three are interrelated). These rules go well beyond the institutions recommended by the New Institutional Economics (NIE), as they incorporate a heavy dose of justice and morality and also prohibit interest bearing debt in favor of equity and risk sharing as the foundation of the Islamic system. While Islam embraces the market (with just rules, supervision and enforcement), it is a far cry from any form of capitalist system. While Islam advocates a just distribution of income and wealth, poverty eradication and caring for the disadvantaged, it is far from any form of socialism. While Islam is a Creator-centered system with many teachings in common with Christianity, it is a far cry from the Christian system. The Islamic system is just that—the Islamic system. It should be assessed on its own—on the basis of the rules (institutions) from Qur’an and their interpretation as practiced by the Prophet (sawa).

Western writers have delineated the reasons for why rules and their observance are important. Their reasoning, though similar, is very different from the reasoning in Islam. There are numerous reasons for rules in Islam: establish social order; delineate what individuals should do, as opposed to what they wish to do; reduce uncertainty and promote predictability; enable the appropriate formation of expectations; provide a reference structure against which fairness and justice of individual behaviour can be

assessed; and promote coordination, social cohesion, efficiency of the economy by reducing transaction cost, equal treatment, human dignity and collective justice in society.

While some Muslim countries score well on some standard measures of success, such as per capita income and availability of healthcare and education, these cannot be the sole measure of success for a country that professes Islam as its way of life. Qatar, the UAE and Kuwait are at the top of the global per capita income ladder, something they have achieved through the simple sale of two assets in the ground—oil and gas. They have done little else and by some other measures that are emphasized in Islam, such as political freedom, the treatment of foreign workers, small divergence of income and wealth and modest living, they have failed. Performance on the basis of a few conventional measures, while interesting, tells us little about the adoption of institutions (rules) recommended in Islam for a flourishing economy and society. In a rule-abiding Muslim community there must be, at a minimum, political and individual freedom, no poverty alongside wealth, accountability of rulers and governments, and socio-economic justice. If rules are internalized and complied with, then justice would be a natural outcome.

As assessment of performance must be on the basis of the rules derived from the Qur'an and the practice of the Prophet (sawa), it would require translating each rule to a measurable indicator, gathering the needed data for each country, and constructing an index (with appropriately assigned weights to each rule/indicator). This is a monumental task and well beyond the scope of our modest effort. A casual observer might quickly add that this is all so unnecessary because the assessment of performance is evident given the dire condition of many Muslim countries. Simply look and see how many Muslim countries today enjoy a few of the unquestionable scaffoldings of a rule-compliant Muslim community—such as poverty eradication, small inequalities of wealth and income, provisions for the less fortunate, little or no corruption, the rule of law, and rulers who are more rule-compliant than the average citizen and invite criticism and dialogue and serve with the support of their communities, and most important of all, where there is freedom and equal justice for all? Any reasonable person would say less than five countries among the 56 or 57 (including Palestine) that are members of the OIC (Organization of Islamic Cooperation) would satisfy even these few recommendations. A few years back, the casual observer might have placed Malaysia and Turkey high on such a success list, but even these two Muslim countries

have faltered badly of late on at least three of the measures we have suggested. To our mind, it is clear that an Islamic economic system must be coupled with political freedom and representative governance.

Some may recall the famous pronouncement of Mohammad Abduh well over a 100 years ago, “I went to the West and saw Islam, but no Muslims; I got back to the East and saw Muslims, but no Islam,” and say that nothing has changed and that this is basically the case today with no need for a detailed assessment. Namely, numerous non-Muslim Western countries clearly outperform Muslim countries on compliance with most Qur’anic rules—rule of law, poverty eradication, absence of ostentatious living, equality of wealth and income, control of corruption, high quality education and medical care, freedom to choose, freely elected governments that serve the people, high quality jobs and low unemployment, freedom of religious practice and the rule of law.

Although the political and economic condition of most Muslim countries is dire today, we must repeat and stress our belief that Islam bashers cannot blame Islam for the prevailing condition of Muslim countries. First, they must show that Muslim countries have at least largely adopted and practiced the rules (institutions) recommended in Islam. And then and only then, and second, can they legitimately proceed to the next step and make pronouncements on the efficacy of Islamic teachings. For Mohammad Abduh the answer to the first order of business was clear—broadly speaking, Western countries displayed much more rule-compliance with Islamic rules than did Muslim countries of the Middle East. In these Muslim countries, we see with our eyes opulence alongside poverty, hoarding of wealth, massive unemployment, little freedom but much oppression, and above all massive inequalities and injustice. Muslims have lost the freedom that Allah (swt) gave to humanity. Inequalities are on display everywhere, even in Mecca. Saudi kings have built palaces overlooking the Kabaa and rich pilgrims can enjoy luxurious living at the Royal Fairmont Clocktower Hotel in \$3000 a night room that overlook the Kabaa. When pilgrims become so unequal in performing their Hajj—where equality is to be supreme—Muslims know all that they need know to confirm that rule non-compliance has reached a zenith.

Fortunately, we can go beyond our anecdotal evidence. About 10 or so years ago, Askari and Rehman introduced an ‘Islamicity Index’ to measure adherence to Islamic teachings across countries.¹ The elements, or in other words Islamic rules and institutions, of their indices are shown in Table 7.1.

Table 7.1 Islamicity indices and their elements*I. Economic Islamicity index*

1. Economic opportunity and economic freedom
 - 1.1. Gender equality indicators
 - 1.2. Economic regulation indicators
 - 1.3. Ease of doing business indicators
 - 1.4. Economic freedom indicators
 - 1.5. Business and market freedom indicator
2. Equal access to education and health care
 - 2.1. Education indicator
 - 2.2. Education public expenditures indicator
 - 2.3. Education equality indicator
 - 2.4. Education effectiveness
 - 2.5. Health care quality
 - 2.6. Provision of healthcare indicators
3. Job creation and equal access to employment
 - 3.1. Equal employment and job creation
 - 3.2. Labor freedom
4. Property rights and sanctity of contracts
 - 4.1. Property and contract rights
5. Prevention of corruption
 - 5.1. Transparency international indicator
 - 5.2. Freedom from corruption indicator
6. Provision of poverty, provision of aid and basic human need
 - 6.1. Poverty effectiveness indicator
 - 6.2. World giving index
 - 6.2.1. Helping a stranger
 - 6.2.2. Donating money
 - 6.2.3. Volunteering time
7. Taxation and social welfare
 - 7.1. Tax burden as percent of GDP
 - 7.2. Tax revenue
 - 7.3. Social welfare
8. Supportive financial system
 - 8.1. Investment freedom and financial freedom
 - 8.2. Financial market risk indicator
 - 8.3. Monetary freedom
9. Adherence to Islamic finance
 - 9.1. Absence of interest indicator
 - 9.1.1. Central bank discount rate
 - 9.1.2. Commercial bank prime lending rate

(continued)

Table 7.1 (continued)

10. Economic prosperity
10.1. Macro economic indicator
10.2. Price stability
10.3. Economic performance
11. Economic justice
11.1. Income distribution
<i>II. Legal and governance Islamicity index</i>
12. Legal integrity
12.1. Legal and judicial integrity indicator
12.1.1. Judicial independence
12.1.2. Impartial courts
12.1.3. Integrity of the legal system
12.1.4. Protection of property rights
12.1.5. Legal enforcement of contracts
12.1.6. Regulatory restrictions on the sale of real property
12.1.7. Business costs of crime
12.2. Military interference indicator
12.2.1. Military interference in rule of law and the political process index
12.2.2. Reliability of police
13. The Management Index
13.1. Government management
13.1.1. Level of difficulty
13.1.2. Management performance
13.1.3. Steering capability
13.1.4. Resource efficiency
13.1.5. Consensus building
13.1.6. International cooperation
13.2. Management of natural resources and depletable resources
13.2.1. Protection of animal rights
13.2.2. Environmental health
13.2.3. Air quality
13.2.4. Water resources
13.2.5. Productive natural resources
13.2.6. Biodiversity and habitat
13.2.7. Sustainable energy
14. Government governance
14.1. Voice and accountability indicator
14.2. Political stability and absence of violence indicator
14.3. Government effectiveness indicator
14.4. Regulatory quality indicator
14.5. Rule of law indicator
14.6. Control of corruption indicator

(continued)

Table 7.1 (continued)

15. Perceptions about the government
15.1. Actions to preserve the environment
15.2. Trust in national government
15.3. Efforts to deal with the poor
<i>III. Human and political rights Islamicity index</i>
16. Human development
16.1. Human development index
17. Civil and political rights
17.1. Civil liberties indicator
17.2. Political rights indicator
18. Women's rights
18.1. Proportion of seats held by women in national parliament
18.2. Ratio of women to men
19. Global democracy
20. Perception of well-being
20.1. Standard living
20.2. Safety
20.3. Freedom of choice
20.4. Overall life satisfaction
<i>IV. International relations Islamicity index</i>
21. Globalization index
21.1. Economic globalization indicator
21.1.1. Globalization index
21.1.2. Restrictions
21.2. Social globalization indicator
21.2.1. Personal contact
21.2.2. Information flows
21.2.3. Cultural proximity
21.2.4. Freedom of foreigner to visit
21.3. Political globalization indicator
22. Military/Wars
22.1. Militarization index
<i>V. Overall Islamicity index (summation of indices I–IV above)</i>

While the structure of this index has shortcomings and is very much a work in progress, which the authors readily admit, it provides a more comprehensive measure than data on an item or two.

Askari et al. 2017 have divided Islamic teachings into four broad areas—economic, legal and governance, human and political rights, and international relations—with an overall Islamicity representing the fifth. Besides the usual problem with indices, their study may be criticized on a number of other grounds:

- (i) Their approach does not conform to the *Maqasid Shariah* (the goal of *Shariah*—religion, life, lineage, intellect and wealth). The foremost *Shariah* requirement is commitment to one's Islamic beliefs. The acceptance of Islam's fundamental axioms of *Tawheed* (unity), *Nubuwwah* (Prophethood), and *Ma'ad* (accountability) requires manifestation through commensurate action. *Tawheed* is recognizing *Allah* as the One and Only Creator and Sustainer of the entire Creation. It also implies the Unity of creation and refusal of any kind of discrimination and disunity. *Nubuwwah* refers to the Prophets and Messengers entrusted with divine revelations for the guidance of mankind. *Ma'ad* establishes accountability and justice, for mankind will be judged and rewarded in accordance with their rule compliance or non-compliance. From the Islamic perspective, self-purification is not only crucial for professing *Tawheed* but also to enable development because it requires present consciousness and awareness of the self and its Creator. This ultimately leads to embodying Islamic virtues and compliance with the rules and principles prescribed by Allah (swt). The authors claim that they have summarized the principal teachings of Islam from the Qur'an and its accurate and indisputable implementation by the Prophet, but that they have excluded some of the individual, or personal, requirements of Muslims.
- (ii) There are a number of duties that are required of true Muslim—*shahadah* (only One God and Mohammad is His Messenger), *salat* (daily prayer), *hajj* (pilgrimage), *zakat* (donating 2.5% of wealth each year to the poor and needy), *sawm* (fasting in the month of Ramadan), and *Jihad* (striving in the way of Allah through promotion of rule-compliance and avoidance of rule violation in human societies). These have been excluded from the indices for a number of reasons. The objective in these indices was not to assess how rule-compliant individual Muslims are in their own self-purification and in their own effort to understand the Oneness of the Almighty and its implications. While Muslims must adhere to these 'ritual'

requirements of the religion, which with the exception of *Waqf* properties (in the form of mosques, schools, hospitals and donations), *Zakat* and *Qard al-Hasan* funds, though observable but difficult to include because of data limitations, do not directly impact the outward and observable characteristics of societies that they inhabit and belong to. The authors' goal is to measure the degree Muslim societies have adopted and practiced the principle teachings, or in other words the philosophy and the rules, of Islam that affect society. Moreover, if they had included the five Pillars of Islam, there would be a strong bias against non-Muslim countries (or more accurately countries with a low percentage of declared Muslims) in the index value, which may or may not exhibit the outward characteristics of a rule-abiding Muslim society. In the extreme, if they included the percentage of the population who profess Islam as the variable, then the index would be significantly biased against countries with small Muslim populations.

- (iii) The principle Islamic teachings that have been incorporated do not fully and accurately represent the characteristics, or the many dimensions, of a rule-abiding Muslim community. The authors readily admit that their indices can be improved.
- (iv) Even accepting their presentation of foundational Islamic teachings, some may object to the measure or variable that is used to represent the specific teaching or rule (Table 7.1).² For example, a person may agree that economic justice is an essential principle in Islam but may disagree that this is in turn best measured by the distribution of income.

Similarly, even if a person agrees that extreme income inequalities must be avoided, he might disagree that this is well captured by differences in Gini Coefficients or in some other measure that is adopted.

- (v) It is problematic to precisely capture each of the dimensions of Islamic principles (and categories) with various variables serving as proxies that overlap. The proxies are not ideal indicators of the Islamic principles in question but they represent the measures that are readily available but may clearly overlap.
- (vi) A general problem with all indices is the importance or weights given to each element in the index in order to come up with an index. Of course, the more disaggregated the index, the less important is this problem. Their International Relations Islamicity Index has less

weighting issues than does the Economic Islamicity Index (that has many more diverse elements to be combined), which in turn has less elements than the overall index that also incorporates many dissimilar elements (economic conditions, human and political rights, legal and governance, and international relations).

While the tendency may be to focus on the overall Islamicity Index, the examination of each of the four indices and their sub-elements may be more fruitful. It is these sub-elements that provide more indisputable evidence and would be most useful for developing policies and practices to address shortfalls.

The broad result is that Muslim countries have not adopted and practiced the recommended institutions of Islam as have many Western countries.³ More specifically: The results indicate that Western countries, especially Northern European, New Zealand, Canada and Australia, perform the best on these Islamicity indices. Muslim countries perform badly, with Malaysia and the member countries of the Gulf Cooperation Council (GCC) generally the best performers among the Muslim countries. Of course and as to be expected country performance varies from one index to another.

These broad results should not be surprising. If one generally accepts the components and elements that they have included in their indices, all one needs are eyes! Sure, Western societies are far from ideal with elections and politicians bought by the wealthy in a number of countries, growing and almost obscene disparity of wealth and income, unemployment, pockets of poverty alongside unbelievable wealth, unequal opportunities (education, healthcare and the basic necessities of life) whereby success or failure in the majority of lives is determined in the womb, discrimination, corruption and more, but compared to most Muslim countries, they are almost heavenly! It is for this reason that refugees the world over risk their lives in search of a better life in these high performing Western countries. Sure Western countries have invaded other countries, sold arms, manipulate rulers in the third world, but just look at the regional conflicts around Muslim countries of the Middle East, with much of it due to Muslim countries' policies and autocratic rulers.

While rankings may be the easy result to note, the scores should be emphasized as they provide a better comparator of countries. And once again, we emphasize that while the overall index and its ranking may be of most general interest, individual indices and the results of their

sub-indicators are even more revealing and accurate as they are not subject to the inherent weighting issues that arise with the four indices and with the overall index.

Turning to the results in more detail, here are the highlights. First, the Economic Islamicity Index places the smaller Western countries (Northern Europe, New Zealand, Australia, and Canada) at the top. These are liberal democracies with sound institutions and freedom and opportunities for the individual to develop. These countries have extensive social programs and have excellent state-funded education systems, an essential element for individual and societal economic development. They are market economies, but they are at the same time market economies with a heart! Tax rates are progressive and everyone enjoys the minimum necessities of life. The United Arab Emirates (UAE) is the best performing Muslim country at number 36, followed by Malaysia (38) and the five remaining members of the GCC, with the median ranking of Muslim countries at 101 (significantly below the 76.5 neutral point). Although oil revenues supported Malaysia's early development, the six countries of the GCC have been totally dependent on exports of oil and gas. Moreover, the best performing Muslim country, namely the UAE, has a score of 6.808 as compared to a score of 9.002 for Denmark the best-performing country on the list. This is a big difference if one takes into account that the UAE has the second highest GDP per capita in the world (albeit dependent on oil exports) and even the income from its external assets alone yields a very high income per capita for its nationals.

Second, the Legal and Governance Islamicity Index again affords Muslim countries a low ranking. The same set of Western countries, with some change from the economic index, are at the top, with Singapore showing a strong performance and moving up to number 5. The median ranking for Muslim Countries is 108, only marginally better than the median ranking in the economic index. Qatar (15) and the UAE (21) perform marginally better than Malaysia (24) and Iran performs significantly higher (80) than it does on the economic index (113).

Third, in the case of the Human and Political Rights Islamicity Index, the top rankings are dominated by the same Western countries as in the other two indices, but most significantly, Singapore plummets to 37. The median ranking of Muslim countries drops from the legal and governance index (108) to 113; and the highest-ranking Muslim countries are Guyana (49), Suriname (52), Albania (69), and Kuwait (72). These results should again be no surprise. The popular view is that human and political rights

are not respected in Muslim countries with oppressive rule (hereditary and dictatorships) and absence of representative government. Most strikingly, Muslim countries of the Middle East (with some countries having vast oil/gas revenues) perform miserably, with Kuwait the best performer at number 76. This may be the reality, but as we have noted Allah's gift to humanity is freedom, even the freedom to reject The Creator. Yet, Muslims are denied the freedom to choose their leaders and a representative government.

Fourth, when it comes to the international relations index, the set of high performing countries is somewhat different from those in the three previous indices and smaller countries with low level of militarization shine. Moreover, the highest performing Muslim countries are Nigeria (15), Albania (30), Senegal (34), Qatar (45), and Iran falls all the way to near the bottom at 150. The median ranking for Muslim countries is 109.5.

Finally, turning to the Overall Islamicity Index results, and as to be expected, Western countries dominate the ranking with Netherlands (1), Sweden (2), Switzerland (3), New Zealand (4), Denmark (5), Finland (6), Norway (7), Luxembourg (8), Australia (9) and Canada (10). Qatar (39) is the highest ranking Muslim Country, followed by the UAE (40), Malaysia (43), and Kuwait (46), with Muslim countries having a median ranking of 115.

These results, though disheartening, are generally what one would expect. The liberal and socially conscious Western countries dominate the rankings, while Muslim countries exhibit sub-par performance; and again as to be expected, the performance of Muslim countries is worst in the arena of human and political rights (with a median ranking of 113) and best in economic performance (with a median ranking of 101). Among the Muslim countries, the small rich countries (GCC) of the Persian Gulf and Malaysia are generally at the top of the Muslim rankings. But none of these countries are exactly shining lights to be copied, especially when it comes to human and political rights and governance. Malaysia's legal and political system has shown serious cracks in its treatment of opposition parties and dissidents; a large minority Malaysian of Chinese descent are treated as second-class citizens and discriminated against; and recent revelations have exposed corruption at the highest levels of government. Freedom had faltered badly in Turkey even before the attempted coup in 2016 and corruption and scandals had become more commonplace. Most countries of the GCC are rich in oil and gas (the *equal* birthright of all Muslims of all generations) and enjoy phenomenal wealth, yet income and wealth

distribution is highly skewed (for wealth that is largely generated from the birthright of all citizens of all generations), corruption rampant, and with oppression and very limited freedom and respect for human rights. If these are the best performing Muslim countries, the reader can imagine the conditions of the worst countries in the Muslim world!

To us, the reason for Western success is traceable and attributable to political and economic freedom, respect for human rights and more effective institutions (rules and regulations, their monitoring and enforcement), especially the rule of law. In the presence of more political freedom, accountability of governments, more equal opportunities to develop and better and more effective institutions, men and women are more likely to realize their dreams and thrive. These are the conditions that encourage self-investment and hard work. These are the conditions that provide the fuel that drives progress—hope of a better future. In the absence of hope, there is despair. Ironically, this in face of the fact Islam is a rules-based religion with the rules clearly delineated. These teachings and rules are broadly the foundation of these indices. A high score and ranking on these indices indicates a rule-compliant and successful Muslim country. Most poignantly, in the realm of economics and development, the rules and institutions prescribed in the Qu’ran and practiced by the Prophet are similar to those supported by Western thinkers such as Adam Smith, Amartya Sen and Douglass North, but with a much heavier dose of justice and morality and concern for humanity.

Muslims have not taken charge of their own religion. They have not studied the Qu’ran, asking questions to understand its contents better, and debating its meaning. Muslim rulers are not rule compliant and have used religion to control, rule and live a life of opulence. Muslim rulers have had no incentive (something they should not need if they are rule compliant) to follow rules and encourage good institutions. Foreigners who have exploited them and have supported rulers in their un-Islamic policies. Muslims need to understand their religion, adhere to its rules and hold their rulers accountable. The duty of “commanding the good and forbidding evil,” incumbent on individuals as well as the whole community, is the most important means of enforcement of prescribed rules of the Metaframework and the Archetype Model. The prevailing state of affairs in Muslim countries is not due to Islam but is instead due to non-rule-compliant individuals and societies that do not hold their rulers and governments responsible and accountable. Islamicity indices provide a benchmark to assess Muslim countries. It is easy for countries to adopt

names such as “The Islamic Republic of ...” and for rulers to be “Custodians of Holy Mosques ...,” but countries and rulers must be held accountable. It is to Malaysia’s credit that the Prime Minister adopted a Malaysian index in 2014 to monitor its successes and failures.

NOTES

1. For details on this work and later collaboration with Mydin and Mohammadkhan, see <http://islamicity-index.org/wp/>. This effort has led to a number of such indices in recent years for conferences sponsored by the Islamic Development Bank.
2. See the index, elements and representation in Appendix, in Askari, Hossein and Hossein Mohammadkhan. *Islamicity Indices: The Seed For Change*. New York: Palgrave Macmillan, 2015 (Askari and Mohammadkhan 2015).
3. See <http://islamicity-index.org/wp/>.

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Towards Achieving the Ideal Islamic Economy

The results of the Islamicity Indices are clear. Muslim countries are not rule compliant. They, individually and collectively, have not adopted, practiced and established the rules and institutions recommended in Islam. The question is why? Why is the state of affairs in Muslim countries? And more positively, what can be done to encourage and facilitate rule compliance, institution building in Muslim countries and, in turn, a turnaround?

What is the explanation for these results? Does Islam preach the benefits of unrepresentative rule, oppression, determinism, selfishness, impoverishment, conflict and hate? Clearly, Islam does not teach or condone such behaviour in the Qur'an or through the interpretation of the Qur'an and its practice by the Prophet (sawa). Islam preaches the polar opposites—free will and freedom to develop individual talents, equality of opportunity (a level playing field), representative governance answerable to the community, indeterminism, sharing, eradication of poverty, peace, the Unity of Creation, and adoration and love for the Almighty and His Creation. Why is the state of affairs in Muslim countries so different than that envisaged in the Qur'an and practiced by the Prophet? The reasons are many (for thoughts on the dissonance between the Message of Islam and the history of its practice by Muslims see Charfi 2003; Ya'qub 2011; Mirza 1992; Taji-Farouki 2004; Dakake 2007).

The most straightforward and fundamental answer is that Muslims, *individually* and *collectively*, throughout history have not internalized and practiced the rules detailed in the Qur'an and interpreted and implemented by the Prophet (sawa). This path dependency has had devastating consequences.

Yes, they may be Muslims who pray five times a day, perform their pilgrimage to Mecca and cleanse their wealth by donating to the disadvantaged, but they have failed individually and collectively to implement the important rules that translate into effective institutions and provide the foundation and scaffolding for a flourishing society with justice as its hallmark. While this explanation just about says it all, an inquisitive reader may want more flesh on this skeletal answer.

A sizable and growing minority of Muslims believes that the path of Muslims as prescribed by the teachings of the Qur'an and the tradition of the Messenger was diverted soon after the Prophet's passing to the "Highest Friend" as desire for power trumped belief in these teachings. An all-important dimension of building a just society based on these teachings is who would be the legitimate authority after the passing of the Messenger (saw)? Starting from the early days of his Mission and on many occasions, the minority believes, the Messenger had designated and declared Imam Ali (as) as his successor on the order of Allah (swt) as revealed, for example, in Verse 3, Chap. 5 of the Qur'an. Not only had the Imam been the cousin raised by the Prophet from early childhood, he was also the ardent and closest student to whom the Messenger "taught thousands upon thousands" dimensions of his own knowledge. As history reveals, at his death bed the Messenger's request for pencil and paper to write his last will and testament containing instructions which if Muslims were to follow they would "never go astray" was denied him by some of his companions arguing that the Messenger was not in his right mind due to the pain he was suffering and that whatever he would write was not needed as "the Book of Allah was sufficient" (see, for example, Jafri 1978; Ya'qub 2011; Mirza 1992; Dakake 2007).

A compelling case has been made that this was the turning point marking the deviation of Muslims' path away from the true teachings of the Qur'an and the Messenger, a path that led to violations of the rules of behaviour as prescribed in these teaching for establishing a just social order including a truly ideal Islamic economy, and a path to sectarian fissures that have not healed after centuries. The sheer use of force and violence by which the earliest rulers ascended to power and through which many important rules of behaviour prescribed by the Qur'an and the tradition of the Messenger were violated, including violations of property right rules and freedom of dissent, established a path dependency that legitimated deviations from rule compliance for generations of rulers until today. Power trumped Revelation and reason; and violence became the way to settle disputes. Most Muslims romanticize their past, but history reveals

that most rulers were tyrannical, robbing Muslims of their personal freedoms and freedom to select leaders, while a few lived in luxury ordinary Muslims suffered in poverty.

From its early days after the death of the Prophet, Islam has been used as tool to legitimize violence, injustice, exploitation and tyranny. Islam was no longer human surrender to the Almighty and the way of life but became the instrument for domination and illegitimate rule. While, according to the Qur'an, rulers gain legitimacy if and only if they are the most rule-compliant members of the Muslim Community, unfortunately, throughout history and most strikingly in our times in the post-colonial era, Muslim rulers have not complied with Divine Rules and have instead exacerbated institution building, as effective institutions would undermine their source of power. A quick glance at conditions in Muslim countries would show that they bear little resemblance to the characteristics we have described in this book. Most Muslim rulers have little legitimacy; they are family rulers and or dictators; they live in opulence while others live in poverty; they infuse terror, not love, in the hearts of their communities; oppressive rule is their *modus operandi*; they are corrupt; they are unjust; and they wrap themselves in Islam in an effort to garner a whiff of legitimacy, something that in turn gives further ammunition to Islamophobs to connect corrupt and ineffective governance to Islam. And in many cases, these illegitimate rulers collaborate with foreigners and sell out their countries and its people in return for support to hold onto power.

Muslims were, and are today, denied the right to debate their religion in order to understand its deeper meanings and thus access to the Allah-Designed compass for life on this earth. While the Prophet encouraged questions and debate and gave respectful answers and comments to all in the community, today Muslims are discouraged from questioning the interpretations and practices of their religion. Their rulers and clerics invariably tell them to mechanically practice the Five Pillars of Islam and refrain from questioning the 'official' or 'sanctioned' interpretation they are given. Muslims are even put in jail for expressing religious ideas that are not sanctioned by rulers, clerics and governments. Instead of providing a way of life, love, comfort and justice, religion is used to strike fear in the community. What do the Qur'an and hadith have to say about issues that Muslims face today? Ordinary Muslims cannot know as their rulers and clerics deny their subjects and their flock the right to debate and discuss issues such as these. Instead, rulers encourage their subjects to simply memorize the Qur'an and follow the path that they sanction.

The results of such practices would be readily predicted and are everywhere to see—conflict ridden and unjust societies with disenfranchised masses. Today, Muslims with little hope of a better future have become frustrated and angry.

While justice is the hallmark of a rule-abiding Muslim community, the contour of an Islamic economy is one where everyone who is able works hard, using knowledge to combine with their own labour and the resources provided by the Creator, to produce goods and services for society. Economic, social, and political affairs are conducted with the goal of removing barriers to the progress of all humans and in full compliance with rules, including those governing property rights, market behaviour, exchange and trade, and contracts and trust. Knowing that they are responsible and accountable, individually and collectively, they invest allegiance in a legitimate authority to carry out their affairs, with the legitimacy of the authority established by rule-compliance. The rule “commanding the good and forbidding evil,” applicable to individuals and society, assures the full and active participation of all in the affairs of society. The existence of absolute and relative poverty, along with significant income inequality, is evidence of rule-violation, injustice and governance failure, for which members of society are, individually and collectively responsible. Injustice is the clear sign of non-rule compliance.

How does Islam define distributive justice? Justice thrives and proliferates when everything is placed in its ‘rightful place’ and is achieved by simply following the Divine rules. In order to generate genuine debate inside Muslim countries and thus be effective in bringing about needed change, the criticisms of their policies and practices must be framed around the contradictions and inconsistencies of the behaviour of these regimes against the *framework they are espousing*. In this way, first establishing the Islamic framework for a just society and then proceeding to compare policies and practices to this framework, any errors or failures can be readily identified and attributed and solutions developed. It is the institutional structure of society and its policies that allow a pattern of wealth accumulation, creating abundance for a few and scarcity and poverty for the many. This is what creates social divisions, not natural scarcity. No matter how much humans have, they want more as they compare and look to the wealth of others.

While conventional economics assumes scarcity of resources, Islam acknowledges scarcity only at the micro level and this due to misdistribution of income and wealth resulting from non-compliance with the rules of conduct; because the Loving Almighty has given humanity sufficient resources if they work hard, share and are generally rule compliant. While conventional theory adopts the market and assumes that consumers maximize their own utility and

producers maximize profits, the Islamic vision, although embracing the market-based system and proposing rules that enhance its functioning, includes a spiritual and moral foundation that attaches overriding importance to the welfare of society and of each and every individual in this and in future generations. Social cohesion and trust among members of the Muslim community are seen as an integral component of a flourishing market system. Risk sharing in finance and throughout the economic system is important in of itself as it promotes trust and brings humankind closer together—in support of the Unity of Allah’s Creation and reenforces it—and affords a number of other potential benefits if fully developed, including financial stability. All the while, Islam stresses the importance of distributive justice as an integral facet of a successful Muslim community that avoids all extremes, including extremes of wealth and poverty.

It is the institutional structure of society that determines the resource endowments of its individual members, which, in turn, determines the structure of their preferences and ultimately their economic behaviour. A defective institutional structure combined with a poorly functioning process of self-development provides no opportunity for the self to transcend the focus of the self on “me and mine.” Self-development is necessary to transcend selfishness. The Qur’an clearly states the need for “a revolution in feeling or motivation.” [Verse 11: Chap. 13] The revolution, as defined comprehensively throughout the Qur’an, is a change toward compliance with the rules of just conduct for the individual. Thus an important difference between distributive justice in Islam and the Western theories developed is that the latter require government intervention to correct unjust patterns of distribution resulting from the operations of the market. From Rawls to Nozick, all recent theories of distributive justice require intrusive and comprehensive government intervention on a continuous basis to ensure the desired outcome or if the processes and procedures are determined to be unjust. In Islam, the state’s role is one of administrator, supervisor and manager of wealth that includes all mines and unused land, and protector of society. It is the members of society who must individually develop themselves and ensure that justice prevails, “commanding the good and forbidding evil.” Only when individuals are non-compliant or violate the rules, the state becomes the third-party enforcer, as in the absence of effective enforcement, institutions wither away.

The decades and even centuries of colonial rule in most Muslim countries have opened deep fissures and taken a toll. In many cases, these fissures will take time to redress and amend. Rulers have learned from their colonial

masters how best to pursue their own interest and abandon their responsibilities to their communities as prescribed in Islam. The most vivid example of this may be what has happened since WWII in the oil/gas rich Muslim countries. A small number of oil-rich Muslim countries have had a golden opportunity to develop rapidly and create institutions and societies that reflect Islamic values, but the results have been anything but this. Allah (swt) has given humanity of all generations these gifts. Humanity in its role as agent-trustee must manage these resources to benefit all (even those who cannot access the Almighty's Bounty) equally. In the case of depletable resources the state, acting as agent-trustee, must do all it can to assure that *all* inhabitants of *all* generations receive the *same* benefit. This can only be done if the resource is extracted optimally, the proceeds invested optimally and each inhabitant is given a check for the same real purchasing power now and forever into the future. Consumption of the proceeds by the state (to give subsidies and to buy the loyalty of cronies and the general citizenry) must be prohibited and even expenditures in the name of economic diversification should be avoided, as this will not afford all inhabitants of all generations the same benefit.

If the Muslim countries with the very highest oil/gas wealth per person (Qatar, Abu Dhabi/UAE, Kuwait) were to manage their affairs in this way, the average inhabitant would be so wealthy that they could help the less fortunate elsewhere; and for the lower oil/gas wealth per capita countries, it is even more imperative not to squander this wealth and to treat all inhabitants equally. Unfortunately, this has not been the case. Rulers have enjoyed preferred access to these depletable resources in large part to buy off some of the inhabitants and to afford ostentatious living for themselves and their cronies. Even more important, the temptation of this wealth has impeded these Muslim countries from developing and nurturing effective institutions that Islam demands. Rulers have no incentive to nurture effective institutions, the foundation for sustained development, because effective institutions would very quickly take away their preferential access to this vast wealth, reduce their ability to buy off inhabitants and ultimately undermine their illegitimate rule.¹ As an aside, and sadly for Islam, guest workers in some oil/gas rich countries have been treated in ways that should affront anyone who professes Islam. It is difficult to understand how a Muslim in any of these countries can idly stand by and allow fellow human beings to be treated in such an un-Islamic way? It is truly shameful and it is not the Islam that we know.

Numerous Muslim rulers, with no electoral (selection) legitimacy, have turned to the United States, the United Kingdom, France and other

Western powers affording them military bases and pre-positioning of their forces and military equipment, purchasing vast array of arms from them, cementing a number of business and trade agreements and showering their leaders and cronies with lucrative consulting arrangements, all with an eye towards garnering their military, intelligence and political support to hold onto absolute power. Sanctimonious Western powers preach democracy, human rights and religious freedom as they sell arms to Muslims to kill Muslims. Colonialism is alive and well, albeit in a morphed collaborative form—something that disenfranchised Muslims see all too well.

These realities have impeded the development of effective institutions (the adoption and practice of Divine Rules) that would allow Muslim societies to flourish—with political and human rights for all, freedom to choose their rulers, the rule of law, sound rules and regulations with unbiased enforcement, equal opportunity for all citizens to develop their talents, and social and distributive justice. An examination of the rules and institutions of Islam would reveal development goals and policies that are close to the most recent views of Western writers, and economic policies and practices that are akin to a liberal market system but with justice and morality as the anchor and sympathy (and action) for all humanity.²

Islamicity Indices provide a benchmark for Muslims to monitor their rulers, leaders and governments. If a Muslim in a Muslim country finds himself or herself disenfranchised and without freedom and opportunities to develop, one result could be hopelessness and a turn to terrorism against his government or against foreigners who, in his or her mind, might bear some responsibility for his predicament. But with generally accepted Islamicity Indices in hand and with some understanding of Islam, an individual Muslim and the community together can factually and peacefully challenge the government for its failures to fulfil its legitimate role—abiding by Qur’anic rules, developing effective and just institutions and doing all it can to establish a thriving Muslim society. And with international acceptance of Islamicity Indices, Muslim unity across countries can more readily achieve institutional reforms.

In Islam, development is composed of three interrelated and interdependent dimensions, individual human self-development, the physical-material development of the earth and development of the human society as a whole. The most important of all these is the first without which the other two would not progress as envisioned. Individual Muslims must get on such a path for Muslim communities to thrive and reflect the shining star of Islam.

Positive change can come about in Muslim countries when Muslims debate and discuss what their religion says, to: work on their own

development as Muslims, demand the needed institutions and hold their leaders and governments responsible to be more rule abiding than themselves. Muslims are indeed fortunate that they have a compass from the Almighty and the life of the Prophet to guide them and the rule—“*commanding the good and forbidding evil*”—that would keep them on track. But the turnaround will be still difficult. There are entrenched special interests that have been built up over decades, if not centuries, in Muslim countries. Western powers have developed deep business and political interests in many of these same countries. To reverse decades, no centuries, of destructive behaviour and policies will take time and perseverance. But the earlier Muslims and Muslim countries get on the Qur’anic path, the easier will be their journeys.

NOTES

1. For further detail of how an Islamically oriented policy of exhaustible resource management can be implemented, see: Hossein Askari, *The Middle East Oil Exporters: What Happened to Economic Development?* Foreword by Robert M. Solow, Cheltenham, UK: Edward Elgar Publishing, December 2006 (Askari 2006).
2. For further elaboration, see Mirakhor and Askari, *Islam and the Path to Human and Economic Development*; and Askari, *Collaborative Colonialism: The Political Economy of Oil in the Persian Gulf*.

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Conclusions

The Islamic economic system is not defined by capitalism, socialism or for that matter by anything but the Qur'an. The rules, institutions, operations and practice of the Islamic system are abstractly outlined in the Holy Qur'an and interpreted and put into practice by the Prophet (sawa). While the Qur'anic outline is time immutable, its practice must be adjusted to *prevailing conditions*. The Qur'an and the teachings and practices of its first recipient provide Muslim societies with the perfect roadmap to develop effective economic institutions for achieving just and thriving communities.

While some have identified the Islamic economic system with capitalism, it is a far cry from any form of the capitalist system. A narrow consideration of capitalism may indicate certain common features between capitalism and an Islamic economy, such as private property, profit motive and reliance on markets. However, capitalism has picked up other characteristics in its evolution that have expanded its domain of influence beyond economics to social, political, cultural, art and religious spheres. It is no longer just an economic system, but it is like Islam itself a whole way of life. It differentiates itself strongly not only from Islam but also from Christianity and Judaism. There is little justification for identifying the Islamic economy with the system that today is considered capitalism. Even the economy envisioned by Adam Smith in which the 'Author of Nature' prescribed rules of behavior—which humans translated into moral rules that governed the behavior of market participants and where self-control, sympathy for others and just behavior limited greed—could be considered only as a very rough approximation of the Islamic vision of an economy. However, since

the nineteenth century, the economy that emerged and is labeled modern capitalism does not resemble either of these visions. This capitalism has become, at least, a quasi-religion with neoliberalism as its ideology. It has institutions that do not exist in Islam or are prohibited, such as unlimited accumulation of private property and wealth, massive poverty, consumerism with its wastefulness, extravagant and opulent consumption, highly unequal distribution of income and wealth, all the adverse impact of environmental degradation, interest-bearing debt, repeated financial crises and growing financial and economic exclusion. It is difficult to see how this form of “modern” capitalism could be compatible with *any* theocentric, or even humanistic, system of thought.

Unfortunately and inexplicably, some academics, broadly identified the New Orientalists and other individuals who should know better, have taken a very limited number of verses from the Qur’an and used them to define the Islamic economic system. They have then proceeded to attack “their contrived Islamic system” as highly flawed and the reason for the economic underperformance of all Muslim countries. In addition to blaming Islam for the underperformance of Muslim countries, some of these academics have then go on to conclude that the best hope for Muslims to escape from their misery is to abandon Islam and adopt Western values. The central objective of Orientalists appears to be to change Islam in their own image, to essentially reflect liberal, Protestant Christianity. The fictitious system of the Orientalists is not the Islamic system that we know. We can only surmise that they must have an agenda to have proceeded thus. Surely, to assign blame for the shortcomings of Muslims on Islam, unbiased academics would have first satisfied themselves and others on their description of the complete Islamic system and demonstrated that Muslims had adopted and followed it, and then, *and only then*, could they logically begin to assign blame for any shortcoming to Islamic teachings.

Our message is evident. The Qur’an’s vision of an economic system is defined as a collection of institutions, representing rules of behavior, prescribed by Allah (swt) for humans. The system derived from the Qur’an constitutes a Metaframework for an economy envisioned in Islam. Moreover, the Prophet Mohammad (sawa), the Messenger, operationalized this framework in Medina. The Messenger’s implementation of the Qur’anic vision for the economy constitutes an Archetypal Model—how an Islamic economic system is designed and is to be *operationalized in any age, appropriately adapted to the prevailing conditions*. The collection of institutions, rules of behavior and their enforcement go well beyond what

the New Institutional Economics (NIE) recommends as the scaffolding for a successful economy by introducing a heavy dose of morality, trust and risk-sharing finance (contracts). Muslims have the perfect roadmap to develop effective institutions in order to achieve just and thriving communities—the rules outlined in the Quran, that include the capstone rule of “*commanding the good and forbidding evil*,” and their practice by the Prophet (sawa). Interestingly, liberal northern European countries, along with New Zealand, Australia and Canada, appear to reflect Islamic teachings (based on an index) much more closely than do Muslim countries, and the accepted ‘success’ of these non-Muslim countries by Orientalists would surely heap praise on the Qur’anic prescription!

Justice is the hallmark of a rule-compliant Muslim community. An Islamic economy is one where everyone who is able works hard, using knowledge to combine with their own labor and the resources provided by the Creator, to produce goods and services for society. Economic, social, and political affairs are conducted with the goal of removing barriers to the progress of all humans and in full compliance with rules, including those governing property rights, market behaviour, exchange and trade, and contracts and trust. Knowing that they are responsible and accountable, individually and collectively, they invest allegiance in a legitimate authority to carry out their affairs, with the legitimacy of the authority established by rule-compliance. The rule “*commanding the good and forbidding evil*,” applicable to individuals and society, assures the full and active participation of all in the affairs of society. The existence of absolute and relative poverty, along with significant income inequality, is evidence of rule-violation and governance failure, for which members of society are, individually and collectively responsible.

We believe that the main reason for the economic underperformance of Muslims countries over the last centuries has been non-compliance with the prescribed rules of behavior. This rule non-compliance has been chiefly due to the failure of Muslims to comprehend the Metaframework and the Archetype Model, interpret and operationalize their institutional scaffolding in ways *compatible with their own generation and time*. History is clear on how rule violation became the norm as the Messenger lay on his deathbed and how path dependency progressed and Muslims moved away from both the Metaframework and the Archetype Model, which then generated a long period of sub-par performance.

How can conditions in Muslim countries be turned around? There is no silver bullet. It requires commitment on the part of individual Muslims,

who could then form like-minded groups, to enhance the understanding of Islamic teachings, institution building, persistence and time in an integrated and sustained approach with a number of simultaneous elements and initiatives. Given the fact that this kind of commitment has been made, in the past and in the present, by individuals and groups, with warped understanding of the main sources of Islam, with enormously destructive force, it is not unrealistic that Muslims who believe their religion has been hijacked can create the same dynamic in reverse and save this Message of peace and human solidarity from those who have distorted and disfigured it.

First and foremost, Muslims must individually and collectively take charge of their religion. Muslims should embark on the journey of self-development (along with development of the physical world and of society) as envisaged in the Quran and taught by the Prophet. Self-development is the bedrock of a turnaround for Muslim communities. They should study the Quran and the life of the Prophet. Importantly, they should openly debate and question what their religion says about rules, institutions and the outcomes that they should expect. They should engage and debate their teachers but not take their interpretations as something to be blindly followed. In turn, this should help developing what the religion indicates, in practical terms, for the political, social and economic characters of a successful Muslim society. Memorizing the Quran, while useful in itself, is not a substitute for understanding it and its interpretation by the Prophet. Moreover, Muslims should not rely on individuals with agendas—dictators, extremists, selfish rulers politicians or clerics—to tell them what they should and should not do as ‘good’ Muslims. Allah (swt) has given humanity the freedom to choose and Muslims should take advantage of Allah’s invaluable gift. The Quran requires individual Muslims to develop themselves, the physical world and their societies. Individual Muslims have the critical role and must do their part in creating just and flourishing communities. At the same time, they must hold their leaders accountable for what the Quran expects of them. In the absence of self-development, there is little reason to expect a flourishing turnaround.

Influential non-Muslim governments should reduce their duplicity that is all too evident to all Muslims. This they can do by ending their support of Muslim dictators, autocrats, absolute rulers of all sorts, including hereditary rulers and clerics. The duplicitous stance of the great powers, preaching human rights, democratic rule and freedom while supporting autocratic rulers in the name of stability, is counterproductive and will

widen the chasm between East and West. Anyone with eyes can see that most rulers in the Muslim World are not rule compliant and have used religion for control and self-enrichment. The great powers should encourage meaningful political, social and economic reforms in the framework of a transparent long-term timetable; this is in their interest as well as in the interest of Muslim communities. For absolute monarchies, the goal could be constitutional monarchies and for dictatorships of all sorts, the goal should be democratic and representative governance. The non-Muslim World should tone down the rhetoric against Islam, lest they give the impression that they are at war with Islam and Muslims. It is not Islam that threatens them, but its misrepresentation by academics and Muslim dictators whose selfishness and autocratic rule have fueled extremism and millions of disenfranchised Muslims.

Our belief is that dictatorships, autocratic rule and economic failure and their unfounded association to Islam are an important cause of extremism, terrorism and instability. It is better institutions (collection of rules and their monitoring and enforcement) and meaningful reforms in Muslim countries that are essential for development and progress and peaceful co-existence with the West. But the needed institutions, especially the rule of law and representative governance, will not develop under existing conditions in most Muslim countries. For the required economic institutions to develop, be nurtured and be effective, they must be accompanied by fundamental political change. Freedom is the bedrock of all change. Allah's gift to humanity is freedom, even the freedom to reject Him, The Creator. Yet, Today Muslims are denied the freedom to choose their leaders and a representative government and to debate the meaning of their religion!

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