

Islamic Teachings and Institutional Structure

Today, Islam is the most misunderstood religion in the world. In the West, Islam is perceived as a perverted religion that abhors freedom and nurtures oppressive rulers, corruption, and an opulent lifestyle for a privileged few; and a harsh, militant, and barbaric religion that was spread by the sword and through fear, resulting in backward political, social, and economic systems, with frustration and anger as the hallmarks of present-day Muslim. Westerners presume that Muslim anger, frustration, and envy have led extremists among them to lash out with acts of terror against the West—countries that have flourished and who they believe have robbed them of their success. As a result and in order to get back on top, Muslims are hell bent on rekindling their success of centuries past by repeating what they do best—violence, terror, conquest, and subjugation. These presumptions have in turn buoyed the popularity of Islamophobic politicians around the world whose platforms contain policies to ban Muslim immigrants and refugees and possibly require registration of their Muslim citizens and residents.

While some Muslim communities are underdeveloped, others are in turmoil, and where extremists murder innocent Muslims and non-Muslims, these are not the teachings of Islam. If even a small fraction of what we see were indeed the message of Islam, then the world would have a good reason to shun Islam and prepare for an epic struggle that some Western political leaders seem to be preaching. So, if the dire state of many Muslim countries and the behavior of Muslim extremists is not a reflection of Islam, then what explains the landscape of Muslim countries

and of Muslim behavior, and how can it be reversed? We hope to address these questions in the course of this book, but for now, we turn our attention to the foundational teachings of Islam.

What is the source of Islamic teachings and where should we turn to discover the pure and true teachings of Islam? Clerics, rulers, and much less extremists are not the source of Islam. These self-appointed purveyors of Islam invariably package and spew what serves their own personal interest and agenda. As a result and because of the publicity rulers, clerics, extremists, and terrorists receive, this distorted and packaged delivery of Islam has become the face of Islam in much of the non-Muslim and even Muslim World. Unfortunately, whether because of oppression from rulers or laziness that excludes personal study and learning, many Muslims follow one or more of these false ‘prophets’ and their neatly packaged doctrines. Muslims must discuss and debate the teachings of Islam without the fear of persecution from self-appointed rulers and clerics. Allah (swt) has endowed humanity with the gift of freedom to choose in all dimensions of life—to study, to learn, and to perfect the self on this temporary plane of existence in preparation for the Hereafter—and even to follow or reject Him, the Almighty. If the Almighty had wanted to, He could have created humans as perfect beings who automatically followed his dictated path. But in such a ‘perfect’ world, human dignity and morality would have little meaning.

The source of Islam has been the same for about 1400 years—The Holy Qur’an and the *Hadith* (the teachings and practices) of the Prophet (sawa). The two go hand in hand and are inseparable. The Qur’an is the immutable, abstract, and theoretical presentation of Islam, and the life of the Prophet is its interpretation at his time on this earth, which may be changed and adapted to prevailing conditions. Thus, first and foremost, the foundation, or the fountainhead, of Islam is the Qur’an. Second, the Prophet Mohammad’s (sawa) interpretation and practice afford its application in the real world. The Qur’an and the practice of the Prophet provide humankind with the foundation and the rules to build a just and flourishing Muslim society. In this chapter, we begin with Islam’s foundational teachings, deduce the rules that follow, and then go on to discuss the important institutions that these teachings and rules indicate and necessitate.¹ In the following chapter, we apply the rules and institutions to construct what we consider to be indicative indices for measuring the degree of Islamicity—the reflection and manifestation of these teachings in a community or a country.

PRINCIPLE TEACHINGS, THE RULES OF BEHAVIOR AND INSTITUTIONS IN ISLAM

The Unity of Creation and Freedom of Choice

There are four fundamental concepts in the Islamic system. The first is *walayabbh*, the unconditional, dynamic, active, ever-present Love of the Supreme Creator for His Creation manifested through the act of creation and the provision of sufficient resources to sustain life. Humans reciprocate this Love by extending their love to other humans and to the rest of creation. The pursuit of *walayabbh* is love manifested through knowledge and the upholding of justice. The second is *karamah*, human dignity. The Qur'an considers humans to be the crowning achievement of the creation for whose individual and collective development everything else has been created. Humans are endowed with intelligence to know their Creator, to recognize and appreciate the universe and everything in it, and to understand the reasons for their own existence. An important facet of which is the freedom that has been gifted to humans—to think, to decide, and to choose their path in life, while supporting the good and opposing evil. The third is the *meethaq*, the primordial covenant in which all humans are called before their Supreme Creator and asked to testify that they recognize Him as the One and Only Creator and Sustainer of the entire Creation and all other implications flowing from this testimony. The fourth concept is *khilafah*: agency-trusteeship. Jointly, *walayabbh* and *karamah* provide the basis for *khilafah*. The Love of the Creator endows humans with dignity and intelligence so as to manifest *walayabbh* through the instrumentality of *khilafah*. *Khilafah* is the empowerment of humans by their Creator as agent-trustees to extend *walayabbh* to one another, materially through the resources provided to them by the Creator, and non-materially through unconditional love for their own kind as well as for the rest of creation, which can be best displayed by the pursuit of unity and justice.

A number of verses in the Qur'an affirm the unity of mankind [1: 4; 13: 49; 28: 31].² These verses plus those dealing with the availability of resources as well as human endowments are the foundations of the legislative framework of rules (institutions) for the socio-economic-political behavior of humans. Resources are created for all humans. The diversity of humans does not and should not mean their disunity.

The most important dimension of the adoration of Allah is removing barriers on the path of other humans. For example, poverty and destitution are barriers for the poor on their path to reach perfection. Removing these barriers from the path of the poor is a demonstration of the *walayahh*, as in politics by ensuring that no human is deprived of the freedom of choice by standing up for justice, which includes supporting just rulers and opposing unjust rulers. Actions taken to ensure the ability of other humans to activate the gifts granted to them by their Creator is an act of adoration of the Creator.

Human and Economic Development in Islam

The concept of development in Islam has three dimensions: individual self-development called *rushd*, the physical development of the earth called *isti'mar*, and the development of the human collectivity, which includes both. The first specifies a dynamic process in the growth of the individual toward perfection. The second specifies the utilization of natural resources to develop the earth to provide for the material needs of the individual and humanity. The third concept refers to the progress of the human collectivity toward full integration and unity. Fundamental to all three is the belief that the Supreme Creator has provided the ways and means to facilitate the achievement of all three dimensions of development.

With regard to the physical development of the earth, the Islamic view suggests that the Almighty would not leave humans without sufficient resources to perform the duties expected of them. Indeed, the Qur'an makes it clear that Allah has created *sufficient* resources to meet the needs of all humans at any time and He has done so dynamically, meaning that this sufficiency holds regardless of timeframe and population [49: 54; 8: 13; 3: 65; 21: 15]. Consequently, the assumption that at a general level humanity (macro) faces scarcity would be untenable. This, however, may not be the case at the micro level.³ As one of the important tests of human experience on this plane of existence, individuals and groups of humanity experience conditions of plenty as well as conditions of scarcity [15–18: 89; 37–42: 30; 34–36: 34]. Allah's rules specify the appropriate response to these tests. The wealthy and the opulent are those who are most susceptible to responding inappropriately. The Islamic view of scarcity is thus in contrast to conventional economics, where there is never enough to go around. According to Islam, there are sufficient resources if individuals *share*. The notion of sharing is central to Islam, as it demonstrates the

unity of mankind and the unconditional love of the Almighty's creation. With regard to exhaustible resources, Islam teaches that these are the heritage of all generations and current generations must preserve the right of future generations—for every individual in each generation to reap the same benefit. Robert Solow reached a similar conclusion in his writings on conventional natural resource economics when he said: "The finite pool of resources (I have excluded full recycling) should be used up optimally according to the general rules that govern the optimal use of reproducible assets. In particular, earlier generations are entitled to draw down the pool (optimally, of course!) so long as they add (optimally, of course!) to the stock of reproducible capital."⁴

With respect to the development of human collectivity, the Qur'an recognizes legitimate authorities, namely selected rulers and governments, in a Muslim society. The important point here is that those in positions of authority must be rule-compliant if they are to oversee the implementation of the prescribed rules. Believers are the first to recognize the strength of the belief in such people and then by the exercise of their free choice to follow and obey them. Islam places great emphasis on the need to focus human energy on the achievement of social solidarity and unity. The fundamental objective of creation is to create a society in which individuals become cognizant of all their capabilities, including the spiritual. The final objective of such a society is to ensure the actualization of the capabilities of humans to progress along the path to perfection toward their Creator.

Economic Structure and the Rules of Behavior in Islam

Corresponding to the objectives of the messengers and prophets, humans are to listen to the revelation with the aim of internalizing the rules of behavior (institutions) prescribed in the message, cleanse themselves of character traits unworthy of the human state, develop the earth (Qur'an, 11:61), establish social justice (57:25), and finally, move from darkness into light (2:257; 5:16) and help others of their kind to do the same. Humans can achieve all these outcomes by being fully rule-compliant.

We now turn to important Islamic tenets and ideals in economic behavior, such as abstinence from hoarding of wealth and sharing, and summarize some of the rules for property rights, market behavior, exchange and trade, contracts and trust, and rules regarding distribution and redistribution.

The Prophet, during his 10 years in Medina, developed numerous rules to guide economic and social behavior: rules of governance, accountability and transparency; rules regarding property ownership and protection; rules regarding the formation and the structure of the market; rules concerning the role of the state in overseeing the market; rules of behavior by market participants; rules regarding distribution and redistribution; rules related to education, technological progress and society's infrastructure; and rules regarding sources of government income and its expenditures. The central axis of design and operation of these rules is justice. The Prophet taught the responsibility of the individual and the collectivity. He particularly emphasized the equality of individuals before the law, or what today we call the rule of law. The social contract with the inhabitants of Medina constituted agreed-upon procedures for administering society as well as procedures for mutual support and defense.

The Prophet (sawa) clarified rules of property rights over natural resources, and these rules shape the boundaries of distributive justice in Islam. Property relations are governed by a set of rules regarding rights and obligations. The first rule governing property relations is that everything in creation, including humans, is the property of the Creator. He has created natural resources for the benefit of all of mankind. The second rule asserts the rights of the human collectivity to these resources: *He it is who created for you all that is in the earth* [29: 2]; and: *Do not give your resources that Allah has made you (responsible as) its preserver on to the foolish* [5:4]. These two verses, and a number of others, establish the right of access to these resources by all humans. The third rule establishes that once the property is accessed and combined with work by individuals, a full right of possession of the resulting product is established for the individual without either the Creator losing His original property right or the collectivity losing its initial right of possession to these resources. The fourth rule recognizes only two ways in which individuals gain legitimate property rights: (i) through their own creative labor and/or (ii) through transfers—via exchange, contracts, grants, or inheritance—from others who have gained the property rights title to an asset through their own labor.

Fundamentally, therefore, work is the basis of the acquisition of property right. Work, however, is not only performed for the purpose of satisfying one's desires; it is considered a duty and an obligation. The importance of work has been emphasized in over 300 Qur'anic verses

and reflected in the *Sunnah*. An important corollary of the importance of work is a fifth rule that forbids gaining instantaneous property rights without having worked to earn them, with the exception of lawful transfer. This rule prohibits property rights gained through gambling, theft, earning interest on money, bribery, or, generally, from sources considered unlawful [188: 2; 29: 4]. Although Islam prohibits debt-based contracts, it embraces a contract of exchange that allows risk sharing and consumption smoothing [275: 2; 29: 4].

Just as work is a right and obligation of all humans, so is access to and use of natural-physical resources provided by the Creator for producing goods and services. If an individual, for whatever reason, lacks the ability to work, it does not deprive him of his original right to resources granted to every human. Therefore, the rule of the “immutability of property rights” constitutes the sixth rule of property relations. Before any work is performed on natural-physical resources, all humans have an equal right and opportunity to access these resources. When individuals apply their creative labor to resources, they gain a right to priority in the possession, use and exchange of the resulting product without nullifying the original property rights of the Creator or the rights He granted to all humans in the final product or the proceeds from its sale: This is the justification for the rule of sharing [33: 4; 180: 3; 36–37: 4; 5–11: 92]. The duty of sharing the product or the income and wealth proceeding from its sale constitutes the seventh rule of property relations, which relates to property ownership rights as a trust. This rule is operationalized through the ordained duties imposed on income and wealth, which must be paid to cleanse income and wealth from the rights of others. This is perhaps the reason why the Qur’an refers to these duties as *zakat*, from the root word meaning cleansing and purification, akin to tree pruning that simultaneously rids the tree of its undesirable parts and allows its further growth. The eighth rule of property relations imposes limitations on the right of disposing of property—a right that is presumably absolute in the Western concept of property rights. In Islam, individuals have an obligation not to waste, squander, or destroy, or to use property for opulence or unlawful (*haram*) purposes, such as bribery.

Once the specified property obligations are appropriately discharged, including that of sharing in the prescribed amount and manner, property rights on the remaining part of income, wealth, and assets are held sacred and inviolate and no one can force their appropriation or expropriation. While these eight rules strongly affirm mankind’s natural tendency to

possess—particularly products resulting from individual labor—the concomitant property obligations promote interdependence and cohesion among the members of society. Believers are persons in a relationship of reciprocity. Private initiative, choice, and reward are recognized and acknowledged, as legitimate and protected but are not allowed to subvert the obligation of sharing.

The Qur'an fully acknowledges the important contribution of markets and places great emphasis on contracts of exchange and trade. The Prophet implemented a number of policies to enhance the market mechanism and to encourage the expansion of trade. While Medina had its own existing market, the Prophet, with the advice of the leading merchants, selected a location for a new market for Muslims. Unlike in the existing market in Medina, the Prophet prohibited the imposition of taxes on transactions and individual merchants. He also implemented policies to encourage trade among Muslims and non-Muslims by creating incentives for non-Muslim merchants in and outside of Medina. The rules included, *inter alia*, and in addition to those mentioned above, no restrictions on international or interregional trade (including no taxation of imports and exports); the free spatial movement of resources, goods, and services from one market to another; no barriers to market entry and exit; free and transparent information regarding the price, quality, and quantity of goods, particularly in the case of spot trade; the specification of the exact date for the completion of trade where trade was to take place over time; the specification of the property and other rights of all participants in every contract; guaranteed contract enforcement by the state and its legal apparatus; the prohibition of the hoarding of commodities and of productive resources for the purpose of pushing up their price; the prohibition of price controls; a ban on sellers or buyers harming the interests of other market participants, for example, by allowing a third party to interrupt negotiations between two parties in order to influence the negotiations to the benefit of one of the parties; and a ban on the shortchanging of buyers, for example, by not giving full weight and measure.

The moral-ethical foundation of market behavior prescribed in the Qur'an and implemented by the Prophet was designed to minimize the risk for participants and increase the efficiency of exchange. Moreover, rules specified in the Qur'an regarding faithfulness and upholding the terms of contracts and the knowledge of their enforcement increased certainty and reduced the cost of contracts. The Prophet would

advise the participants to go beyond mere rule-compliance and to treat their fellow humans with beneficence. While justice in the market would be served by rule-compliance, which limits and controls selfish behavior, beneficence rises higher by actually sacrificing one's self-interest for the interests of others.

The Prophet emphasized that it is always the rich, powerful, and the opulent who are exploiters of other humans, who, in order to amass wealth, are the source of the persecution and suffering of the prophets and their followers.⁵ The Prophet is reminded in the Qur'an that the crucial aspect of his own mission, and that of the prophets before him, is to establish justice. In practical terms, the Qur'an is clear that this means creating a balanced society that avoids extremes of wealth and poverty, a society in which all understand that wealth is a blessing afforded by the Creator for the sole purpose of providing support for the life of all members of society. While the rich consume opulently, the poor suffer from deprivation because their rights in the wealth of the rich are not redeemed.⁶ Islam ordains that what is left after one has reached a modest living standard must be returned to the less able members of society as an act of redeeming their rights [7:57]. Therefore, while Islam ordains hard work, the development of the earth and natural resources provided by the Creator, and the use of proceeds for the satisfaction of the needs of all humans, it prohibits the concentration of output and wealth in the hands of a few.⁷ Operationally, such an economy can be defined as the collection of institutions, that is, the rules of conduct (described above) and their enforcement characteristics, to deal with the allocation of resources, the production and the exchange of goods and services, and the distribution and redistribution of the resulting income and wealth to establish balance and justice in society.⁸

As mentioned earlier, in Islam, scarcity is not the root cause of excessive inequality and distributional injustice; instead, it is selfishness, the misuse of resources, and human greed that cause scarcity, poverty, misery, and destitution. Societies that reject Divine law have institutions and power relations that allow significant inequalities, which, in turn, lead to inequality of income and wealth. It is the institutional structure of society that allows a pattern of wealth accumulation, creating abundance for some and scarcity for many. This is what creates social divisions, not natural scarcity. It is the institutional structure of society that determines the resource endowments of its members, which, in turn, determine the structure of their preferences and ultimately their economic

behavior. Such an institutional structure combined with a poorly functioning process of self-development provides no opportunity for the self to transcend the focus of the self on “me and mine.” Self-development is necessary to transcend selfishness. The Qur’an clearly states the need for “a revolution in feeling or motivation” [11: 13]. The revolution, as defined comprehensively throughout the Qur’an, is a change toward compliance with the rules of just conduct for the individual. The “ethos of justice” is created in society by a critical mass of those whose behavior fully complies with the prescribed rules.

Islam has rules covering access to resources, production, exchange, distribution, and redistribution. Although the Qur’an acknowledges that in His wisdom the Almighty has created humans with differences, it also emphasizes that these differences are only apparent and that all humans are the same. In a society in which there is poverty amidst plenty, the roots of inequality must be traced to distortions in the pattern of resource endowments, in the workings of the exchange and/or distribution mechanisms and/or in the redistributive framework. The most fundamental among these is the pattern of resource endowment. This pattern determines the formation of individual preferences, which, in turn, determine behavior in the rest of the economy and in society. Individual preferences are not only influenced by the pattern of resource endowment, but also by the “ethos” of society. The ethos of society, in turn, is influenced by individual beliefs. The feedback processes between the pattern of resource entitlement, belief, ethos, and preference formation are complex, and distortions in these processes are highly consequential for the emergence of poverty, economic inefficiencies, and reduced economic growth and development.

Allah (swt) has ordained equal access to resources of all humans and that the resulting income and wealth, which, by implication from the earlier principle, are also His blessings, must not be hoarded, but must be shared with those who are less able to access the initial resources.⁹ This expenditure is over and above the mandatory portion of net income and wealth collected by the legitimate authority (*zakat*, *khums*, and *kharaaj*).¹⁰ These charges are referred to as *sadaqat* from the root word meaning truthfulness and sincerity. Their faithful discharge indicates the strength of the sincerity of a person’s belief. These expenditures are essentially the repatriation and redemption of the rights of others in one’s income and wealth. It is for the good of the person paying them that they are ordained.¹¹ Since these expenditures are the repayment of

what is the right of those who were unable, or less able, to access the natural-physical resources that the Creator has made available to all humans, it is as repayment of a debt without which one's wealth would be soiled. Redeeming these rights is a manifestation of one's belief in the essential axioms of the Oneness of the Creator and His creation. When one is granted the mental-physical capacity by the Creator to access more of these resources, it means others less able or unable to use these resources are in fact one's partners, whose rights in the final postproduction, post-market proceeds have to be redeemed. The Qur'an affirms that because these are rights to be redeemed rather than charity, extreme care must be taken to the recipient's human dignity.

The next set of rules is for those covering contracts and trust. The key to market operation is decision-making autonomy. "Participation in exchange is voluntary; both buyers and sellers are able to veto any deal... [the choices of buyers and sellers] are not completely free though: they are constrained by the extent of their resources and by the rules of the marketplace."¹² The collection of devices that organize and support transactions—channels for the flow of information; laws and regulations that define property rights and enforce contracts; and the informal rules, norms, and codes that help markets self regulate—he calls market design. A design that allows markets to keep transaction costs low, McMillan calls "a workable" market design. Appropriately, he argues that high transaction costs render a market dysfunctional. Two elements on which McMillan focuses as key to workable market design are the free flow of information and trust, both of which lower transaction costs.¹³

The rules prescribed by the Law Giver and interpreted and implemented by the Prophet were intended to reduce transaction costs, a factor that is important for investment and economic activity in every economic system. As observed in the rules developed for the market of Medina, the Prophet ensured, through the propagation of the rules of market behavior, that there would be no interference with the free flow of information regarding the quantity, quality, and prices of goods and services in the market, and this to the point where he forbade a previous common practice of middlemen meeting trade caravans outside the city and purchasing their supplies before the caravans entered the market. Market supervisors, appointed by the Prophet, ensured that there was no fraud, cheating, withholding of information, or other practices that could lead to the malfunctioning of the price mechanism. Each physical segment of the market was specialized with respect to products. Prices

were determined by competition among suppliers and every market was intensely supervised by a person called *Muhtasib*, a position and practice initiated by the Prophet. Market supervision was supplemented by guilds of each profession and trade.¹⁴ Supervisory devices were based on the rule-enforcement mechanism of commanding the good and forbidding evil. These enforcement devices were fortified by the physical architecture of bazaars, which were constructed such that a grand mosque was located at the center of the bazaar. Every market participant, particularly the sellers, had an opportunity to attend at least two of the five daily prayers in the mosque, noon and afternoon. This was an opportunity for market participants to be reminded of their Creator, of their obligations to Him and to other humans, and of the accountability on the Last Day. Throughout the legal history of Islam, a body of rules, based on the Qur'an and on the traditions of the Prophet, has constituted a general theory of contracts. This body of rules covering all contracts has established the principle that any agreement not specifically prohibited by law was valid and binding on parties.

In a very important tradition, the Prophet says: "Three (behavioral traits) if found in a person, then he is a hypocrite even if he fasts, prays, performs bigger and small pilgrimages, and says 'I am a Muslim': when he speaks, he lies; when he promises, he breaches; and when trusted, he betrays."¹⁵ Thus, Islam demands much more of Muslims and their community than what is commonly referred to as the Five Pillars of Islam—prayers, fasting, alms, pilgrimage, and declaration of faith—a fact that supports our quest to construct indices that reflect the degree of rule-compliance of Muslim communities.

There is a strong interdependence between contract and trust; without trust, contracts become difficult to negotiate and conclude, and costly to monitor and enforce. When and where trust is weak, complex and expensive administrative devices are needed to enforce contracts. Moreover, it is well known that complete contracts—ones that foresee all contingencies—do not exist. Thus trust is an important element of a well-designed market. When and where property rights are poorly defined and protected, the cost of gathering and analyzing information is high, and trust is weak, it is difficult to clearly specify the terms of contracts and enforce them. In these cases, transaction costs—that is, search and information costs, bargaining and decision costs, contract negotiation and enforcement costs—are high. Where and when transaction costs are high, there is less trade, fewer market participants, less long-term investment, lower productivity, and slower economic growth.

One of the most important questions confronting mankind has been: on what basis should economic resources be distributed? The answer depends on the underlying concept of justice and fairness, which, in turn, depends on the belief system. The concept of justice for humans is simple and unambiguous: justice is obtained when all things are placed where intended by the Creator! How are humans to know where the right (just) place is for everything? The answer is: follow the rules prescribed by the Creator.¹⁶ By the instrumentality of His *Walayabbh*, the Loving Creator has provided all that is necessary for humans to achieve perfection of the human state. He has also clearly designated the path to perfection and has marked it with rules of behavior in all facets of human life. Rule-compliance assures justice, which assures balance for individuals and for society. Compliance with rules, however, does more than creating balance; it guarantees that humans draw near to their ultimate objective, namely, their Creator. Morality, therefore, is a result of just behavior.

The Islamic Vision of Distributive Justice

The conception of distributive justice—the “just” division of the economic pie (production and wealth) among the members of society that includes owners of capital, workers, those that cannot provide for themselves and the animal species—has evolved from the time of Aristotle, is evolving and is far from settled, and while some see a role for governments in its enforcement, others do not.

Based on a utilitarian concept, welfare economics developed the analytic position that in such a system in which prices were determined by the free interplay of supply and demand, all factors of production would receive rewards commensurate with their marginal contribution to the production of goods and services. Vilfredo Pareto demonstrated analytically that in such a system “social welfare” would be optimal. Beyond this point, any attempt to increase rewards for any factor of production would lead to sub-optimality. Therefore, in such equilibrium, actions or policies to move away from such a market solution could be justified if, and only if, at least one person were made better off without anyone else being made worse off. This simplified version of the Pareto rule is, in effect, the criterion of just distribution based on utilitarianism.

Unhappy with utilitarianism, John Rawls searched for an alternative principle of distribution relying on the concept of the social contract—a procedural approach that assumes some key features of what is fair and

impartial in order to arrive at what would be considered a just outcome.¹⁷ After considering the main characteristics of justice as fairness and the theoretical superiority of this approach to utilitarianism, Rawls settles on two principles of justice, where members of society, with different concepts of good and just, can all agree to cooperate with each other and form a social compact because of mutual advantage and not because of love or pursuit of justice. The first principle (the Liberty Principle) guarantees the right of each person to have the most extensive basic liberty compatible with the liberty of others. The second principle (the Difference Principle) states that social and economic positions are to be organized such that they are (a) reasonably expected to be to *everyone's* advantage and of greatest benefit to the *least-advantaged* group in society and (b) attached to positions and offices open to all under fair and equal opportunity. Thus inequalities in the distribution of goods are permissible only if they benefit the least well-off group. Sequential ordering is necessary for Rawls to rule out the possibility that a departure from the first principle of equal liberty could or would be compensated by greater economic advantages; these principles apply to the "basic structure of the society," defined as the bifurcation of social institutions, one set of institutions "define and secure the liberties of citizenship" and the other "specify and establish social and economic equalities." He considers people in the Original Position, where each person wants to pursue his own advantage in a procedure that is made fair to all because of moral impartiality and a sense of fairness through the veil of ignorance with no information on their own race, gender, class, birth, age, or where they will end up in the choice that they make about the rule of distribution.

Rawls argues that the Difference Principle would lead the unknowing chooser (as to whether she or he would happen to end up in the least desirable position) to choose the allocation that maximizes the opportunities for the group of citizens with minimum advantage. Assuming a veil of ignorance, the logic of this choice is clear. Since no one knows whether or not they will end up being a member of the least privileged group and since all are rationally self-interested, they would agree that all opportunities should be distributed equally unless unequal distribution would benefit the least advantaged. This principle then allows comparisons between societies with respect to their distributive justice. A society is just if the least advantaged in the society are at least as well off as the least advantaged would be in any other alternative. Rawls' book (1971) is today recognized as one of the handfuls of most important contributions to Western political philosophy. Rawls' theory of justice touched off debates, which continues today after more than four decades.

There is no doubt that the solution proposed by Rawls is sensible and understandable, but is it just? Can we call a solution just if there are obscene inequalities? These inequalities in the Rawlsian scheme are essentially a result of the fact that the most capable members of society will not work as hard if their tax rate on additional income (above the Rawlsian solution) is increased. If this is the case, what has happened to individual empathy, morality, and societal cooperation? Islam demands much more in its conception of justice.

The Qur'an does not afford a separate or stand-alone theory of justice. Instead, the Qur'an indicates that compliance with rules of behavior (what some might call duties) handed down in the Qur'an and interpreted by the Prophet *assures* the emergence of justice as a *natural outcome* of the practice of a rule-compliant society. Justice and a just political, social, and economic system is thus an essential outcome of the Islamic system if Muslims comply with divine rules. To put it simply, a society will be just in Islam if the rulers and the people are rule-compliant. And in summary we could say that Islam has two simple propositions for a just society: (i) place things in their rightful position and (ii) give everyone their rightful due. The first can be merged into the second. The rightful place and right dues are guaranteed by compliance with the rules.

Western writers have delineated the reasons for why rules and their observance are important. Their reasoning, though similar, is very different from the reasoning in Islam. There are numerous reasons for rules in Islam: establish social order; delineate for individuals what they can do as opposed to what they wish to do; reduce uncertainty and promote predictability; allow the appropriate formation of expectations; provide a reference structure against which fairness and justice of individual behavior can be assessed; and promote coordination, social cohesion, efficiency of the economy by reducing transaction cost, and promoting equal treatment, human dignity and collective justice in society.

The Prophet (saw) is constantly reminded in the Qur'an that the crucial aspect of his own mission is to establish justice. In practical terms, the Qur'an is clear that this means creating a balanced society that avoids extremes of wealth and poverty, a society in which all understand that wealth is a blessing afforded by the Creator for the sole purpose of providing support for the life of all members of society. And in the widely acknowledged words of the Prophet: "Authority may survive disbelief but not injustice." In the Qur'an, Allah emphasizes how He loves truth

and justice: “*The word of thy Lord doth find its fulfillment in truth and in justice: None can change His words: for He is the one who beareth and knoweth all.*”¹⁸ Islam did not invent theories of justice but *is* itself justice.

The central goals of Islam for the society are the welfare of all its members and socioeconomic justice. All members of an Islamic society must be given the same opportunities to advance; in other words, a level playing field, including equal access for *each* member of society in *every* generation to the natural resources provided by Allah. For those for whom there is no work and for those who cannot work, society must afford the minimum required for a dignified life: shelter, food, healthcare and education. For those who cannot access the natural resources provided by Allah, society must preserve their rights, while preserving the rights of future generations. Thus Islam advocates an environment where behavior is molded to support the goals of an Islamic society: societal welfare and socioeconomic justice, with the goal of making humankind one, confirming the Unity of Allah’s creation. It is with the Unity of Creation as the goal that the Qur’an advocates risk sharing as the foundation of finance to enhance trust.

The most important economic institution that operationalizes the objective of achieving distributive and social justice is that of the distribution–redistribution rule of the Islamic economic paradigm. In practical terms, the Qur’an makes clear that this means creating a balanced society that avoids extremes of wealth and poverty, a society in which all understand that wealth is a blessing provided by the Creator for the sole purpose of providing support for the lives of all humankind. The Islamic view holds that it is not possible to have many rich and wealthy people who continue to focus all their efforts on accumulating wealth without simultaneously creating a mass of economically deprived and destitute. The rich consume opulently while the poor suffer from deprivation because their rights in the wealth of the rich and powerful are not redeemed. To avoid this, Islam prohibits wealth accumulation and hoarding, imposes limits on consumption through its rules prohibiting overspending, waste, ostentatious and opulent spending. It then ordains that the net surplus, after moderate spending necessary to maintain a modest living standard, must be returned to the members of the society who, for a variety of reasons, are unable to work; hence, the resources they could have used to produce income and wealth were utilized by the more able.

The Qur’an considers the more able as trustee-agents in using these resources on behalf of the less able. In this view, property is not a means

of exclusion but inclusion in which the rights of the less able in the income and wealth of the more able are redeemed. The result would be a balanced economy without extremes of wealth and poverty. The operational mechanism for redeeming the right of the less able in the income and wealth of the more able are the network of mandatory and voluntary payments such as *zakat*, *khums*, *kharaj*, and payments referred to as *sadaqat*.

Distribution takes place postproduction and sale when all factors of production are given what is due to them *commensurate with their contribution* to production, exchange, and sale of goods and services. *Redistribution* refers to the post-distribution phase when the *charges due to the less able are levied*. These expenditures are essentially repatriation and redemption of the rights of others in one's income and wealth. Redeeming these rights is a manifestation of belief in the Oneness of the Creator and its corollary, the unity of the creation in general and of mankind in particular. It is the recognition and affirmation that Allah has created the resources for all of mankind who must have unhindered access to them. Even the abilities that make access to resources possible are due to the Creator. This would mean that those who are less able or unable to use these resources are partners of the more able. The expenditures (*sadaqat*) intended for redeeming these rights indicate the strength of the sincerity of a person's belief (Qur'an, 2:26; 2:272). The Qur'an insists that these are rights of the poor in the income and wealth of the rich; they are not charity (Qur'an, 917:26; 38:30; 70:25; 19:51; 2:177). Therefore, the Qur'an asks that extreme care be taken of the recipients' human dignity of which the recipients themselves are fully aware and conscious to the point that they are reluctant to reveal their poverty. The Qur'an consequently recommends that payment to the poor be done in secret (Qur'an, 2:271–273).

Given the rules governing property rights, work, production, exchange, markets, distribution, and redistribution, it is reasonable to conclude that in a rule-complying and Allah-conscious society, absolute poverty could not exist. It can be argued that there are no topics more emphasized in Islam than justice and poverty and the responsibility of individuals and society to eradicate poverty. The Prophet said that poverty is near disbelief and that poverty is worse than murder.¹⁹ It is almost axiomatic that in any society in which there is poverty, Islamic rules are not being observed. It means that the rich and wealthy have not redeemed the rights of others in their income and wealth and that the

state has failed to take corrective action. Thus rulers who live in opulence are *prima facie* not rule compliant, but those who do so while others live in poverty are also unjust and illegitimate.

Turning to Islamic finance, its central proposition is risk sharing, which allows both parties to reduce the risk of income of volatility and to allow consumption smoothing, a major outcome of risk sharing. It is generally recognized that equity participation provides a first-best instrument of risk sharing. While the beneficial and ethical attributes of Islamic finance are evident, most observers have largely ignored the economic benefits. Indeed, in the years between the two great wars, eminent Western economists, such as Keynes, raised serious questions about the stability of conventional finance. More recently, a number of economists are again questioning the stability assumptions of conventional finance and banking, its debt-based characteristic and leveraging, and its contribution and the impact of financial crises on income and wealth inequality.

Institutions and Their Importance in Islam

Douglass North (1990) has argued that the key to the performance of high-performing economies is their low transaction costs, which in turn is the result of the institutional structure that they had developed over a period of more than two centuries. Transaction costs are an impediment to economic and social progress and prosperity. They arise because getting access to information is costly and held asymmetrically by parties to an exchange. It can be argued that the collectivity of institutions provides society with the social capability to establish a stable order by reducing uncertainties or ambiguities members of society face.

Poor performance, North believes, is due to path-dependencies resulting from past institutional structure, encompassing cultural heritage, which imposes "severe constraints on the ability to effectuate change." This is because path-dependence may be the result of the institutional structure that reflects a belief system that is difficult to change, either because the needed changes that improve economic performance run counter to the belief system or these changes pose a threat to existing political or business leaders. Needed changes in the institutional structure may also be difficult because although formal rules can be changed by fiat, social norms may be less flexible and their enforcement characteristics respond much more slowly to policies to change them. Although acknowledging that improvement in economic performance may be slow

to develop because of cultural factors and path-dependency, North nevertheless envisioned an ideal political-economic institutional structure that, in his view, has great potential for achieving good economic performance and societal well-being.

Islam would embrace institutions recommended by North *but* including the Islamic rules that we have elaborated above as their objective. Thus, in addition to the institutions (rules) recommended by North, Islam requires institutions that monitor and enforce distribution and redistribution, that eradicate poverty and provide for those who cannot provide for themselves and who are still in need after individuals have done what is required of them, and insure a level playing field with equal access to high-quality education and healthcare.

We must emphasize the capstone rule in Islam—the rule “commanding the good and forbidding evil,” applicable to individuals and society, assures that leaders are selected by the community and are answerable for their actions; leaders acquire legitimacy by being more rule-compliant than members of the community; and leaders must be confronted if they do not uphold divine rules and enforce them. In turn, this capstone rule assures the full and active participation of all in the affairs of society. The existence of absolute and relative poverty, along with significant income inequality, is evidence of rule-violation and governance failure, for which members of society are individually and collectively responsible.

SUMMARY OF THE ISLAMIC SYSTEM

Allah (swt) could have easily created a world of total perfection inhabited by “perfect” humans who had no free will. If He had done so, human dignity would have been empty of any and all meaning. Instead, first and foremost, He gave humans freedom and freedom of choice, accountable, equal and as one. Islam is founded on freedom, equality, and justice; and thus the conception of justice in Islam is founded on freedom and equality of humankind (Unity of Creation). He then gave humans bountiful resources that, if managed well and shared, could satisfy all human needs. As a result, the Creator is the ultimate owner of all things in this world. But He has placed humans above all else in His creation and made them trustees. Humans, as trustees, must obey His rules.

Based on the Islamic vision elaborated here, we expect the Islamic solution to differ in the following important ways from the conventional market-based system: greater degree of justice in all aspects of economic

management, higher moral standard, honesty and trust exhibited in the marketplace and in all economic transactions, poverty eradication, a more even distribution of wealth and income, no hoarding of wealth, no opulence in consumption, no exploitive speculation, risk sharing as opposed to debt contracts, better social infrastructure and provision of social services, better treatment of workers, highly relative education expenditures, higher degree of environmental preservation, and vigilantly supervised markets.

The Islamic economic system is market-based, but it has little else in common with today's capitalist system, which is in turn very different from Adam Smith's conception as it included a heavy dose of morality and empathy for others as discussed in his other book—*The Theory of Moral Sentiments*. Capitalism has institutions that do not exist in Islam or are prohibited, such as unlimited accumulation of private property and wealth, debt with associated interest, consumerism with its wastefulness, extravagant, and opulent consumption, maldistribution of income, massive poverty, growing financial, economic exclusion, and all the adverse impact of environmental degradation. Moreover, in many capitalist economies, such as the United States, an unfair tax system that favors the very rich amplifies the immorality of the system.

It would be expected that the many differences above would be reflected in higher quantitative and qualitative economic growth *if* the Islamic rules and objectives were adopted. One would expect a higher rate of growth because of the higher investment rate (as less hoarding of capital and absence of debt-financed consumption), higher educational expenditures, higher social awareness, better functioning markets, higher level of trust (lower transaction costs), and institutions that have empirically been shown to be critical for growth. We must add that risk-sharing contracts in lieu of debt contracts are important in reducing the likelihood of financial crises and exacerbating income and wealth inequalities.

In Islam, justice thrives and proliferates when everything is placed in its rightful place and is achieved by simply following the divine rules. In order to generate genuine debate in Muslim countries and thus be effective in bringing about the needed change, the criticisms of their policies and practices must be framed around the contradictions and inconsistencies of the behavior of these regimes against the *framework they are espousing*. In this way, first establishing the Islamic framework for a just society and then proceeding to compare policies and practices to this framework, any errors or failures can be readily identified and attributed.

It is the institutional structure of society and its policies that allow a pattern of wealth accumulation, creating abundance for a few and scarcity for many. This is what creates social divisions, not natural scarcity. It is the institutional structure of society that determines the resource endowments of its members, which, in turn, determine the structure of their preferences and ultimately their economic behavior. Such an institutional structure combined with a poorly functioning process of self-development provides no opportunity for the self to transcend the focus of the self on “me and mine.” Self-development is necessary to transcend selfishness. The Qur’an clearly states the need for “a revolution in feeling or motivation” [11:13]. The revolution, as defined comprehensively throughout the Qur’an, is a change toward compliance with the rules of just conduct for the individual. In Islamic society, the state’s role is one of administrator, supervisor, and protector of society. It is the members of society who must develop themselves and ensure that justice prevails. Leaders and rulers are unlikely to change unless Muslims who have worked on their own development force their hands and compel their leaders to change course or be replaced.

In our opinion, in a rule-abiding Muslim community, there must be political and individual freedom, no poverty alongside wealth, accountability of rulers and governments, and socioeconomic justice. To us, these are the key elements of a rule-abiding Muslim community. It is crucial to note that in most Muslim countries sustained and meaningful changes will come in an Islamic context. It is precisely for this reason that prevailing conditions and progress should be assessed in an Islamic context. It is our hope that Islamicity indices provide such a context and scaffolding for needed reforms in Muslim countries. To be meaningful, economic and institutional reforms must be accompanied by political reforms. For how can there be a rule of law (equal justice for all) and economic and social justice under dictatorship and absolute rule? This simple point, with implications that go far and wide, has not been squarely faced in most Muslim countries, and until Muslims confront and debate this dilemma, progress will be painfully slow and potentially more violent than is necessary.

NOTES

1. This chapter is based on Mirakhor and Askari (2010), Palgrave Macmillan, and adapted from Askari and Mohammadkhan (2015), Palgrave Macmillan.
2. Qur’anic verses are referred to in the text as [verse: chapter].

3. Zaman, "Toward A New Paradigm for Economics," and "The Ethical and Political Foundations of Scarcity"; Barrera; and Marglin.
4. Solow.
5. Al-Hakimi et al. (1989, Vol. 3, 285–318).
6. Al-Hakimi et al. (1989, Vol. 3, 211–214; Vol. 4, 203–273).
7. Al-Hakimi et al. (1989, Vol. 4, 168–179).
8. Al-Hakimi et al. (1989, Vol. 6, 324–415).
9. Al-Hakimi et al. (1989, Vol. 6, 93–111).
10. Al-Hakimi et al. (1989, Vol. 5, 441–480; Vol. 6, 33–92).
11. Al-Hakimi et al. (1989, Vol. 6, 66–75).
12. McMillan (2002, p. 5).
13. McMillan (2002, p. 9).
14. Metz, Chap. 26; Kister; Shihata.
15. Al-Hakimi et al. (1989); Z. Iqbal and A. Mirakhor: 35–38, 244–246, 298–302.
16. Al-Hakimi et al. (1989, Vol. 2, 2–25; Vol. 6, 324–451); Seyed Qutb.
17. Arguably, *A Theory of Justice*, Cambridge, MA: Harvard University Press, 1971 and 1999, by John Rawls is among the five most important writings on Western political philosophy with the other four Plato's *Republic*, Adam Smith's twins *Theory of Moral Sentiments* and *Wealth of Nations*, Hobbes' *Leviathan*, and Machiavelli's *The Prince*.
18. Qur'an 6:115
19. Al-Hakimi et al. (1989, Vol. 4, 278–468); Seyed Qutb.

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