ISLAM, CAPITALISM AND UNDERDEVELOPMENT

Timur Kuran and Murat Çizakça on the Great Divergence

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Abstract: The debate over the causes of the Muslim world lagging behind the ascent of Western Europe and failing to evolve adequate institutional and financial tools to counter the challenges of Modernity is of keen interest to economic historians. Works addressing this complex issue by two leading Turkish scholars, Professors Timur Kuran and Murat Çizakça, provide a focus for discussion of this debate and are here summarized and the authors' divergent theses contrasted. At the heart of the debate is the question whether Islamic religious and legal structures inadvertently or directly hindered Muslim societies in the Middle East over the past several centuries from modernising their economic and financial systems. Furthermore, is there a viable alternative form of capitalism found in Islam? Several critical responses or contrasting views (M. Shahid Ebrahim, *et al.*, 2012) are briefly presented, along with the implications for Islamic economics.

Introduction

Islamic finance, banking and economics have blossomed into a major set of disciplines over the past three decades and now attract the serious attention of non-Islamic entities and institutions worldwide. Dramatic changes occurring in the world economy are bringing social, political and economic dispossession in Europe and North America. The real estate and derivative bubbles which induced the Great Recession in 2008 have been replaced by bond, stock and currency bubbles. Ongoing debt monetisation to the amount of US\$1 trillion annually by the U.S. Federal Reserve threatens the US dollar's role as the world's reserve currency. The capitalist-inspired ethic of endless affluence and heedless waste threatens to overwhelm nature's capital (our natural resources). The capacity of Earth's ecosystem to absorb waste is being exhausted, reducing the ability of Earth to support life. Some informed observers view our present reality as the crisis of free-market capitalism forcing globalisation into its destructive endgame.²

We are also witnessing a shifting of wealth to the East, with the rise of Asian middle classes offering tremendous potential for profits to be captured by transnational global corporations. Shariah-conscious marketing is expanding rapidly in all sectors, while a distinctive Halal "lifestyle" is promoted. Several Muslim observers share the conviction that an authentic form of Islamic capitalism has always been an historical reality, which may offer a potentially

viable alternative to the current world economic system led by an elite oligarchy of powerful private interests. Ideally, such an Islamic–motivated alternative might serve as a necessary corrective to the excesses of self-serving private interests controlling the prevailing financialised form of capitalism. This worldwide system operates with an instrumental rationality marked by calculation and efficiency, reducing all relationships to those of self-interested means and ends, transforming by its Midas touch even the personal relationship of trust and mutual cognisance that formerly animated commercial exchanges in the historical past.

Could an Islamic alternative offer a more ethically directed and risk-averse economic theory for sustainable human development in the 21st century? If markets are not organically embedded in society to serve an equitable social purpose for the well-being and dignity of all, they become monopolised by private interests tending to inequity, insecurity and conflict (*fasād*). However, to institute a fresh economic model informed by authentic Islamic principles and practices would require multiple reforms in political and educational systems, wise and informed leadership, cultural awareness invigorating civic society and a genuinely creative engagement with the timeless values and higher aims of Islam’s rich legal and ethical legacy. Most observers agree that these conditions have not yet been achieved within Muslim society, which does not mean that they can never be achieved.

The Great Divergence

Industrialisation dramatically changed the European economy and allowed it to attain much higher levels of wealth and productivity than other world regions. Our current world economic system represents the latest form of marketisation spread by industrial capitalism over the past several centuries through the various European colonial projects. Why did Europe alone among the great civilisations of the world achieve such a profound transformation in output and productivity by the nineteenth century? The notion of a European miracle³ projects a self-serving exceptionalism: since the Early Modern period Europe rose to dominance ahead of the Islamic and Chinese civilisations by forming a progressive capitalist society and economy, which was supported by the industrial revolution. It attained complete domination of world trade and politics through expansive imperialism, remaining unrivalled until the mid-twentieth century.

Closely related to this Eurocentric vision is the idea of the “Great Divergence” (a term first coined by Samuel Huntington): the rising disparity in wages, prices and economic development between Western Europe and Asia during the period 1500–1800, and more emphatically during the nineteenth and twentieth centuries. This divergence signalled the era of socio-economic dominance of Western European civilisation, an historic shift wherein European societies

outstripped Asian societies during the modern era in every field of endeavour by means of their superior technology and scientific applications, innovative mercantile enterprises, evolved financial structures and institutions and a dynamic individualistic commercial spirit. A unique aspect was the growth of accounting procedures, an impersonal financial infrastructure, banking and insurance institutions, and large scale business enterprises in key European cities, all vital to the rise of Europe and its dominance over Asia and other continents. Western technology and economic practices did eventually spread to the East, yet differences in application and a distinctive knowledge culture preserved the European lead and accelerated the Great Divergence.⁴

We present a closer look at the three theses to better comprehend the issues being debated and their complex implications for any presumed Islamic economic alternative. The consistent concern animating all three views is the recognition that institutional conditions hold the key to understanding how the past has shaped the present, and if reworked afresh through informed engagement with Islamic principles, might offer a way forward toward possible resolution. Examining these views may enable one to gain a deeper appreciation of the significance of this long standing debate, which has recently increased in both intensity and urgency due to the growing industry of Islamic banking and finance.

Timur Kuran: *The Long Divergence*

Timur Kuran is Professor of Economics and Political Science at Duke University in North Carolina. He has a sound reputation for his work on the political economy of Muslim societies in the Middle East,⁵ and he has already advanced many of his basic insights in a series of well-researched articles which attracted wide attention.⁶ In this detailed wide-ranging work Kuran seeks to demonstrate that the institutional roots of economic underdevelopment in the Middle East by the nineteenth century are bound up with the larger question of why the modern economy emerged in northwestern Europe and not the eastern Mediterranean. Middle East is here defined to include the Arab countries, Iran, Turkey and the Balkans, though he understandably focuses especially on the Ottoman regions.

Kuran rejects common explanations for the “long divergence”: why the Middle East remained economically retarded and was late in adopting key institutions of the modern economy originating in Western Europe. Conventional Western wisdom until very recently has been, he explains, that “Islam opposes innovation ... so Muslim social structures resisted adaptation and advancement” (ix). In contrast, Muslim apologists assert it was the pernicious effect of colonial exploitation which induced deep stagnation and spread ignorance and poverty. Kuran correctly dismisses this as a self-serving distortion. “In lamenting the demise of traditional institutions, the Islamist interpretation ... asserts that

traditional Muslim institutions performed ideally until inferior European institutions took their place. It thus overlooks that useful institutions might become dysfunctional as the global economy evolves” (37). Rather, the colonial period brought fundamental transformation, rising literacy and education, and enrichment at unprecedented rates. Kuran notes:

The Middle East fell behind the West because it was late in adopting key institutions of the modern economy. These include laws, regulations, and organizational forms that enabled economic activities now taken for granted in all but the most impoverished parts of the globe: the mobilization of productive resources on a huge scale within long-lasting private enterprises and the provision of social services through durable entities capable of transformation. Well into the nineteenth century, the private sectors of the Middle East were composed of atomistic enterprises that did not outlive their founders. When individuals pooled resources in profit-making enterprises, their cooperation was meant to be temporary, often no more than a few months. By that time, most of the now-advanced countries had developed institutions essential to the mass mobilization of savings, the lengthening of individual planning horizons, and the exploitation of new technologies. Therein lies a key reason why the Middle East fell behind in living standards and why it succumbed to foreign domination. In a nutshell, that is the thesis of this book. (5)

By the eighteenth century “the Middle East’s economic infrastructure would become dysfunctional” and “the region would need to transplant from abroad an entire institutional complex” (279). Kuran focuses upon what he identifies to be significant inefficiencies which cumulatively were mutually reinforcing and blocked the required institutional transformations essential for global competitiveness. Chief among these institutions which eventually became dysfunctional in the modern period are frozen *waqf* assets; the adverse effects of Shariah laws of inheritance and polygyny on contract partnership law and on the flexibility or long-term continuity of business partnerships; atomistic financial markets; and courts inhospitable to impersonal mercantile exchange. All these were rooted in medieval Islamic institutions, and their effects mutually combined to delay the economic modernisation of Islam, which only occurred because of the active interference and penetration of European trade and business in areas of the Ottoman Empire through the fiscal impact of the notorious Capitulations granted by the Sultans to European powers and their agents.

Implications. His concluding chapter “Did Islam inhibit Economic Development?” (279–302) recapitulates the arguments advanced in this book. Throughout Kuran’s critique of the supposed retarding effect Islam exercised in first deflecting, and then postponing, modern capitalist commercial practices such as joint-stock trading companies as well as corporate institutions such as

banks, thereby hindering these from taking root in Muslim societies, a persistent major theme emerges. This is his insight that Islam's financial and mercantile ethos privileged the personal nature of social transactions built upon mutual trust, individual cognisance of communal responsibility and sincere expectation of adherence to moral guidelines animated by the salvational value of proper use of wealth and higher aims of economic activity for human welfare and divine approval (see esp. 34, 63, 248, 293–95). While Kuran emphasises the unintended retarding effect of Islam's privileging the personal nature of economic transactions centred on trust and mutual cognisance, he is quite clear in asserting that the impersonal modes of exchange animating corporate identity developed and spread by Europe are preferable and necessary for the modern economy to succeed (see esp. 63–4, 89–92, 209–210, 238–46, 251–53). The clear implication is that key economic institutions of modern capitalism remain the privileged mode for both financial and social transactions and should necessarily be embraced in order for Muslim societies to fully experience the current mode of modernity being promoted by private-sector-driven market capitalism with its debt-based financial structure and monetisation. Professor Kuran never recognises this in an explicit manner. With his comparative institutional focus and broad historical perspective, Kuran appears to ignore the wider social and environmental costs and hidden “externalities”⁷ of market behaviour flowing from the European innovation of defining impersonal corporations as fictional legal persons acting as rational economic agents.

The universal validity of global market capitalism, which penetrated all continents through the agency of the European colonial enterprise, is never questioned. The subsequent marketisation of human life has entailed severe consequences in wasteful planetary resource depletion and ecological degradation, uprooting of traditional faith values with an impaired sense of the sacred, and subservience to the controlling profit-interests of transnational financial cliques serving only themselves. Are these baneful effects merely to be deemed (to use Kuran's term) as “unintended secondary consequences”? For Professor Kuran the impersonal exchange at the heart of the market economy appears as an unavoidable reality if not an unquestioned benefit. He fails to address the question whether Islamic historical and institutional experience might offer a possible alternative to institutions of modern consumer capitalism; e.g., whether the primacy of social transactions for ethically ordered economic life, or of private endowments offering social services, might be desirable goods which could be revived or recast in more adequate forms for contemporary needs and conditions.

Murat Çizakça: *Islamic Capitalism and Finance*

Murat Çizakça is Professor of Comparative Economic History and Islamic Finance at the Global University of Islamic Finance (INCEIF) in Kuala Lumpur. Professor Çizakça is widely respected for meticulous research into the Ottoman Archives and comparative economic institutional studies between the Islamic world and Europe and has published a major study of the *Awqāf* institution.⁸ Professor Çizakça expressly aims to equip Muslim financial engineers with enough knowledge of past Islamic experience and institutions to aid them in their current and future tasks of building an authentic system, so his book is both analytic and prescriptive. His colleague at INCEIF, Professor Abbas Mirakhor,⁹ states in his caption on the back cover of Çizakça's book: "It is all at once an exploration in analytic history and a complete text of Islamic finance theory and application. It is also one of the most succinct renditions of evolution of Islamic finance embedded in a comprehensive account of particularities of economies as diverse as Malaysia and Turkey." Çizakça provides an informed overview of the economic systems currently emerging in Islamic societies through case studies of enterprises in these two countries (Part IV: "Islamic Capitalism and Finance Today", 99–226), which puts flesh on the bones of his historical and theoretical review. However, for our purpose we shall concentrate on Parts I–III (3–95) which give an historical and analytical exposé of the financial institutions and mechanisms in the classical Islamic period, for the reason that Çizakça's treatment is directly relevant for comparison with Kuran's thesis summarised above. This is not to deny the value and importance of Parts IV and V, which treat very significant issues at the heart of contemporary Muslim finance.

In his Introduction (xiv–xxiv), Çizakça explains his chosen term "Islamic capitalism" to denote "the economic system practised by the Islamic world from the seventh century to roughly the middle of the thirteenth century", given that "the three most important rules crucial to economic development identified by the Western new institutional economics – property rights protection, enforcement of contracts and good governance – constitute the essential principles of the classical age of Islamic capitalism as well" (xiv). Çizakça insists that the Islamic capitalism existing during the first seven centuries of Islam "was an economic system derived basically from the Qur'an and Prophetic tradition". The main reasons he invokes to defend using this phrase are that the Prophet and leading Companions were merchants, that "the bulk of the Islamic jurisprudence was written down by men, most of whom were merchants," and that "great Islamic philosophers also had firm opinions about markets" since "most of them had been appointed as *muhtesibs*, officials in charge of markets, and earned their living as such" and therefore "had a profound understanding of the way markets actually

functioned” (xiv–xv). Among such great philosophers Çizakça names al-Shatibi, al-Ghazali, and Ibn Khaldun.¹⁰ He further stresses the well-known prominence of commercial and trading metaphors in the religious topoi of the Qur’an and Islam, and that the original Islamic economic system “favours merchants, property rights, free trade and market economy,” as well as ownership of the factors of production by private persons, profit making and capital accumulation. An added factor (which Çizakça discusses later) is the bimetallic monetisation of commerce which Islam established and internationalised. He argues that this type of economic system is in fact “pre-industrial, commercial capitalism”:

Because an economic system which favours merchants, and respects property rights and free trade, applies the principles of market economy and market wage rate and treats interference in the markets as transgression and sinful would be considered capitalist, I have no qualms about calling this Islamic economic system as such. ... [T]he West should not have a monopoly over this term, particularly because many important principles, institutions, even laws, of the medieval Western European economy, which formed the nucleus of the modern Western capitalism later, have been borrowed from the Islamic world. ... The capitalism that I am referring to here is pre-industrial, commercial capitalism. It naturally differs from the industrial capitalism referred to by Adam Smith and Karl Marx. (xv–xvi)

Shariah Values. In Part I “Value Systems Behind Institutions” (3–25) Professor Çizakça describes the two contrasting approaches to Islamic economics and finance:

- the dominant “Shariah compliant approach” based on conventional banking borrowed from the West which now prevails; and
- a potential truly “Shariah based” value system drawn from a profound historical understanding of Islamic financial institutions and how they operated over centuries.

This second approach requires “modifying these historical instruments or designing completely new ones,” because “[i]f Islamic finance is to emerge as the heart of a viable alternative capitalist system, it must progress from being Shariah compliant to being Shariah based” (3). Çizakça emphasises that this progression demands Islamic practitioners “try to understand and apply the substantive spirit of Islamic law ... by understanding the economic functions served by classical legal provisions and principles” or of “the way the substantive spirit of Islamic law has been applied throughout history.” Çizakça therefore proposes that “a grand synthesis of legal/economic thought combined with historical application leading to a study of institutional evolution emerges as *conditio sine qua non* for the Shariah based approach” in order to grasp and apply the substantive spirit of Islamic law (4). Without such a challenging and ambitious synthesis,

Islamic finance cannot develop its own authentic Islamic instruments.¹¹ Çizakça is realistic and blunt, yet at the same time optimistic, when he clarifies that what currently passes for Islamic finance in truth largely mimics conventional Euro-American finance:

So far, Muslims have been free-riding on financial theories and instruments developed by the West. Unless Islamic finance develops its own genuinely Islamic financial instruments, it cannot achieve the dynamism of a system that provides the security, liquidity and diversity needed for a globally accepted financial system, which would be a genuine alternative to the present debt-interest-based international system. ... The essence of the approach is the realization that there is a substantial difference between the Western *homo-economicus*, the rational man, who has discarded all religious and ethical teachings and acts purely to maximize his profit, and the *homo-Islamicus*, the Muslim person, who also tries to maximize his profits but does so subject to the laws and ethics of Islam. (5)

So Çizakça accepts that in the modern era Muslims took over and applied financial theories and instruments from Western Europe and disregarded their “own genuinely Islamic financial instruments” sourced in and arising from “the substantive spirit of Islamic law”. Kuran’s thesis that Islamic law contributed indirectly to the inadequacy of classical financial and economic instruments or institutions in the modern era, thereby leading to Muslims adopting European models, may possibly not contradict Çizakça’s discussion.

Çizakça outlines his understanding of the principles of Islamic capitalism being rooted in fundamental Islamic creedal axioms including *tawhid*, prophecy, human dependence on Allah as Creator and the task of a mid-most community. He sketches the implications of these axioms for the main features of Islamic capitalism: interest prohibition, profit taking and market exchange. Çizakça maintains these creedal axioms “lead to powerful auto-control, contract fulfilment and a reduction of transaction costs” (11), emphasising that Islam’s classical economic system was based on voluntary self-control augmented by an informal mode of distributive justice. Regarding the issue of redistributive justice, Çizakça observes:

It has been argued that in comparison to Western economic thought which, from Rawls to Sen and Nozik, requires comprehensive government intervention on a continuous basis, in an Islamic society the state’s role is one of administrator, supervisor and protector of the society. In such a society, it is the members of the society themselves, governed by their personal beliefs, who ensure that social justice prevails. It is argued further that in such a society poverty would be eradicated. If it is not, the mere existence of the phenomenon [of widespread poverty] constitutes *prima facie* evidence of non-compliance with the rules of Islam. (21)

While no upper limit was imposed by jurists on private wealth accumulation, nevertheless massive wealth circulating forever among a few was considered a serious transgression. Islam ideally expects Muslims to redistribute privately accumulated wealth through voluntary means to ensure a justly balanced society. Furthermore, with regard to curbing inequalities through taxation, he states: “The problem of disincentives caused by taxation is not relevant for Islamic capitalism. This is because Muslims are expected to notice income inequalities and act upon them voluntarily by paying *zakat*, *sadaqa* and establishing *waqfs* ...” (14). On profit taking Çizakça observes: “Generating profits by hurting others, or by violating the basic principles of Islam, is considered as transgression. Consequently, a Muslim business man is obliged to control himself and to see to it that his profits are earned through *halal* transactions” (12). The ideal for market activity is to observe self-regulation and rule-compliance, while capital accumulation is “subject to ethical and voluntary self-controls and redistribution of wealth” (18).

This strongly suggests that the entrenched and widespread poverty in many contemporary Muslim majority societies reflects a failure to adhere to and implement basic Islamic principles. Çizakça’s emphasis upon the voluntary self-controlled market ideal that minimises state interference appears to reinforce the crucial idea of the personal nature of financial and mercantile transactions in the classical Islamic system. He provides descriptions of how a Muslim would behave as a worker, an employer, a merchant, a consumer, and a saver, when he is properly imbued with these values (21–22). For example, the consumer would avoid conspicuous consumption, aware that God dislikes extravagance or squandering of resources: “while property ownership is respected, waste and extravagance are discouraged” (14). Wealth accumulated lawfully should not encourage extravagant indulgence nor a miserly lifestyle, and rational choice inevitably leads to charitable sharing and philanthropy. With this snapshot of the basic values of Islamic economics, Çizakça moves on to provide an historically grounded overview of the institutions which emerged out of these values and translated values into practice.

Islam imposes limitations on disposing of property, whereby individuals have the obligation not to waste, squander or destroy, or to use property for selfish extravagance or unlawful purposes such as bribery and nepotism. “Property rights over natural resources are placed in trust of either the state or the society in the form of commons” (14). The Islamic system teaches the duty of sharing the product or the income derived from it or the wealth obtained from its sale. Such income or wealth is cleansed from the rights others have in them through payment of *zakat*, since the Qur’an recognises the rights of the poor in each person’s income. The characteristic hallmarks of the Islamic economic system

are described by Çizakça to consist of partnership, legitimate ethical profit and sharing of risk and gain.

Democracy and Capitalism. Does Çizakça overly idealise the ongoing relevance and utility of the “substantive spirit of Islamic law” for creating new institutional forms to forge a new Islamic economic system which may operate globally? He points to the importance of the *maqāṣid al-Sharī‘ah* for providing the propitious political framework within which Islamic capitalism and its financial institutions may flourish. In his final chapter (“Democracy and the modern Islamic capitalism”, 276–292) Çizakça argues that the five traditional components of the Higher Aims of Islamic law require being explicitly extended to embrace a sixth fundamental axiom, namely democracy. He stresses that Islam possesses an inherent preference for democracy evidenced by the prohibition of interest, the primary motive of which “is to lead Muslims to an economic system characterised by a spirit of sharing.” He continues,

Risks, profits and losses must be shared in a true spirit of partnership. Indeed, partnership and contract/covenant are considered to be at the very heart of Islam. ... There is therefore no doubt that the Islamic political system must also be characterised by partnership, sharing and brotherhood. Obviously, what is to be shared here is political power. ... In short, if we deduce from the interest prohibition that profits, losses and risks must be shared in Islamic finance, by analogy, *qiyas*, we deduce further that power too must be shared in an Islamic political system. Democracy is, therefore, perfectly harmonious with Islam because it is the institutionalisation of the idea of power sharing. (287)

The historical experience of Muslim polity dominated by authoritarian rulers and dynasties does not reflect the original intent of Islam in Çizakça’s view but rather the impact of Byzantine and Sasanid imperial example, which captured the state structure in early Islamic centuries. There is much to say in favour of this argument proffered by Çizakça regarding the need for a democratic political environment conducive to the emergence of a properly Islamic economic system in the modern world. Nevertheless, his extending the condition of representative or democratic power-sharing in Muslim polities as the needed precondition for truly manifesting a genuine Islamic economic system embedded in properly conceived institutions will only make some of us despair, given the depressing reality in so many Muslim-majority societies.

Implications. Çizakça’s call for erecting a “grand synthesis of legal/economic thought” by means of historical scrutiny and conscientious modern financial engineering is ambitiously far-reaching, yet it has the virtue of not being self-deluded concerning the true nature of current economic practices of Islamic banking and financial institutions. Certainly he provides many relevant examples

and insights which suggest that such a synthesis may be possible. He urges Islamic economic theory to develop “its own genuinely Islamic financial instruments”, apparently the task to be accomplished by those Muslim financial engineers for whose benefit he seems to have written his book. Are these creative individuals who shall engineer the new Islamic capitalism the investment brokers, wealthy bankers, and scholar–entrepreneurs who labour in the enterprise of Islamic banking and finance? Are they the teachers and professors of Islamic economics in universities, institutes or think-tanks, or officials in ministries of certain governments, or the well-paid contemporary Muslim jurists (*fuqahā*) serving on the Shariah-compliant boards of banks, investment firms and large corporations? All theory and institutional practice must weather the reality of their human exemplars, the persons who understand and apply ideas and practices. This has always been the weak point in grand systems intended to benefit humanity and promote the well-being of society: the shortcomings and distortions or deflections perpetrated by individuals for numerous self-serving reasons or in response to unavoidable forces and conditions.

It might be that such individuals who are heavily involved in the banking and financial industries, which as Çizakça explicitly states are “free-riding on financial theories and instruments developed by the West,” or who work in the modern enterprise of higher education, which effectively serves those industries,¹² could exemplify the *homo-Islamicus* whom Çizakça holds up as the ideal model. Perhaps Çizakça is demanding too much of such individuals: to master thoroughly the intricacies of juristic financial instruments and institutions (a vast 1400 years tradition), to become versed in the historical applications of this Islamic legal tradition, and to comprehend well the nature and functions of this original Islamic capitalism in contrast to that of conventional capitalism. Only then may the Muslim geniuses serving as financial engineers create their own authentic modern form of Islamic capitalism.

The Long Divergence and Islamic Capitalism. Professor Çizakça has replied to Kuran’s thesis in some detail in his article “Was Shariah Indeed the Culprit?” (see above), while Çizakça’s book implicitly builds a coherent vision of what a genuinely Islamic financial system or Shariah based synthesis might actually look like, namely his vision of authentic Islamic capitalism. Çizakça states in his review of Kuran’s *Long Divergence* (the *MESA Bulletin*, Fall 2011) that it is “a most informative book and may make contemporary Muslims wonder whether a forthcoming second codification of Islamic law should heed some of the warnings of the author”. Although Kuran and Çizakça may appear to differ on the primary cause of the Great Divergence and whether Muslim jurists were inadvertently constrained in the possibility of evolving more adequate forms of hallowed institutions to address evolving needs, it would be inaccurate

to view them as in essential disagreement regarding the inadequacy of many of the financial instruments and legal structures which the jurists had evolved in the past. Both of these learned economic scholars converge on the need for fresh creative thinking to meet present and future requirements for forging more adequate institutional vehicles embodying an Islamic economic system.

Nevertheless, Kuran's goal is almost exclusively descriptive, comparative and analytical within a broad historical perspective. While Çizakça also provides a broad historical overview with less comparative material, he includes many more topics than Kuran (taxation, *sukūk*, *takāful*, *maqāsid al-sharī'ah*, democracy, the gold dinar, venture capital). Furthermore Çizakça concentrates on modern practices and enterprises in some detail and reviews the experience of the JOHOR Corporation, of *Tabung Haji*, and of *Permodalan Nasional Berhad* (all three in Malaysia) as possible institutional models for an Islamic capitalism. His primary goal is prescriptive, namely to encourage the contemporary practitioners and theorists of Islamic economics to re-evaluate their understanding of the historical legacy of Islam's juridical experience, to deepen their grasp of essential principles and techniques, and to attempt to forge creative responses to the urgent requirements facing their society and institutions. One also detects an unmistakably sincere tone of faith-conviction in Çizakça's work (with his abundant citations of Qur'an and Hadith), which is entirely lacking in Kuran's more abstractly neutral book. Perhaps this reflects the reality of the differing environments in which the two live and work.

Therefore it is plausible to understand these two scholars as working on the same task but from varying perspectives and goals. Kuran seeks to uncover the institutional shortcomings which hindered Muslims from responding more effectively and with greater authenticity to the challenges forced upon them by an aggressively expansive and commercially more sophisticated European penetration of Muslim markets, facilitated by the indigenous non-Muslim agents whom they employed and relied upon. His real concern is comparative and historical, but this does not imply that Kuran is not concerned with conveying a prescriptive lesson as well. By pointing to specific shortcomings and inadequacies in the inherited instruments and institutions, he clearly implies that if the Muslim jurists had been more alive to the social and economic realities of their community and more concerned with the welfare of merchants, artisans and workers who were adversely impacted by European penetration and activities, then perhaps a different, more adequate response could have been evoked. Both of these scholars concur that for Islamic societies to succeed and flourish in today's global economic environment, important adjustments or transformations need to be accomplished in the rich legal and social legacy of *homo-Islamicus*. Interestingly though, neither of them dwells overly on the shortcomings of the

jurists as a class or their institutionalised incapacity to evolve fresh forms of tried and true financial instruments. This is precisely what the authors of our third text undertake to do.

M. Shahid Ebrahim *et al*, and Perennial Underdevelopment

The first three authors of this forthcoming joint research paper teach at Bangor University in the UK and the fourth at Leeds University. Although a relatively short article, it summarises a great deal of information and succeeds in presenting a coherent thesis concisely argued. Both its comprehensive nature and ample documentation, as well as the care taken to address the key issues involved in the debate we are examining, encouraged us to include a brief appreciation of the arguments it advances. The authors begin by paying attention to the current discussion in academic literature concerning the weight which religious beliefs may play in shaping economic life. They then attempt to arrive at some sort of resolution of the debate over the Great Divergence by reviewing chief points in Kuran's works and the reservations raised by his critics and respondents. Kuran sees specific Shariah structures as impediments, while his critics may view them as facilitators. Ebrahim *et al.* are generally receptive and positive about Kuran's thesis and appear to agree with his thesis in the main, even as specific points are questioned or depreciated. (For example, Kuran's argument about the role of primogeniture in Europe and his conclusions about inheritance laws are questioned or undermined).

In Section 3.2 the authors review several contrasting theories as to whether Islam hinders growth,¹³ including A. Malik's argument that European commercial success was "aided by a combination of commerce, coercion and colonization". Given the historical conditions of long-distance trade, overseas expansion and European inter-state rivalry, commercial enterprises in Europe invented new organisational forms and financing instruments which led ultimately to the appearance of corporate entities which were impersonal and long-lived, separated ownership and control and mobilised long term capital through joint stock companies. Malik views such legal and corporate innovations partly as a response to the exigencies of war-making states and overseas commercial competition. He also lays responsibility for Muslim degeneration upon the fiscal policies of the Ottoman Empire, which stifled private initiatives. The authors synthesise these views by affirming that "there is no absolute evidence that Islam hinders growth."

However, the authors do not concede that the shortcomings or hindrances were solely institutional and insist strongly that the real responsibility must be laid at the door of the jurists themselves and the rigid uncreative mindset which they exhibited (see esp. Section 4, "Rationalising the Perennial Underdevelopment of

the Muslim World”, 12–30). This constitutes the thrust of their main argument, which revolves around “the criticality of *ijtihad*”. The cultivation and effective implementation of such “individual-reasoning-exertion” became stifled over time within Sunni Islam, and therefore “the possibility of developing and evolving new theoretical and hermeneutical frameworks became virtually impossible” (13). They succinctly review the main modes of reasoning techniques practiced by jurists, as well as the circumvention of the prohibition against interest through ruses. As modernity brought about more complex market structures, the long term consequences were devastating. This has resulted in the general incoherence of so-called Islamic banking and finance: “To date, there is still no clear formulation by the jurists of the economic rationale behind the core Islamic injunctions related to financial matters, which led to the apparent disconnect in the present practice of Islamic banking and finance” (16).

The authors then offer a very short allusion to the theological inadequacy of Sunni orthodoxy (Ash‘arī *kalām*), which privileged a determinist creed where human rationality was downplayed and reason or natural law was subordinated to divine revelation. In several paragraphs the authors characterise Ash‘arite theological dogma as failing to produce a viable ethical basis for a rationally-grounded non-revealed legal framework. Extrapolating from this (rather inadequate) snapshot of Ash‘arite theological dogma, the authors reach the conclusion that “no system of ethics has been worked out by its theologians and jurists that may serve as a foundation for natural law or human positive law” (17), and thus a gap between theory and practice has arisen. Furthermore they assert that “customary law had no official *locus standi* in jurisprudence.” They next apply the implications of their conclusions to the manner in which jurists worked out their understanding of the various financial instruments in contract law, characterising certain aspects of juridical practice (e.g. banking *murāba‘ah* in the form of a *tawarruq* loan) as a “violation of the *Sharī‘ah*” (20). The authors conclude that “the current practice of Islamic banking, which is based on implementing medieval (and often inefficient) Islamic financial instruments, is nothing less than the failure of the religious establishment to engage in *ijtihād*” (20).

They trace this failure back to the orthodox theological dogma of Sunni Islam which discouraged a fully independent rational basis for law and creed. The rudiments of Islamic financial terminology “have remained a static edifice, as its formulators did not keep pace with the changing intellectual environment” (22). Thus, “the monopoly that the jurists have enjoyed on formulating, interpreting and articulating the religion has had a detrimental effect in the recent history of Muslim communities, especially in the field of economics.” Islamic law became stagnant and closed-minded, which “contributed to the inability of the society as a whole to grasp their situation in a rapidly changing environment” (24). The

authors conclude that the “long divergence” is due to the “lack of understanding of the economic aspect of injunctions like that of *ribā*, which basically enjoins property rights and co-operation”. They continue:

This deficiency in understanding the crucial injunction led the Muslim world to: (i) give in to autocratic rule for centuries without resisting it; (ii) eschew the development of independent judiciary to protect the property rights of the masses; and (iii) avoid the development of institutions for their economic advancement” (25).

Such sweeping conclusions along with harsh or dismissive portrayals of the negative impact of Sunni legal and theological thinking and institutional functions may strike many informed thinkers as unjustified and overly simplistic. The far-ranging judgement the authors pass upon the disappointing consequences of Ash‘arite theological dogma, based on skimpy references or on the competence and motives of jurists, is difficult to accept without reservations. Attributing authoritarian abuse and medieval despotic governance to juridical misunderstanding of fundamental Shariah injunctions also appears to be a giant leap or over-simplification. Perhaps when individuals trained in Western disciplines of economics and financing trespass into the domains of Islamic religious disciplines of *kalām* and *fiqh*, simplifying characterisations or facile conclusions are to be expected. Scholars trained in these classical Islamic disciplines with competence in the vast body of Arabic literature may find the portrait offered by these authors a caricature. This factor appears operative to some degree with all contemporary economists working in the field of Islamic finance and banking. Not being trained in classical Muslim jurisprudence nor familiar with the interpretive tradition recorded over centuries, these economists tend to rely on the works of other specialists who display competence in these fields (e.g., scholars such as Professor M. Hashim Kamali), exploiting the results of their research for the needs of contemporary business and commerce. On the other hand, there are very few reputable *faqīhs* with solid traditional expertise who also are competent in contemporary economics and finance.

Conclusion

In attempting to assess the persuasiveness, or possible lack of convincing considerations, which our authors have advanced to explain Muslim backwardness, it is good to bear in mind wider issues of context and intent. The debate over why Muslim societies (note: we do not say Islam) were unprepared economically and politically and were at a clear institutional and conceptual disadvantage when confronting European penetration of African and Asian lands, should not be confined to one specific domain of human activity and thought. Economic and financial institutions are among the most important factors

contributing to the underdevelopment of Muslims and their incapacity to counter European success and exploitation. Yet to focus overwhelmingly upon the legal and juridical mechanisms and conceptions to explain economic reality may be shortsighted. Whether the mindset of the jurists induced by creedal dogma is the culprit as Ebrahim et al. would have us accept, or specific historical components of the Shariah as Kuran suggests, human economic activity occurs in a multi-dimensional environment where religious values, geographic and political constraints and social norms and expectations all play roles. Çizakça concludes his work with a plea for democracy to be re-integrated within Islamic polities, which he argues is the most essential precondition for achieving a genuine Islamic economic system. The authors of *Perennial Underdevelopment* echo this concern by highlighting the disregard of Islamic values in the political arena. This is moving in the right direction, since integrating these complementary dimensions of human life into our economic and financial horizon is productive of civilisational renewal.

We should also make due allowance for the variety of levels of discourse and conceptualisation Muslim societies experienced in the past and in the present. As Kuran observed, “The missing element is the role of public discourse in keeping individuals from questioning, even noticing, social inefficiencies.”¹⁴ This hints at a crucial factor behind why the Muslims themselves were not able to evaluate, correctly understand and analyse their own condition when confronted by Europe, and why they were slow in projecting an intelligent response. The thesis of “Perennial Underdevelopment”, of a stagnant class of jurists, strikes us as unfair, as if only the jurists can think and propose solutions to society’s problems.¹⁵ Actually, the officials and civic society leaders and merchants and intellectuals all should play their part in the overall arousing of an adequate response. The Tunisian thinker Hichem Djaït remarks in his insightful study *Europe and Islam: Cultures and Modernity*,

What Muslim countries lack today is precisely the sort of organic intellectualism once embodied in the *‘ulama* of the classical and post-classical epoch. For the most part the modern world has resisted this approach, undoubtedly owing to the intellectualization of politics and the politicization of intellectual life. ... [T]he organic intellectual school could be defined by its power of integration, by the link it forges between past and future history, between the social ideal and the social reality—not a group of ideologues defending a given political order but interpreters of a civilization in process.¹⁶

Finally we revert to the notion of capitalism itself. We pointed out that Kuran appears to accept the necessity and benefit of the impersonal mode of market transaction evolved by Europe. He asserts that the emergence of profit-oriented

businesses organised as Corporations was a distinct European innovation, without any Islamic model. In the contemporary capitalist market society where social transactions are marketised, the motive behind the production of food is not to feed people, housing is not made to give them shelter, clothing is not made to keep them warm, and health care is not offered primarily to keep people healthy. All of these things, which should be viewed as basic rights, become nothing other than commodities, to be bought and sold, with which to make a profit. Çizakça's observation that Muslims felt no need to construct an impersonal corporate entity until confronted by Europe has some validity, once we understand the ethos and socio-religious dynamic which guided and shaped Islamic societies. Here we may cite Professor Çizakça:

The Western system has become an inverted pyramid of huge debt piled upon a narrow production base. This growth in debt has nearly severed the relationship between finance and production. ... An Islamic financial system can address this problem by its fundamental operating principle of a close link between finance and production and because of its requirement of risk sharing. But to the extent that Islamic finance emulates the West, it loses its ability to do so. (5)

The fact that prominent Muslim entrepreneurs today spout confidently about corporate *waqf* and Islamic capitalism should give one added impetus to critically reconsider the vaunted virtues of the financialised mode of impersonal exchange animating capitalist consumption with all of its consequences.¹⁷ As Raj Patel demonstrates in *The Value of Nothing*,¹⁸ the way profit-driven corporations value the world brings systematic distortion in valuation when such negative externalities are not paid, being in reality a form of "theft from those who bear the cost of their behavior" in which "wealthier consumers share the spoils of the theft."¹⁹ Perhaps the most striking consequence of our contemporary mode of capitalist exchange is the excessively gross waste of natural resources and its blatant disregard of economy of scale and frugal husbanding of planetary resources.²⁰

Such inequities are inherent in the modern corporative enterprise animating marketised society wherein the social bonds of exchange fall under the shadow of profit, while the rules and the very culture of exchange are dictated by the power and greed of corporations and the bankers who finance them. To use Max Weber's term, such marketisation reflects the dominant mode of rationalisation inherent in the capitalist market.²¹ Increasingly one finds that acute observers of the excesses of consumer market society are searching for alternative ways of thinking about and valuing social transactions of exchange, as well as of the social benefit or wellbeing derived from such transactions, by means of restraining profit-driven markets. Does the classical Islamic model of exchange

where personal bonds of trust shaped the moral boundaries of social transactions have any relevance for humanity in the future?

Policy Recommendations

- For centuries in the past, Muslim scholars and scientists were thought to be leaders of innovative ideas and made significant contributions to Western science. This could not have occurred if Islam itself had been a source of backwardness for Muslims. There is no definitive proof for Kuran's somewhat surprising claims that have little precedent in mainstream scholarship. Muslim thinkers should certainly forge ahead with making fresh contributions to Islamic disciplines, including the burgeoning IBF sector.
- If there is a case for Islam's renaissance and renewal, it must surely be inspired by Islam's own resources and a renewal from within. During the colonial period and now since the onset of globalisation, Western ideas and institutions have admittedly been somewhat overwhelming for older traditions but not so for Islam. A keen awareness of this factor is necessary for innovative scholarship.
- Muslim scholars and researchers should adopt ideas and institutions that are conducive to the development of their communities while ensuring that all adaptations remain compatible with Islamic principles.
- There is evidently much imitation and superficial adaptation of conventional ideas and products in IBF, often at the expense of innovative thinking and *ijtihad*, which have yet to become an engaging reality of IBF.
- IBF should utilise equity instruments and participatory forms of financing such as common shares and sukuk on a wider scale. Risk sharing and participatory finance, which are foundational to IBF, have hitherto remained marginal and merit renewed attention.
- Innovation in science and technology needs to be more vigorously promoted and generously funded. This would also require that universities and other centers of higher learning are granted greater autonomy and that they put in place substantial incentives for the attainment of excellence.
- Training programmes for Shariah scholars and advisors should integrate professional know-how and practice of IBF with foundational knowledge of Shariah.
- IBF has come under criticism for its adherence to the *fiqh* rules on contracts and transactions, often in total disregard of the higher goals and purposes, or *maqasid*, of Shariah, which should now be an integral part of the teaching and training of Shariah advisors.
- A more rigorous system of monitoring and periodic self-assessment of the successful implementation of the above measures needs to be established and consistently pursued.

References

The following works are the primary focus of this study and are referred to throughout the text; all other references are fully cited in the notes.

- Timur Kuran. *The Long Divergence. How Islamic Law Held Back the Middle East*. Princeton and Oxford: Princeton University Press, 2011, rpr. 2012. xvi & 405 pp. ISBN 978-0-691-14756-7 Hbk. US\$ 29.95.
- Murat Çizakça. *Islamic Capitalism and Finance: Origins, Evolution and the Future* (Studies in Islamic Finance, Accounting and Governance). Cheltenham UK & Northampton MA: Edward Elgar Publishing, 2011; 360 pp. & eleven Figures. ISBN 978-0-85793-147-4 Hbk. RM 186. (paperback ed. due in 2013).
- M. Shahid Ebrahim, S. K. Makhdoomi, M. O. Salleh, and Mustapha Sheikh. "The Political Economy and the Perennial Underdevelopment of the Muslim World." 50 pp. Draft paper, November 2012 [currently under review with an economics journal].¹

Notes

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1. Paul Craig Roberts, *The Failure of Laissez Faire Capitalism and Economic Dissolution of the West* (Atwell Publishing, 2012). He asserts (p. 92) that: "The rhetoric of Free Markets is unmasked as an extractive asset-stripping operation by publicly supported private banks and the governments they control. Self-serving private interests co-opt and assimilate the government, resulting in an oligarchy of crony capitalism." Proponents of Ecological Economics (notably Herman Daly) lend support to this view. Free unregulated markets are not natural, but were created by government coercion in the service of private interests. This was examined by John Gray, *False Dawn: The Delusions of Global Capitalism* (London: Granta Books, 1998; & New York: The New Press, 1998; 3rd ed. Granta, 2002); see also David Harvey, *A Brief History of Neoliberalism* (NY: Oxford University Press, 2007).
 2. See Eric Jones, *The European Miracle: Environments, Economies and Geopolitics in the History of Europe and Asia* (Cambridge University Press, 1981; 3rd ed. 2003). Jones built upon the ideas of G.W. Hegel, Karl Marx, Max Weber, Adam Smith and Immanuel Wallerstein's thesis of a world-economy and world-system originating in Europe. Jones has been severely criticised for his Eurocentric vision, and even for cultural racism; see James Blaut, *The Colonizer's Model of the World: geographical diffusionism and Eurocentric history* (1993).
 3. Gregory Clark & Robert C. Feenstra, "Technology in the Great Divergence", in Michael D. Bordo (Ed.), *Globalization in Historical Perspective* (University of Chicago Press, 2003) pp. 277–320.
 4. He previously published *Islam and Mammon: The Economic Predicaments of Islamism* (Princeton University Press, 2005), in which he examined Islamic banking and economics in its contemporary cultural and political context, portraying it as an 'invented tradition', and discussed the reasons for the failure of Islamic culture and tradition to achieve wealth and prosperity for its population.
 5. Among the most important are: Timur Kuran, "Islam and Underdevelopment: An Old Puzzle Revisited", *Journal of Institutional and Theoretical Economics (JITE) / Zeitschrift für die gesamte Staatswissenschaft* vol. 153, No. 1 (March 1997) pp. 41–71; "The Islamic Commercial Crisis: Institutional Roots of Economic Underdevelopment in the Middle East", Munich Personal RePEc Archive, 63, Paper No. 2 (2003) pp. 414–46; "Why the Middle East is Economically Underdeveloped: Historical Mechanisms of Institutional Stagnation", *Journal of Economic Perspectives*, vol. 18, No. 3, (2004) pp. 78–79; "The Absence of the Corporation in Islamic Law: Origins and Persistence", *The American Journal of Comparative Law* vol. 53, No. 4 (2006) pp. 785–834.
 6. In modern economics, "externalities" denote the broader social costs of production and consumption not reflected in prices nor paid for by corporations, but which nevertheless have to be paid for by the rest of society. A well known example is the beef in McDonald's hamburgers sold in the United States (550 million Big Macs annually), which is fattened on corn which is highly government-subsidised has a high carbon or greenhouse gas energy footprint, and costs taxpayers through social subsidies to low-wage fast-food employees, as well as public health costs for treating diet-related disease induced by excessive fatty meat consumption.
 7. Murat Çizakça, *A History of Philanthropic Foundations: Islamic World From the Seventh Century to the Present* (Istanbul: Bogazici University Press, 2000). See as well *A Comparative Evolution of Business Partnerships, Islamic World and Europe with Specific Reference to the Ottoman Archives* (Leiden: E. J. Brill, 1996); and his chapter "Cross-cultural Borrowing and Comparative Evolution of Institutions between Islamic World and the West", in S. Cavaciocchi (Ed.), *Europe's Economic Relations with the Islamic World*,

- XIIIth – XVIIIth Centuries* (Prato: Istituto di Storia Economica, F. Datini, Serie II, 38, 2006). For his paper critiquing Kuran's book, "Was Shariah Indeed the Culprit?", see above note 7.
8. Professor Mirakhor formerly served as Executive Director of IMF and is due to publish a major work on *Islam and Development: the Institutional Framework*, which Professor Çizakça often refers to in his book.
 9. These three scholars were all outstanding jurists, and while al-Ghazālī and Ibn Khaldūn also studied *falsafah*, they were not generally viewed as philosophers – the exception being al-Ghazālī, who was known to the Latins in Europe as a philosopher (Algazel) because of the accident of certain of his works treating philosophy being translated into Latin and Hebrew. As far as we are aware, no Muslim philosopher ever served as a *muhtasib* market supervisor, although several famous philosophers worked as viziers or bureaucratic state administrators, including Avicenna. It appears the word *philosopher* is employed here by Çizakça in the loose contemporary sense of "systematic thinker".
 10. Nevertheless Çizakça recognises that "in reality, it is difficult to establish a clear cut separation between the two approaches ... because an originally Shariah based instrument can eventually be misused as a tool to borrow conventional methods" (p. 8, n.1).
 11. It is well known that the majority of modern institutions of Islamic higher education in Muslim societies have adopted the business model of organisation and focus strongly on business and commercial studies, IT and media, and prepare their graduates for employment in the prevailing economic system. In several countries universities are now incorporated as business entities.
 12. Views advanced by A. Malik in his 2011 paper, "Islamic Law and Development. A Response to Kuran's *The Long Divergence*" and M. U. Chapra, "Ibn Khaldun's theory of development: Does it help explain the low performance of the present-day Muslim world?" *Journal of Socio-Economics* 37 (2008), pp. 836–863.
 13. Timur Kuran, "Islam and Underdevelopment: An Old Puzzle Revisited", p. 41.
 14. Blaming the jurists is like washing our hands of responsibility; this also reflects a widespread tendency among Muslims today to privilege the Shariah discourse and legal tradition above all other intellectual and spiritual endeavours in Islam. It is true, however that jurists often encourage this perception, for their own status and self-image.
 15. *Europe and Islam: Cultures and Modernity*, trans. P. Heinegg (University of California Press, 1985) p. 129.
 16. To better appreciate the full dimensions of the "blowback" (unforeseen consequences) of the impersonal mode of exchange at the heart of the contemporary capitalist economy, consult the illuminating work by Zygmunt Bauman, *Work, Consumerism and the New Poor* (New York: Open University Press, 2003); also Neal Lawson, *All Consuming* (London: Penguin Books, 2009).
 17. Raj Patel, *The Value of Nothing – How to Reshape Market Society* (New York: Picador, 2009), esp. pp. 41–73, 80–90.
 18. *Ibid*, pp. 49, 50.
 19. See especially the recent report by the Institute of Mechanical Engineers: "Global Food: Waste Not, Want Not" (London, January 2013), which documents that current practices are wasting 30% to 50% of all food produced and reviews the exploitation of land and water, showing that huge amounts of water are used to grow crops which are never eaten.
 20. Weber understood rationalisation as the process where an increasing number of social actions become based on considerations of teleological efficiency or calculation, rather than on motivations derived from morality, emotion, custom or tradition. Weber correctly perceived this mode of rationalisation to be a central aspect of Western modernity: as a behaviour of the capitalist market, of rational administration in the state and bureaucracy, of the extension of modern science, and of the expansion of modern technology. To the degree that everyday life was affected by these procedures of cultural and societal rationalisation, traditional forms of life, which in the early modern period were differentiated primarily according to a person's trade, were dissolved. Today Weber's notion is generally termed "instrumental rationality" as well as "commodification".
 21. We are grateful to Professor Mohammad Hashim Kamali (Chairman & CEO, IAIS) for kindly sharing this paper with us and also lending his copy of M. Çizakça's book, as well as to Professor M. Shahid Ebrahim of Bangor Business School, Bangor University (UK) for generously providing us with the latest version of his and his colleagues' draft paper and permitting us to cite from their work. We gladly thank the staff of the Knowledge Management Centre at INCEIF in Kuala Lumpur for their assistance in accessing articles consulted for our study and express gratitude to brother Hissam Kamal Hassan for exchanging ideas and providing materials.