

Capitalism and the Islamic Economic System

DOES CAPITALISM DEFINE AN ISLAMIC ECONOMY?

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

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

DEFINING CAPITALISM

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

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

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

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

EXCHANGE, PRINCIPLE AND MENTALITY OF CAPITALISM

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

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

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

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

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

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

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

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

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

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

ISLAM AND CAPITALISM—THE CONNECTION

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

VARIETIES OF CAPITALISM

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Among the extant works of Adam Smith, three are the most famous. *The Theory of Moral Sentiments*,⁸⁴ 1759; *The Wealth of Nations*,⁸⁵ 1776; and *Lectures on Jurisprudence*,⁸⁶ 1978. The last book is a collection of lecture notes by Smith’s students published after his death. In addition to these, Smith scholars believe that two other of his works are: *The History of Astronomy*⁸⁷ and *The History of Ancient Physics*.⁸⁸ An important implication of Newton’s discovery of the law of universal gravitation in 1687 had induced Adam Smith and other Enlightenment thinkers to think that it is possible to establish a science of man and society, parallel to the science of nature, that could discover regularities in God’s creation through conception of natural theology and moral philosophy. Important to this conception was consideration of man neither as intrinsically good nor as irredeemably evil. Convinced of the idea of progress in perfectibility of man, this project focused on humans as they actually are and act in society, and using socio-economic institutions, not by use of force of government authority, to create incentives for humans to become what God had intended for them.

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

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

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

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

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

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

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

RELIGIOUS BASIS OF ADAM SMITH'S VISION OF THE ECONOMY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ISLAMIC ECONOMIC SYSTEM AND CAPITALISM

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

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

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

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

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

DOES CAPITALISM DEFINE AN ISLAMIC ECONOMY?

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

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

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

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

NOTES

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

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

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

- great a debt to free enterprise and competitive capitalism as the Jews; and (2) "There are few people or any in the world who have done so much to undermine the intellectual foundation capitalism as the Jews."
11. See, for example, Mendes-Flohr, Paul R., "Werner Sombart's: The Jews and Modern Capitalism," in *Leo Baeck Institute Yearbook*, 21(1), 1976, pp. 87–107.
 12. See McNeill, John T. *The History and Character of Calvinism*. Oxford: Oxford University Press, 1954; Tawney, Richard H. *Religion and the Rise of Capitalism*. Harmondsworth: Penguin Books, 1938 and republished in 2005 by Transaction Publishers; New Brunswick, New Jersey. USA; Vos, Geerhardus. *Reformed Dogmatics* (2 volumes). (Bellingham: Lexham Press, 2012–2014); and Samuelsson, Kurt. *Religion and Economic Action*. London: Heineman, 1961.
 13. Braudel, Fernand. *The Wheels of Commerce, Civilization and Capitalism, fifteenth–eighteenth Century*. New York: Harper and Row, 1982.
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 16. Arrighi, Giovanni. *The Long Twentieth Century*. New York: Verso, 1994 (Arrighi 1994).
 17. Goitein, Solomon. *Jews and Arabs: Their Contacts Through the Ages*. New York: Schucken Books, 1962; also, Goitein, Solomon, *A Mediterranean Society*, Volumes I, II, III and IV. Berkeley and Los Angeles: University of California Press, 1967–1983.
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25. For a collection of his short critiques, see Benjami, Walter. *One-Way Street and other writings*, translated by J. A. Underwood. London: Penguin Group, 2008.
26. See his short essay, "Capitalism as Religion," translated by Chad Kautzer, available at: http://www.rae.com.pt/Caderno_wb_2010/Benjamin%20Capitalism-as-Religion.pdf
27. Goodchild, Philip. *Capitalism and Religion: The Price of Piety*. London: Routledge, 2002, pp. 85–86.
28. See Ross, Nathan, "How is Capitalism like a Religion? Reflections on a Theme in Walter Benjamin's Early Writings," at: https://www.academia.edu/11700336/How_is_Capitalism_like_a_Religion_Reflections_on_a_Theme_in_Walter_Benjamin's_Early_Writings. See also Eiland, H. and M. Jennings. *Walter Benjamin: A Critical Life*. Cambridge, Massachusetts: Harvard University Press, 2014.
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 41. See also Mommsen, Theodor, E., "St. Augustine and the Christian Idea of Progress," *Journal of the History of Ideas*, vol. 22, No. 1 (1951): 346–374.
 42. St. Augustine. *The City of God*. New York: Random House, 1950, book 5, p. 158.
 43. See Ferguson, Wallace, K. *Facets of the Renaissance*. New York: Harper and Row, 1963; and Gay, Peter. *The Enlightenment: An Interpretation* (2 volumes). New York: Alfred A. Knopf, 1967, 1969. Both authors credit the Enlightenment with the creation of a new image of man which Peter Gray (vol. 1, p. 266) defines as "man is free, the master of his fortune, not chained to his place in the universal hierarchy but capable of all things." The image was critical in the emergence of capitalist spirit.
 44. Dawson, Christopher. *Progress and Religion: An Historical Inquiry*. London: Sheed and Ward, 1929, mentions (p. 183) that in 1486 Giovanni Pico della Mirandola spoke about the "dignity of man" appealing throughout to Plato as well as to Paul, to Averros as well as to Thomas Aquinas.
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 46. Stark, Werner. *The Ideal Foundations of Economic Thought*. Fairfield: Augustus M. Kelly, 1976.
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- 1991, p. 28) [Nelson, Robert, H. *Reaching for Heaven on Earth*. Lanham, MD: Rowman and Littlefield, 1991]. Stoics considered man's reason as a divine element granted by deity that was shared by all humans. Among the Stoics, Cicero was the first to distinctly formulate natural law. Nature's workings, Cicero argued, were governed by rules that were accessible by human reason and that assured respect for the law "right reason" he said "is Law" (Nelson 1991, p. 29).
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