Islam and the Science of Economics

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Available at: https://works.bepress.com/farid_alatas/7/
Economists have generally maintained a rigorous separation between positive and normative economics. In the Muslim world, however, concerted attempts have been made to relate moral conduct to economic institutions and practices. Demands for an alternative theory and practice of development to both modernization and Marxist theories had led to the rise of Islamic economics. But while Islamic economic thinking presents an ideal of development that is based on an Islamic philosophy of life, it is beset by a number of problems which make it difficult to be considered as an alternative to modernist discourse as far as empirical theory is concerned. As such, so-called Islamic economics cannot be considered as presenting a counter-modernist and alternative development theory. As an ethical theory of development Islam offers an alternative to modernization, dependency, and neo-Marxist theories. However, as an empirical theory, so-called Islamic economic theory remains within the fold of Western modernist discourse in terms of its theoretical concerns and methodology. This chapter provides a theoretical critique and suggests an exemplar for a political economy approach for the Muslim world.

This chapter begins with a brief introduction to development studies as a modernist discourse. This is followed by a concise overview of the Islamic ideal of development which is juxtaposed with the economic realities of Muslim societies. I then proceed in the next three sections to outline and theoretically assess attempts in Muslim countries such as Malaysia, Pakistan, and Saudi Arabia to create an alternative discourse on development that draws on Islamic law and an Islamic philosophical anthropology. The first of these sections presents Islamic economics as a response to modernization. The second makes a distinction between ethical and empirical dimensions of Islamic economics and suggests that it is Islamic economics as empirical theory that is theoretically problematic. The third of these sections critiques Islamic economics as a component of ideology in the context of the role of the state in development. The chapter then takes a prescriptive turn, suggesting that an exemplar for a political economy approach for the Muslim world can be found in the work of 'Abd al-Rahman Ibn
Khalidun. I conclude this essay with some general remarks on the problem of “Islamic economics”.

Development Studies as Modernist Discourse

The vast majority of Muslims around the world live in economically underdeveloped countries, with high rates of inflation, low rates of economic growth, low life expectancy, and a high level of adult illiteracy. There are also severe problems in the health and nutritional status of Muslims worldwide, which have serious implications for the quality of human resources. Muslim countries also lag behind industrialized nations in educational attainment, especially where access to tertiary education is concerned.1

Such is the relative economic state of affairs of the Muslim world. It is also a fair description of the Muslim world in the 1930s, 40s, and 50s, when economists and social scientists in the West first began to give their attention to the economic problems of the Third World. It was also during this period that development theory started to be uncritically adopted in a wholesale manner throughout the Third World. The type of scholarship along these lines later came to be known by reference to the phenomenon of the captive mind, as conceptualized by Syed Hussein Alatas.2 Mental captivity connotes a mode of thinking that is characterized by the uncritical imitation of external ideas and techniques. There is a lack of capacity to be creative and raise original problems, to forge original methods. There is also a general alienation from the main issues of the local society, and the unquestioning imitation of the Occident.3

The structural context of mental captivity can be understood in terms of the idea of academic dependency. The structure of academic dependency links social scientists in advanced industrialized nations to their counterparts in the Third World. The nature of these links is such that scholars in the Third World are dependent on colleagues and contacts in the industrialized West and, to some extent, Japan for research funds and opportunities, gaining recognition and other types of rewards from such relationships.4

In addition to the problems of mental captivity and academic dependency is the state of development theory itself.5 It was primarily the disciplines of sociology, economics, and political science that dealt with the modernization of Asia, Africa, and Latin America in the 1950s and 1960s. Modernization theory can be understood in terms of its structural and psychological components.

The structural version of modernization theory is founded on an evolutionary vision of social, political, and economic development. It derives its inspiration from classical theory that is, the belief in progress and increasing complexities in the social, economic, and political spheres.6 It was perhaps Rostow who gave modernization theory its best known form.7 suggesting that there are five stages which all societies would go through in order to industrialize. Despite the fact that these five stages were derived from the experience of industrialized nations and are, therefore, questionable in this light, Rostow's stages of economic growth were applied to underdeveloped countries as well.

The psychological version of modernization theory views Western society as possessing those psychological traits, such as a high need for achievement and economic rationality, that are prerequisites for economic success.8

By now, advanced nations are not necessarily Marxist and therefore do not necessarily catch up with the industrialized nations. The unequal capture of the Third World by modernization theory enabled the West to maintain both to some extent, unequal relationships with the rest of the world, as well as the psychological and structural context of mental captivity. The development of the Third World was characterized by an unquestioning imitation of the Occident. Nevertheless, the psychology of development theory should not fall within the realm of modernization theory where aspects of human nature are concerned.

Development of Islamic Economics

The Islamic term, iqtisa' (economic activity), is derived from the root words qis, which means to exchange or to buy and sell. Islamic economics is one of the earliest branches of economics and is characterized by the mediatory role of the community in the economic transactions. The moral character of economic relationships is therefore of secondary importance to economic efficiency. The principle of fair trade and exchange is at the heart of the economic system of iqtisa'.

As the Islamic economy developed, the community (umma) became the focal point of the economic and moral life of the people. The role of the community was to mediate and resolve conflicts arising from economic transactions. The community was also responsible for the moral guidance of the individuals and the society as a whole. The moral and legal framework of the Islamic economy is based on the principles of justice, fairness, and equality.

The Islamic economy is based on the principle of justice (adl) and the belief that the economy is a means to achieve social and moral goals. The role of the individual is to contribute to the well-being of the community and to fulfill his or her social obligations. The role of the government is to promote the interests of the community and ensure the welfare of its members.

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By now it is well understood that the trajectory of development experienced by advanced industrialized nations in both its structural or psychological terms, is not necessarily an experience that is available to underdeveloped countries. According to Marxist and neo-Marxist theories underdeveloped countries would never be able to catch up with developed countries because of the historical evolution of a highly unequal capitalist system of relations between rich and poor countries. Unequal power relationships between advanced industrialized and underdeveloped countries do not enable the latter to experience independent and sustainable development. To a great extent, underdevelopment is attributed to the policies of industrialized countries and their extensions in the form of elite groups on the periphery. World-system theory sees the world as constituting a single division of labor, this division of labor being hierarchical. These approaches are correct to criticize modernization theory for its lack of attention to the structure of the world economy and its hierarchical relationships. Nevertheless, their inadequacies are not to be denied, particularly those they share with modernization theory. Both modernization and Marxist-inspired theories can be said to fall within the orbit of a modernist discourse which is informed by the principles of nineteenth-century liberal philosophy and which confines its understanding of development to Westernization, democratization, economic growth, and other technical aspects of economic development.

Development in the Muslim World: Between Ideals and Reality

The Islamic ideal of development can be adequately captured by referring to the Arabic term, _iqtisiad_, which is conventionally translated as economy. The term _iqtisiad_ is derived from the root, _gasada_, which together with the derivation, _iqtasada_, convey the notion of economizing and being moderate, frugal, thrifty, and provident. However, this is only one of the meanings. The verb _iqtasada_ also connotes adopting a middle course or a mediatory position. We could understand _iqtisiad_, therefore, not simply as economy in the technical sense of the term, but as economy in the context of thrift, frugality, and providence and, above all, moderation. Indeed, the Qur'an stresses moderation in economic affairs: "Make not thy hand tied to thy neck, nor stretch it forth to its utmost reach, so that thou become blameworthy and destitute" (17:29).

Here Muslims are exorted to be neither niggardly nor extravagant. Such moderation in economic as well as other behavior defines Muslims as constituting a median community ( _ummatan wasatan_, Qur'an, 2:143). The median path is, therefore, the right path ( _al-strāt al-mustaqim_), that is, the path that leads to God (Qur'an, 11:56). The ideal of the economy in Islam, therefore, is not divorced from the notion of human beings as moral creatures with obligations to God as well as to each other.

At the philosophical level, the foundations of development from an Islamic point of view can be understood in terms of four concepts. _Tawhid_ or the principle of the unity of God establishes the nature of the relationship between God and man as well as that between men. _Rububiyyah_ refers to the belief that it is God who determines the sustenance and nourishment of man and it is He who will guide believers to success. It follows that successful development is a result of man's work as well as the workings of the divine order. _Khilāfah_ is the concept of man as God's vicegerent on earth. This
SYED FARID ALATAS defines man as a trustee of God’s resources on earth. Tazkiyyah refers to the growth and purification of man in terms of his relationship with God, his fellow men, and with the natural environment. The putting into practice of these principles results in falaah, that is, prosperity in this world as well as the hereafter. The Islamic concept of development is, therefore, tazkiyyah or purification combined with growth. This concept encompasses the spiritual, moral, and material aspects of development and the ultimate aim is to maximize welfare both in this life and in the hereafter.

At the more practical level, the organization and functioning of the economy, apart from being based on the above philosophy of development, are also guided by three economic principles. In the principle of double ownership neither private nor public or state ownership are fundamental principles of the economy. Both forms of ownership are acceptable in Islam, but only in their respective areas of the economy. In the principle of limited economic freedom economic activities must take place within the boundaries of a both self-imposed and socially enforced normative order, which is, of course, defined by Islam. Finally, the principle of social justice refers to the Islamic theory of distribution of produced as well as natural wealth, and is based on the notion of mutual responsibility and equity.

Arising from this philosophy of development are a number of policy goals:

1. Human resource development should be concentrated on the development of the right attitudes, aspirations, character, personality, physical and moral well-being, and efficiency, and would call for the Islamization of education.
2. Production and consumption would be restricted to those goods and services which are deemed useful for man in light of the value constellations of Islam. This refers to the adoption of a middle way between crass materialism and other-worldly asceticism.
3. Efforts to improve the quality of life include employment creation, the institutionalization of zakat (poor tax), and the equitable distribution of income and wealth through tax policies, charity, inheritance laws, the prohibition of usury, speculation, and so on.
4. Development should be along the lines of regional and sectoral equality to achieve balanced development for the Muslim world.
5. Technology must be indigenized to suit the conditions of Muslim society and must, therefore, be in harmony with the goals and aspirations of the community without, at the same time, causing serious social disruption.
6. Economic dependency on the non-Muslim world must be reduced and integration within the Muslim world must be brought about.

The Muslim Response to Modernization: The Case of Economics

The Islamic ideal of development, as described above, has far from been realized in the empirical world. Muslim responses to the problems of modernization have taken the form of the articulation of broad ideological orientations such as modernism, neoclassical ideas, and Islamic economics. Due to the nature of modernization in many countries it is not surprising that problems of Islamic economics have not been articulated in the theoretical sphere. Nevertheless, the Islamic economics, and in particular the work of the Mathematical Economics Department at the University of Islamic theology and economics, has been seminal in the development of Islamic economics.

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modernism, and traditionalism. But some Muslims have attempted to respond to the problems of modernization and underdevelopment by developing a new discipline, that of Islamic economics. This is in line with other calls within specific disciplines to revamp theoretical perspectives and create visions of a new Islamic order along social, economic, and political lines. Hence, the notions of Islamic sociology, Islamic political science, and Islamic economics. Here, I focus on the economic.

Due to the problems associated with modernist discourse as well as the state of development in Muslim countries, there were demands for alternative discourses to both modernization and Marxist theories. The perceived crisis in development studies had resulted in efforts in the Muslim world to ground development theory in Islamic law and philosophical anthropology, resulting in what is referred to as Islamic economics.

The question of whether Islamic social science in general is possible on philosophical and epistemological grounds has been dealt with elsewhere. In this and the next section, I lay out in broad outline and assess the fundamental premises of what is presented as Islamic economics.

Islamic economics did not arise from within the classical tradition in Islamic thought. In the classical Islamic tradition, there were discussions and works on economic thought, institutions and practices in the Muslim world, but the notion of an Islamic science of economics and a specifically Islamic economy did not exist. Therefore, is a modern creation. It emerged as a result of dissatisfaction with capitalist and socialist models and theories of development in the 1950s. It is mainly in Pakistan and Saudi Arabia that Islamic economic research is being carried out, although there has also been a great deal of interest in this field in Egypt, India, Iran, Malaysia, and Sudan. Interest in Islamic economics predates the rise of the modern Islamic states of Iran, Libya, Pakistan, Saudi Arabia, and Sudan. Islamic economics rejects the ideology of “catching up” with the West and is committed to discerning the nature and ethos of economic development from an Islamic point of view. The need is, therefore, to identify the Islamic ideal of economic development.

Islamic economics rejects various ethnocentric misconceptions to be found in modernization theory with regard to Muslim society such as its alleged fatalism and the lack of the achievement motive. They maintain that the prerequisites of development are to be found in Islam but that development within an Islamic framework is based on the constellation of values that are found in the Qur’an and the Sunnah (the traditions of the Prophet of Islam). Western development theory and policy, on the other hand, are based on the peculiar characteristics, problems, and value constellations that are found in Western society.

The Islamic economic critique of development studies is not directed only at modernization theory but more generally at the entire body of modernist development thought encompassing perspectives from the left to the right. The modernist call is to promote development by recasting Islam in a modern light, by tempering its traditionalist tendencies, by accepting Western notions of economic and political development, in short, by recasting itself in a Western mold. Islam, on the other hand, has a different outlook on life and the nature of social change, and implies a unique set of policy options for the solution of the problems of development. Muslim scholars have attempted to articulate an alternative concept of development, refusing to evaluate the
backwardness and progress of Muslim societies in terms of Western theoretical perspectives and values. In this way it is counter-modernist in tone and can be added to the list of those other critiques of developmentalism such as liberation theology and feminist ecology. Nevertheless, Islamic economics suffers from a number of problems, some of which have been dealt with by others. The following remarks on Islamic economics, however, are centered around the distinction between ethical and empirical forms of theory.

Islamic Economics as Ethical and Empirical Theory

Ethical theories express preference or distaste about reality in accordance with certain standards of evaluation. In addition to this, they specify the ideal goal toward which changes should be made. In contrast, empirical theories are generalizations about observable reality and require the process of abstraction and conceptualization.

Islamic economics presents an ideal of development that is based on an Islamic philosophy of life. Arising from this alternative vision of development, various policy options have been suggested such as the introduction of interest-free banking and zakat (poor tax). What is presented as Islamic economics are in fact ethical theories of production, distribution, price, and so on. The exception to this are works on Islamic banking and zakat, regarding which I shall make some comments shortly. Generally, when Islamic economists discuss the traditional categories of economics such as income, consumption, government expenditure, investment, and savings they do so in terms of ethical statements and prescriptions and not in terms of analyses and empirical theory. In his comprehensive discussion of the various approaches in Islamic economics, Behdad lists the following, all of which are ethical theories:

1. radical approach;
2. populist approach;
3. populist-statist approach;
4. conservative, laissez faire approach.

Despite what appears to be important substantive differences among these approaches, they share a number of problems as far as normative prescriptions in Islamic economics go.

One has to do with the reality of assumptions. The Islamic ideal of development as understood by Islamic economists, seems to be founded on the notion of what Kurban calls "generalized altruism." Kurban is correct in saying that it is not safe to assume that "rational processes would not displace moral motives" in a Muslim society. It is reasonable to say that thought and action in a modern society with millions of people, as Kurban puts it, may not always be consistent with the norms specified by the ideal. He suggests that altruism is more likely to be displayed within smaller groups in which people have close ties on the basis of kinship, locality, tradition, and occupation. This is something that should be apparent to anyone but seems to have escaped the Islamic economists.
Islamic economists generally assume that profit and loss sharing (mudarabah) is a viable alternative to interest. In mudarabah the bank enters into an arrangement or partnership with the suppliers or users of capital and the profit or loss is shared between the two parties. Islamic economists assume that in an Islamic economy profit and loss sharing would be the basis of all productive activities even if it meant that people would not have the right to allocate risk among themselves in a way that was consistent with their willingness to bear it. Furthermore, for people in profit and loss sharing ventures there would be more incentive to act opportunistically, as in the under-reporting of profit. The idea that Islamic ethical norms, as understood and presented by Islamic economists are clear and unambiguous and that the attainment of economic justice is simply a procedural matter has been critiqued by others and it is not necessary to repeat them here.

It should be pointed out, however, that when assumptions concerning the putting into practice of ethical norms are unrealistic, it follows that the economic models founded on such norms will be equally unrealistic. Apart from that, the preoccupation with Islamic ethical theories rather than empirical economic theories had led proponents of Islamic economics to make erroneous comparisons between the Islamic theory of development as an ideal with Marxist and liberal theories of actually existing development. It would be more appropriate to make comparisons between theories within the same genre, that is, ethical or empirical.

If what is meant by Islamic economics is empirical theories, that is, generalizations about observable economic reality founded on the process of abstraction and conceptualization, it would be difficult to refer to an Islamic science of economics, although we do have the scientific study of economies in Muslim countries, as well as the study of Muslim economic institutions and commercial techniques. Here, it is important to introduce the distinction made by Muhammad Baqir al-Sadr between economics as a science (Ilm) and economics as a school of thought (madhhab). Economic science deals with the interpretation of economic life, with both its outward forms as well as its underlying reasons, while an economic school of thought refers to the economic path that a society wishes to embark upon.

This distinction is extremely important. As al-Sadr says, the science of economics refers to facts and describes their causes and does not offer prescriptions as to what should and should not be. The function of science is discovery and that of the school of thought is evaluation. The implication of this distinction is important. What al-Sadr understands by the term "Islamic economy" (al-iqtisad al-islami) is an approach to the organization of economic life and not a science of economics. As he puts it, the goal of Islam is not to discover the phenomenon of economic life and state its laws. It has nothing to do with the scientific discovery of existing economic phenomena.

In contrast, Choudhury’s definition (of Islamic economic theory) as “the sum total of the historical, empirical and theoretical studies that analyse the human and societal needs in the light of an integrated Islamic value system” is much too broad to be helpful as it encompasses both what al-Sadr calls economic science and schools of economics without making a distinction between the two.

When Islamic economists are doing empirical theory, what is presented as Islamic economics turns out not to be an alternative to modernist discourse as far as empirical theory is concerned. The foci and method that have been selected by Muslim econo-
mists for economic analysis is essentially that of neo-classical, Keynesian or monetarist economics. The foci are the traditional questions that come under the purview of theories of price, production, distribution, trade cycle, growth, and welfare economics with Islamic themes and topics involved such as zakat, interest-free banking, and profit-sharing. There are at least three problems associated with this.

First of all, the techniques of analysis that have been selected, that is, the building up of abstract models of the economic system, have not been translated by Islamic economists into empirical work. For example, works on interest tend to construct models of how an interest-free economy would work. For example, according to Mahdi

"alternative economic models have successfully eliminated interest and using either Keynesian IS-LM framework or portfolio asset management approach have demonstrated that interest-free Islamic economy is feasible and desirable not only for Muslim countries, but for all countries."

There is no empirical work on existing economic systems and on the nature, functions, and effects of interest in these systems, in a manner that could be regarded in theoretical and methodological terms as a departure from mainstream economics. In general, Islamic economists are very much attached to the deductive methodological approach so characteristic of neo-classical economics.

Secondly, these attempts at Islamic economies have sought to ground the discourse in a theory of wealth and distribution in very much the manner that Western economic science does, as a glance at some of their works will reveal. When it is engaged in the sort of discourse that one could understand as constituting empirical theory, it is not doing so from a specifically Islamic economic approach, and despite their frequent references to numerous fundamental Islamic concepts, "Islamic economics is little more than one huge attempt to cast Islamic institutions and dictates, like zakat and prohibition of interest into a Western economic mould." What "Islamic economics" amounts to in neo-classical, Keynesian or monetarist economics dressed and made up in Islamic terminology. Islamic economics is very much embedded in the tradition of British and American economics in terms of its near exclusive concern with technical factors such as growth, interest, tax, profits, and so on. According to Sardar, over 80 percent of the Islamic economic literature is on monetarism.

Even where there is the use of empirical data, as in the case of studies of zakat collection and distribution, it is difficult to see what makes such economics Islamic other than the fact the subject matter concerns Islam and Muslims. Neither the theoretical nor empirical literature that is known as Islamic economics and that would come under the heading of what al-Sadr calls economic science, has generated new theories, concepts and methods from the tradition of Muslim thought or the experience of Muslim countries in a way that can justify our referring to this literature as Islamic economics or a new science of economics.

Furthermore, there is a host of conceptual issues that have not been seriously dealt with. For example, M. Nejathullah Siddiqi raised the interesting issue of the non-applicability of the concept of economic rationality in the analysis of behavior of Muslims. He suggests that the concept of economic rationality is unsuitable for analysis because it is unrealistic. This is a valid criticism that holds for the study of behavior in general, not just Muslim behavior. Islamic economists have suggested the concept of Islamic rational...
Islamic rationality in place of economic rationality. This, however, is a normative concept in the sense that it refers to conformity with Islamic norms. As such, it belongs to ethical and not empirical theories. So far, Islamic economists have not advanced an alternative concept of rationality that can serve as a cornerstone of an empirical economic theory, that is, a concept of rationality that specifies the attributes of economic agents as they exist and not as they should be.

The State and Development in Muslim Societies: Islamic Economics as Ideology

We have seen from the discussion above that Islamic economics, in attempting to ground itself in a theory of rational man and a hypothetical-deductive methodology, has merely substituted Islamic terms for neo-classical ones, retaining the latter’s assumptions, procedures, and modes of analysis. As such, it has failed to engage in the analysis and critique of a highly unequal world economic order in which the gaps are ever widening. That this supposedly anti-Western economics was co-opted and made to serve those very trends that it outwardly opposes must be considered. The main problem with this state of affairs is that under the guise of “Islamic economics” the policies generated in industrialized capitalist centers are implemented in the Muslim world and are legitimated, thereby undermining the very project that Islamic economics is committed to. For example, *mudharabah* is “reinterpreted and projected as a sacred religious principle to justify the maximization of profits under capitalism.” A host of issues relating to political economy such as uneven development, unequal exchange, bureaucratic capitalism, corruption, and the role of the state that have been addressed by structuralist, neo-Marxist, dependency, and new institutional economic theorists, are not dealt with at the theoretical and empirical levels by Islamic economists.

This suggests that Islamic economics plays an important role as ideology. Ideology refers to thought that is so interest-bound to a situation that the real conditions of society are concealed or obscured by the collective unconscious of a given group. This functions to support or stabilize the given order. The problems that beset Islamic economics in terms of its theoretical perspectives, methodology, and practical results are not disconnected from the political contexts of Muslim societies. As noted above, Islamic economics has generally neglected those areas of interest that have become the trademarks of neo-Marxism, dependency, and world-systems theories. Islamic economics, therefore, has been rather innocent of political economy, which is ironic considering the ominous role that the state plays in the Muslim world. Indeed, the neglect of the state in Islamic economics is in stark contrast to the all-encompassing presence of the state in Muslim societies. This neglect, however, is not ironic if we understand Islamic economics in terms of its ideological role. Islamic economics in its neo-classical guise, by this reading, can be considered as an academic argument for a form of state-led or state-dominated capitalist development that is prevalent in many Muslim countries.

The political economy of most Muslim countries is such that the state intervenes directly in the relations of production making surplus extraction and capital
accumulation a major political issue. Rather than the market or social classes it is the state that is the main driving force in the political economy of these countries. This is due to the autonomy of the state from the dominant classes. But what is important is the manner in which this autonomy is manifested. The notion of the autonomy of the state from dominant class interests implies that the state has interests of its own.

In Malaysia and Indonesia we have the ersatz form of capitalism, due to the peculiar nature of state involvement in development. Ersatz capitalism is capitalism that is based on state patronage, and the investment of transnational corporations and their technology. Muslim countries outside Southeast Asia are not even blessed with this less than dynamic form of capitalism for a variety of geopolitical reasons. The focus on ersatz capitalism leads to a consideration of patronage and related phenomena such as rent seeking and corruption. Capitalists are dependent on the state for assistance in order to be successful. Kleptocrats or corruptors extend various forms of favors to private capitalists, that encompass incentives, licensing, protectionism, low-interest loans from state banks, concessions, and joint ventures. The relationship between kleptocrat and capitalist is one of patron and client. This is a special relation between a politically powerful patron and a client who needs his/her protection due to the inadequacies of formal economic institutions. Therefore, the role that state officials play in advancing their private material interests takes its toll on economic development. Here we are referring to the activities of corrupt state officials. Their presence in various Muslim countries is sufficiently felt and has generated some research.

The kleptocratic state is one that is dominated by state officials who subordinate the interests of the public to their private interests. But the kleptocratic state refers to more than just a state in which corruption is present. It refers to a state in which the dominant means of capital accumulation is via corruption. Much of the debate in Asia on democracy and authoritarianism tends to overlook the fact that corruption is what Syed Hussein Alatas calls transystemic.

At best, under the guise of “Islamic economics” the neglect of issues that usually come under the purview of political economy such as the relationship between the state and the economy, and corruption, are tantamount to the legitimation of the status quo, the very state of affairs that Islamic economics claims it wishes to eradicate. At worst, Islamic economics in its neo-classical versions actively promotes the type of economic system that it claims to criticize.

Ibn Khaldun as an Exemplar for a Political Economy Approach

Political economy, that is, the study of the interactions of the state and economy, is virtually non-existent among Islamic development scholars. Whenever the subject of the state is broached, it is done so in terms of ethical statements and not in terms of analyses and empirical theory. While it is necessary to understand the political ideals of Islam, it is equally important to examine the realities. Statements to the effect that the Islamic state is an instrument of Allah and a symbol of divine power on earth are true and generally acceptable to Muslims. The problem lies elsewhere, that is, in the nature and functioning of contemporary states in Muslim countries. For this reason, the study of economic systems in Islamic countries has been neglected.

Ibn Khaldun is an exemplar for a political economy approach. He was the first to write about the state and economy, and the relationship between the two. His work on the decline of civilizations and the rise of new ones is a foundation for political economy. Khaldun saw the state as the driving force behind economic development, and the economy as a reflection of the state. He believed that the state was the primary source of economic growth, and that economic development was dependent on the strength of the state.

Ibn Khaldun’s work on the state and economy is a guide for political economy, and a challenge to the neglect of issues that usually come under the purview of political economy. His work on the decline of civilizations and the rise of new ones is a foundation for political economy.

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Ibn Khaldun’s work is a guide for political economy, and a challenge to the neglect of issues that usually come under the purview of political economy. His work on the decline of civilizations and the rise of new ones is a foundation for political economy.
of economic development in the Muslim world must lie within the field of political economy. Given the distinction made by al-Sadr between economic science and schools of economics, Muslim economists should dispense with the idea of developing an “Islamic” science of economics and instead concentrate on developing political economy perspectives founded on those traditional ideas that continue to be relevant. This must be done without neglecting the important contributions of existing modern perspectives in economics and political economy.

Islamic economists in search of an alternative approach to the study of development and the economy, that is, for an alternative science of economics that is original and has roots in the tradition of Muslim thought might do well to consider the work of Ibn Khaldun. Writing 600 years ago, Ibn Khaldun initiated a new field of inquiry consisting of, among other things, the study of the state (al-dawla), royal (mulk) and caliphate authority, and the crafts, ways of making a living, and occupations. In the language of modern economic science, what Ibn Khaldun concerned himself with was political economy.

Consider Ibn Khaldun on the transition from khilafah (caliphate) to mulk (royal) authority. The khilafah was a political institution, the exercise of which means

To cause the masses to act as required by religious insight into their interests into the other world. (The worldly interests) have bearing upon (the interests in the other world), since according to the Lawgiver (Muhammad), all worldly conditions are to be considered in their relation to their value for the other world. Thus, (the Caliphate) in reality substitutes for the Lawgiver (Muhammad), in as much as it serves, like him, to protect the religion and to exercise (political) leadership of the world.

The head of the Muslim state during the khilafah period was, therefore, the keeper of shari'ah, there to ensure that it was enforced. From the khilafah period we have a transition to what Ibn Khaldun refers to as mulk.

By dint of their nature, human beings need someone to act as a restricting influence and mediator in every social organization, in order to keep the members from (fighting) with each other. That person must, by necessity, have superiority over the others in matters of group feeling. If not, his power to (exercise a restraining influence) could not materialize. It is more than leadership. Leadership means being a chieftain, and the leader is obeyed, but he has no power to force others to accept his rulings. Royal authority means superiority and the power to rule by force.

Mulk is distinguished from khilafah by the ability of the ruler to rule by force. Although the rulers of the dynasties following the khilafah period continued to use the title of khilafah (caliph) many of them were not khulaifa (sing. khilafah) in the true sense of the term as they ruled by force and not by allegiance to the divine order. Thus, in the mulk periods of Arab history, the merchant classes were in constant danger of having their property confiscated due to the jealousy of their rulers. This injustice is to be understood in a more general sense then as the confiscation of property and money. It
includes forced labor, the imposition of duties not required by Islamic law, the collection of unjustified taxes and so on.

Ibn Khaldun’s account of the decline of the dynasty elaborates, as pointed out by Gellner, "a Keynesian theory of economics, clearly containing the concept of the multiplier." The difference is that Keynes blamed the middle class for inadequate aggregate demand while Ibn Khaldun blames the governmental propensity to save at a time when private investment is weak.

Curtailment of allowances given by the ruler implies curtailment of the tax revenue... Now, if the ruler holds on to property and revenue... then the property in the possession of the ruler’s entourage will be small... (When they stop spending), business slumps and commercial profits decline because of the shortage of capital. Revenues from the land tax decrease, because the land tax and taxation depend on cultural activity, commercial transactions, business prosperity, and the people’s demand for gain and profit... The dynasty is the greatest market, the mother and base of all trade, the substance of income and expenditure. If government business slumps and the volume of trade is small, the dependent markets will naturally show the same symptoms, and to a greater degree.

The political down cycle of a dynasty is correlated with the economic down cycle.

It should be known that at the beginning of a dynasty, taxation yields a large revenue from large assessments.

The reason for this is that when the dynasty follows the ways of Islam, it imposes only such taxes as are stipulated by the religious law, such as charity taxes, the land tax, and the poll tax. These have fixed limits that cannot be exceeded...

When the dynasty continues in power and their rulers follow each other in succession, they become sophisticated. The Bedouin attitude and simplicity lose their significance, and the Bedouin qualities of moderation and restraint disappear... Every individual impost and assessment is greatly increased, in order to obtain a higher tax revenue...

The assessments increase beyond the limits of equity. The result is that the interest of the subjects in cultural enterprises disappears, since when they compare expenditures and taxes with their income and gain and see the little profit they make, they lose all hope. Therefore, many of them refrain from all cultural activity. The result is that the total tax revenue goes down, as individual assessments go down. Often, when the decrease is noticed, the amounts of individual imposts are increased. This is considered a means of compensating for the decrease. Finally, individual imposts and assessments reach their limit... Finally, civilization is destroyed because the incentive for cultural activity is gone.

The result is a downturn in the production, fiscal, and political cycles of the dynasty.

The purpose of this brief discussion of Ibn Khaldun is not to present his political economy framework in any detail but merely to suggest that there is a mode of thinking in his work that is properly speaking political economy. Beyond that, there is a number of tasks that need to be taken seriously:

1. To include Ibn Khaldun in the history of economic thought by assessing his contributions to the study of the economy. There are already some works that do so, e.g., Olmstead.

2. To recognize Ibn Khaldun more fully in the history of economic thought.

3. An important question is the extent to which the ideas in Ibn Khaldun’s thought resonate with those in modern economic thought.

Conclusions

This brief discussion of Ibn Khaldun follows.

1. With the development of the modern discipline of political economy, it can be expected that the influence of Ibn Khaldun’s economic thought will increase rather than decrease. In the future, it will be possible to study the development of political economy in the Islamic world. Is it possible that the works of Ibn Khaldun have had a greater impact on the development of political economy in the Islamic world than those of some of the best-known figures in political economy in the West?
do this. Nevertheless, the task of reconstructing a Khaldunian political economy framework of analysis based on his theoretical contributions has yet to be attempted.

2. To develop a tradition of political economy based on his work. This would require the elaboration of a Khaldunian political economy framework that is then systematically applied in empirical studies. An example is my own work. I attempt to integrate a modes of production framework into Ibn Khaldun's theory of state formation, the field of application being Iranian and Ottoman history. While the economic system of Safavi Iran is couched in terms of Marxist concepts, their dynamics is explained in terms of Ibn Khaldun's theory of state formation. Ibn Khaldun's work provides us with a theoretical framework with which to understand the rise and dynamics of the Safavi and Ottoman polities.

3. A Khaldunian or any other approach can only be constructed and developed if there is serious attention given to the study of actually existing Muslim economic institutions and systems of the past as well as the present. This would imply going beyond merely specifying an Islamic ideal of development to the systematic investigation of the practice of Islamic economic institutions in history. While there are such studies, these tend to be done by non-economists who are not concerned with the development of economic theory. On the other hand, proponents of Islamic economics have generally not taken such works into account.

Conclusion

This brief assessment of the response of Islamic economists to the general issue of modernization yields a number of conclusions about this discourse that can be itemized as follows.

1. While economists have generally maintained the rigorous separation between positive and normative economics, in the Muslim world, however, concerted attempts have been made to relate moral conduct to economic institutions and practices. This is a result of dissatisfaction with both modernization and Marxist-inspired theories that are understood by Islamic economists as being located within the orbit of ideological orientations that are at odds with Islam. Demands for an alternative theory and practice of development to both modernization and Marxist theories had led to the rise of Islamic economics.

But while Islamic economic thinking presents an ideal of development that is based on an Islamic philosophy of life, it is beset by a number of problems which make it difficult to be considered as an alternative to modernist discourse as far as empirical theory is concerned. As such, so-called Islamic economics cannot be considered as presenting an indigenous and alternative development theory. As an ethical theory of development Islam offers an
alternative to modernization, dependency, and neo-Marxist theories. However, as an empirical theory, so-called Islamic economic theory remains within the fold of Western modernist discourse in terms of its theoretical concerns and methodology.

2. Islamic economics is innocent of political economy. It generally neglects the role of the state as far as empirical theorizing is concerned. Problems to do with corrupt leadership, a weak civil society, and the lack of will to implement good laws and to build sound executive, legislative, and legal institutions that lie at the heart of the economic problems of a good many Muslim countries are not priorities in the research agenda of Islamic economists.

3. That any theory of development must take into account the role of the state as well as civil society is obvious. Islamic economics, however, tend to shun a political economy approach. This is despite the fact that there is a tradition akin to the political economy approach in Islam.

4. A more creative approach among Muslim economists would result neither in the uncritical adoption of Western models and theories of development with the customary terminological adornments, nor in the wholesale rejection of the Western contribution to economic thought, but in a system that is cognizant of the realities of economic life in the Muslim world and that is not innocent of political economy. An exemplar for this approach would be Ibn Khaldun.

5. Such an approach must be accompanied by historical and empirical studies of existing Muslim economic institutions and practices to aid in the process of concept formation and theory building as well as to provide lessons for contemporary applications.

Notes


13. Ibid.


21. Ibid., 146.


31. Ibid., 18–27.


36. The table draws on data from *Contemporary Economic Data*, compiled by *The World Bank*.


38. For a comprehensive treatment of economic modernization in Islamic countries see *The Islamic Economic Development* (Jeddah: International Centre for Research in Islamic Economics, King Abdul Aziz University and London: The Islamic Foundation, 1980).


31. Ibid., 173.


38. For an excellent survey of Islamic economics as ethical theory see Siddiqi, “Muslim Economic Thinking,” 194–235.


42. Ibid., 13.

43. Ibid.

44. For more on the problematic nature of assumptions regarding economic justice in Islamic economic discourse see Kuran, "On the Notion of Economic Justice in Contemporary Islamic Thought," 171–91.


48. Ibid., 29.


53. Ibid., 131.


60. Ibid., 43.


70. Syed Hussein Alatas, Corruption.


76. Ibid.


