

Introduction to the Moral Economy of Islam

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What is “Islamic Economics”?

➤ The term “Islamic Economics” refers to a vast corpus of literature which attempts to promote a reform of society coherent with Islamic laws and values

➤ In particular, milestones of the Islamic Economics literature are:

• Khurshid Ahmad (ed.), *Studies in Islamic Economics*, Leicester, Islamic Foundation, 1980

• Muhammad Umer Chapra, *Islam and the Economic Challenge*, International Institute of Islamic Thought, Herndon, 1992

Sources and historical background

➤ Islamic Economists maintain that their sources are:

- Holy Kuran
- *Hadith* (Sayings of the Prophet Muhammad)
- *Ijma'* (Consensus of the Islamic Community)
- *Qiyas* (Analogical reasoning)

➤ However, the rise of Islamic Economics has to be read against the background of the so-called Arab cold war, which took place in the 1960s and 1970s between Arab socialism and capitalism

Arab socialism

- Arab socialism, equating liberal democracy and free market with the legacy of Western domination, promoted policies inspired by economic dirigisme (and political authoritarianism)
- Arab socialism identified in the state the prime mover of the transformation of the society, following Ataturk's model
- The growth of a massive public sector was accompanied by suspicions towards the private sector, thus hindering the development of a class of entrepreneurs and of a civil society

Islamic Economics as an Islamic Way to Capitalism

- Islamic Economics claims to be an alternative to both socialism and capitalism
- However, from the point of view of political economy, Islamic Economics can be mainly conceptualised as a reaction against the shortcomings of Arab socialism
- Islamic Economics can be seen both as a reform of capitalism (based on the moral economy of Islam) or as an *Islamic way to capitalism*
- Islamic Economics can be also interpreted as an ideological expression of the Islamic private sector

Islamic Economics vs. Arab socialism

“Ideologically both liberalism and economic Islam were driven by their common opposition to socialism and economic dirigisme (...) Islam became the tool of entrepreneurs seeking to get around restrictive regulation and an instrumental factor in privatization and deregulation – And the best excuse to disengage the state from the economy”

I. Warde, *Islamic Finance in the Global Economy*, Edinburgh University Press, Edinburgh 2000, p. 47

“Sanctification” of private property and free market

- Islamic Economics inherited from Arab socialism the concept of social justice, but at the same time “sanctified” private property and free market
- Marx attempted to demonstrate that the idea of property is not natural, but a historical product (therefore contingent), while Islamic Economics claims that private property has been established by God himself
- Therefore, Islamic Economics has legitimised capitalism, underlining the favourable attitude of Islam towards trade and economic freedom
- At the same time, Islamic Economics has proposed a *moral reform of capitalism*

The contribution of the moral economy of Islam to capitalism

“Islam recognises, what Marxism seeks to deny, the contribution of individual self-interest through profit and private property to individual initiative, drive, efficiency and enterprise. (...)

Competition and market forces are no doubt indispensable for their contribution to efficiency of the allocative machinery. But these must operate within the constraints of the filter mechanism of moral values if the realisation of social goals is to be ensured. Only within these constraints will competition be ‘healthy’ and market forces ‘humane’.

Neither competition and market forces nor central planning and regimentation have the potential to instil in human beings the powerful motivating force for equitable use of scarce resources that the belief in accountability before God has.”

M. Chapra, *Islam and the Moral Challenge*, p. 221

The Pillars of the Moral Economy of Islam

1. *Tawhid* (Divine Unity)

- The concept of *tawhid* (monotheism) is the keystone of Islam and of all the Islamic sciences
- God is not just the creator (*al khaliq*) of the universe, but also its sustainer (*al razzaq*)
- Human beings have the duty to realise God's mission, actively "developing" society and economy

The Pillars of the Moral Economy of Islam

2. *Khilafah* (Viceregency)

- Human beings are not the owners of the world; God is the only, real owner. Human beings are His trustees (*amin*)
- Thus, human beings should not cross the boundaries (*hudud*) established by Him, as revealed in the Scriptures
- Resources, although limited, are indeed enough to satisfy the needs and the welfare (*falah*) of mankind, seen as a “community of brothers”
- The emphasis on human responsibility may pave the way for a humanistic approach to economics

The Pillars of the Moral Economy of Islam

3. *Adalah* (Justice)

- Social justice is divinely sanctioned
- Corruption, exploitation and excessive concentration of wealth are forbidden
- Moral action is the filter which should guarantee social justice
- Islamic banks claim to be “just”, since they aim to achieve profit for their shareholders, while satisfying the moral and legal standards of their stakeholders

Focus on human beings

“The Muslim countries therefore need (...) a system able to provide all the elements necessary for human well-being in accordance with the demands of brotherhood and socio-economic justice.

The system should be able not only to remove the imbalances but also to bring about a reallocation of resources in such a way that the goals of both efficiency and equity are simultaneously realised. (...)

It is necessary to focus on human beings themselves rather than on the market or the state. (...) They are the ends as well as the means, and unless they are reformed and motivated to pursue their self-interest within the constraints of social well-being, nothing can succeed.”

M. Chapra, *Islam and the Economic Challenge*, p. 199-200

Conclusion

- Islamic economics is a remarkable example of dialogue between cultures and civilisations, being rooted in Islamic tradition, but also open to the challenges of the contemporary world
- The moral economy of Islam has fostered the rise of a thriving Islamic private sector and is playing a significant role in integrating Muslim countries in the process of globalisation, legitimising economic and social change
- At the same time, it's renovating and enriching the capitalist system from within, thanks to its emphasis on ethics and social responsibility

Q & A

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