

Foreword

Ideal Islamic Economy: An Introduction

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 19th 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's only through cultivating and channeling 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 is 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 signaling 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 1970's, 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 19th 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 Quran. 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 Quranic 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 legitimation 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 at 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.

Dr. Ali Allawi

Minister of Trade and Minister of Defense in the cabinet appointed by the Interim Iraq Governing Council from September 2003 until 2004, and subsequently Minister of Finance

Author of: *The Crisis of Islamic Civilization*; *The Occupation of Iraq: Wining the War, Losing the Peace*; and *Faisal of Iraq*