
Books

Can scientific Islam provide a 'third way' in economic policy?

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Islam and the Economic Challenge

by M. Umer Chapra

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Hardly had the sounds of one crumbling empire faded into the distance, when the rumblings of another impending crash, this time in the West, began to be clearly perceptible. The quasi-simultaneous undoing of the Soviet communist bloc and of the Anglo-American economic axis, dramatically posed the question, is there another, a "third way" to organize the economy, which avoids the pitfalls of both Marxism and liberal, free market economics? Several important works in this debate have appeared over the last two years, foremost among them the papal encyclical *Sollicitudo Rei Socialis* of John Paul II, and *The Science of Christian Economy* by Lyndon LaRouche. Recently, further contributions have been offered, this time from a different cultural matrix, that of Islam. Among the growing number of articles, essays, and lectures devoted by Islamic scholars to the discussion, is this volume by Dr. Muhammad Umer Chapra, which unequivocally presents Islam as the "third way."

Dr. Chapra's discussion is worthy of serious reflection on several counts. Most importantly, he addresses the need for an alternative, not from a purely pragmatic standpoint, but rather from a philosophical stance; he reasons, if the two systems prevailing in the former superpowers have failed, their defects—and therefore correction—must be sought in the underlying worldview. "Every society or system," he writes in his introduction, "is dominated by its own worldview which is based on a set of implicit or explicit assumptions about the origin of the universe and the nature of human life." Thus, in seeking to discover what poisons the "three economic systems . . . dominant in the present-day world—capitalism, socialism, and their joint offspring,

the secularist welfare state," Dr. Chapra dissects the Enlightenment philosophy, which he correctly identifies as common to the economic systems studied. The Enlightenment movement associated with the names of British empiricists Locke, Hume, and Berkeley as well as the German Kant, played, according to Chapra, "an important role in arousing general skepticism about God, immortality of the human soul, moral values, life after death, and other religious notions."

By degrading the notion of God to that of a "clock-maker," Newtonian thought extended its mechanical view of the universe to that of the human soul. Man became a thing, at the mercy of physical forces, without purpose. "If indeed there were some ultimate purpose in life, it was, according to Descartes, impossible for us to know."

Dr. Chapra carries his argument further to show how materialism and determinism derive lawfully from the Enlightenment's repudiation of religion. "Determinism," he writes, "implied that all the facts in the physical universe, and hence also in human history, are absolutely dependent upon and conditioned by their physical, social or psychical causes. Locke considered the human mind to be a *tabula rasa* which had no inner nature of its own and which served as raw material for the external social and economic forces to shape and design. Marx, Freud, Watson, and Skinner, all emphasized that human beings are conditioned by their environment, by factors outside their conscious control. Human behavior was thus explained as being determined by mechanical and automatic responses to external stimuli as in animals (Watson and Skinner), by unconscious mental states beyond their conscious control (Freud), or by social and economic conflict (Marx). Besides ignoring the distinctiveness and complexity of the human self, determinism led to a repudiation of moral responsibility for individual behavior. This was in sharp contrast with the religious view that human beings are responsible, and hence accountable before God, for their acts."

Worse still, such a view inevitably produces in a Jeremy Bentham the "hedonist approach of utilitarianism" according to which, "it was assumed that what gives 'pleasure' is 'good' and what causes 'pain' is 'bad,' thus 'good' and 'bad' or

'right' and 'wrong' were to be determined by the measurable criteria of 'pleasure' and 'pain.' ”

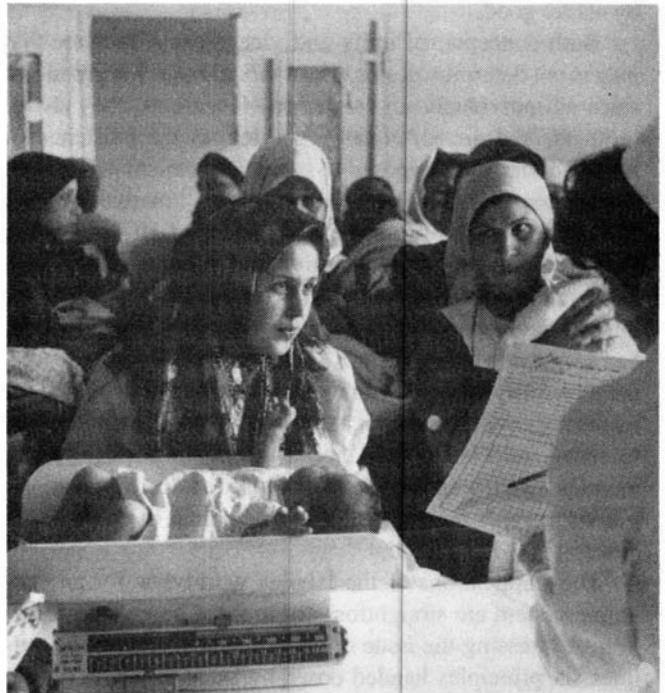
Failure of British capitalism and communism

Translating the worldview thus summarized into economic theory and practice, Dr. Chapra identifies key concepts which shaped “the strategy of capitalism.” Among them are the notion of mechanistic economic laws according to which all would run smoothly if left alone (Adam Smith’s “invisible hand,” the “market forces,” “laissez-faire”); that of economic man, motivated solely by self-interest; and, the idea of “positive” (i.e., value-free) economics. In sum, they add up to a social Darwinism, which “freed economists from any sense of social or moral obligation.” Appropriately, the author chooses to quote Thomas Malthus, on the subject of useless eaters whom “Nature” dispenses with.

In his review of communism in the Soviet system and applied to eastern Europe, Chapra denounces Marxism for its delusion that the abolition of private property would create the basis for economic and social justice. He points out that “private property is only one of the sources of power in human society. There are other sources of power like physical prowess, mental ability, education, creativity, ambition and hard work, family relations, and positions of leadership in society and state.” Marxism ignored these qualities in practice, and failed to achieve a harmony of interests because a moral orientation was lacking. Chapra views the Soviet and eastern European economies as having shared with western models, what he views as an overemphasis on state-controlled, capital-intensive heavy industry, at the expense of small and middle-sized enterprises, especially regarding the independent farmer.

The failure of both systems, as well as their application to Third World countries, derives in his view from the absence of any moral values, such as those shaped by religion. In sum: “Since neo-classical, Keynesian, and socialist economics all have their origin in the Enlightenment worldview, they are secularist in their approach to the realization of human well-being and analysis of human problems. They place too much emphasis on consumption and material possessions as a source of human happiness. They disregard the role of moral values in individual and social reform and hence in development, and overemphasize the role of the market or the state. They are not inwardly committed to brotherhood and socio-economic justice and do not have a socially agreed filter mechanism of moral values. Their strictly this-worldly perspective does not provide a rationale for anything other than materialism and social Darwinism. Within this framework there is no motivation to serve social interest except where it is automatically served as an indirect result of serving self-interest.”

The solution, in Dr. Chapra’s view, must therefore lie in an economic system which is firmly rooted in morality, as shaped by religion. Such a system, he proposes, is Islam. In



A health clinic for newborns at a Palestinian refugee camp in Jordan. In Dr. Chapra's conception of Islam, man is not a tabula rasa, and therefore Muslims must seek to "develop the entire human potential," which includes the physical and social infrastructure necessary for all human beings, who are brothers.

line with his prior treatment of Marxism and capitalism, Dr. Chapra looks first at the religious and moral parameters of Islam, then at their application to economic thought.

The moral parameters of Islam

“To create an equilibrium between scarce resources and the claims on them in a way that realizes both efficiency and equity, it is necessary to focus on human beings themselves rather than on the market or the state. Human beings constitute the living and indispensable element of an economic system.” In marked contrast to Enlightenment thought, Islam, Dr. Chapra shows, places man at the center. From the three fundamental principles of *tawhid* (unity), *khilafah* (vicegerency), and *'adalah* (justice), the author illustrates the parameters of *maqasid*, the goals of the Islamic faith. Unity signifies that “the universe has been consciously designed and created by the Supreme Being” and that it has a “purpose which gives meaning and significance to the existence of the universe, of which man is a part.” Man is God’s vicegerent, “endowed with all the spiritual and mental characteristics, as well as material resources, to enable him to live up to his mission effectively.” Man is free, endowed with free will, able to choose between right and wrong, and

by nature good.

Both concepts, of unity and vicegerency, indicate that man is not determined, nor is he a *tabula rasa*. Furthermore, since all individuals are created as vicegerents, they are all brothers, and are all equal. This defines the existence of social solidarity as opposed to social Darwinism: "The right attitude towards other human beings is . . . mutual sacrifice and cooperation to fulfill the basic needs of all, to develop the entire human potential, and to enrich human life." Man has been entrusted by God with resources, which, finite, must be developed efficiently and in equity. Every individual has a right and a duty to earn a respectable living; those who are physically hindered from doing so, are to be provided for by the society. Islam is not ascetic; it "requires an individual to satisfy all his essential needs to remain physically and mentally healthy and efficient to be able to fulfill his responsibilities towards himself and his society and, in doing so, to develop his total potential."

The implications of the Islamic worldview for an economic system are straightforward in Dr. Chapra's presentation. Addressing the issue of government spending, he outlines six principles handed down by Muslim jurists (in the *Majallah*), and discusses how they should be understood:

"1. The principal criterion for all expenditure allocations should be the well-being of the people. . . .

"2. The removal of hardship and injury must take precedence over the provision of comfort. . . .

"3. The larger interest of the majority should take precedence over the narrower interest of a minority. . . .

"4. A private sacrifice or loss may be inflicted to save a public sacrifice or loss, and a greater sacrifice or loss may be averted by imposing a smaller sacrifice or loss. . . .

"5. Whoever receives the benefit must bear the cost. . . .

"6. Something without which an obligation cannot be fulfilled is also obligatory."

The author explains:

"Since general well-being has to be an essential objective of all public spending in accordance with maxim 1, then maxim 6 would require that all physical and social infrastructure projects, which help realize this objective through accelerated economic growth, job creation, and need fulfillment, should be given priority over those that do not make such a contribution. Even among the indispensable infrastructure projects, maxim 2 would demand the giving of preference to projects that would help remove the hardship and suffering caused, for example, by the prevalence of malnutrition, illiteracy, homelessness, and epidemics, and lack of medical facilities, clean water supply, and sewage disposal. Similarly the development of an efficient public transport system should acquire priority in accordance with maxim 3 because its absence causes hardship to a majority of the urban population, adversely affecting efficiency and development, and leads to an excessive import of cars and petrol. While these cars provide extra comfort to a smaller proportion of the

suburban population, a reduction of their imports and diversion of the savings to import of public transport vehicles could be justified on the basis of maxim 4; such a measure would not only reduce the pressure on foreign exchange resources but also provide comfortable transport services to the majority, with lower congestion and pollution on urban roads."

Concretely, Dr. Chapra contemplates the application of such maxims to an economic strategy, based on public and private sector development, financed through Islamic banking methods. To encourage the development of a layer of independent entrepreneurs in Muslim developing countries, he proposes vast land reforms to build family farms, and small and medium industrial enterprises. On the former, he again highlights the crucial role of infrastructure: "The most serious disadvantage is the absence of the external economies of an efficient infrastructure (irrigation and drainage, extension services, roads, schools, electricity, and health facilities), due to neglect of the agricultural sector in government budgetary appropriations."

For a Muslim, in a sense, what Dr. Chapra presents is nothing new, although his endeavor to reconcile Islamic moral precepts with modern economic realities may necessitate clothing old truths in new garb. To a non-Muslim, unfamiliar with the debate raging in the Islamic world, the author's arguments will sound either refreshingly thought-provoking or arrogantly threatening, depending on the partisan leanings of the reader. Or, more to the point, depending on the internal interlocutor in the non-Muslim world whom the author has in mind.

This is a crucial point, for the debate on the "third way" is not, cannot be, an academic exchange. On its outcome may depend the life or death of hundreds of millions of human beings. In this light, certain questions raised by the reading of this book are important to articulate and introduce into the continuing debate, also in the Islamic world.

The Islamic world today

In point of fact, the Islamic world is in turmoil. Certain glaring injustices, brought to the world's attention in the course of the anti-Iraq war, cry out for correction. The condition of the general population in countries like Saudi Arabia and Kuwait, or the United Arab Republics (U.A.E.), a condition in some cases bordering on slavery, begs redress, from a strictly Islamic point of view. Dr. Chapra does not ignore this; from the very outset, he acknowledges that none of what he is elaborating as Islamic economics has been implemented by Muslim governments. He does not hesitate to admit that Muslim countries, looted by colonialism, failed to satisfy the aspirations for justice of their populations following independence. Eager to point out social injustice, he proposes drastic shifts in consumption patterns in many Muslim countries, using tariffs and taxes to discourage import and consumption of luxury goods, while liberalizing the market for all real

needs. When one reads that Dr. Chapra has been a senior economic adviser at the Saudi Arabian Monetary Agency for 26 years, one must assume that he knows whereof he speaks.

But the issue has broader implications, beyond the monied oil sheikhdoms of the Arabian Gulf. Since the Soviet Union has come apart at the seams, and the Adam Smith free market vultures, described all too graphically by Dr. Chapra, have moved in to feast on the carrion of Marxist economics and to kill whatever might have survived communism, those republics historically linked to Islam, the Central Asian republics, have presented an opportunity for development in the direction the author indicates. Iran, Turkey, and Pakistan are all vying for the status of preferred partner for these republics; all three are Islamic, yet each has its own brand of economics and finance. And each may be preaching one thing, practicing quite another. For example, although Iran and Pakistan both boast of having introduced Islamic banking methods, which abhor usury and even decline to exact interest on loans, yet both are currently negotiating with international banking institutions like the International Monetary Fund, regarding precisely such usurious loans. In the case of Iran, which has the physical economic potential to become a powerhouse for the region, compromise with the Adam Smiths of the IMF has gone so far, that the country is allowing foreign capital to buy over 49% of individual firms. Not to mention the fact that Teheran has instituted forms of population reduction measures which fly in the face of the teachings of the Prophet. The government of Pakistan is trumpeting its introduction of Islamic banking, yet is placing the country's industrial plant, equipment, and labor force on the altar of "privatization" to foreign speculators. As for Turkey, though its national model of industrial development may be packaged in an attractive wrapping, the fact that the current government is being used as a pawn of Anglo-American strategic gambling for military hegemony in the entire region, must undermine its credibility as an "Islamic alternative."

A conceptual problem: the debt

Thus, the question is legitimate: What country or countries does Dr. Chapra envision as vehicles of the policy he champions? Whatever nation might take up the challenge the author presents, must deal first with the most pressing problem facing the developing sector—as well as eastern Europe: the foreign debt burden. Although he expresses concern at the debt service burden "aggravated by relatively high interest rates and excessive exchange rate instability," Dr. Chapra does not address debt reorganization or moratorium as an option. This does not mean he ignores the reality of the leading lending institutions, like the International Monetary Fund, which he accurately portrays as a body ready to reward countries for reducing imbalances, regardless of what cost this might entail in living standards or overall economic health. But bucking the IMF seems out of his ken. Indeed, when discussing the debt crisis, he seems at least as con-

cerned with the fragility of the banks as with the suffering of the debtors. "The inability of these countries to service their debts has jeopardized the health and stability of the entire international monetary system," he writes. And, in an oblique reference to the Peruvian government policy under Alan García to allocate only 10% of foreign exchange earnings to debt servicing, he writes: "Some countries have already announced their resolve to service their debts only to a certain portion of their export receipts. If some of the major debtor countries were also to announce their conversion to this strategy, the problem faced by banks would undoubtedly be severe."

From the standpoint of Islam, usury, as practiced by the IMF, is by no means tolerable. The most obvious application of the Prophet's teaching to modern-day realities would entail orderly debt moratoria on all categories of usurious debt, followed by the issuance of new credit, earmarked for productive investment only. Why this approach, which has found support over the last 20 years from many Islamic political forces, does not appear in Dr. Chapra's book, remains a mystery.

There is a conceptual problem in Dr. Chapra's book underlying the ambiguity around the debt question. The problem, which appears in the opening pages and remains constant throughout the volume, involves the identity of the economic theories (and respective institutions) outside Islam, the interlocutors of any Islamic economist. Dr. Chapra speaks throughout of "capitalism" and Marxism. The former he associates exclusively with the tradition of the Enlightenment, British empiricism, Locke, Hume, Adam Smith, Malthus, and so on, and attributes to this tradition the advances made in western European industrialization as well as the source of all evils today. There is no real elaboration explaining how the one worldview can have been responsible for both progress and degeneration. Dr. Chapra's error (and he is certainly not alone among today's economists) lies precisely here, in equating "capitalism" with the Adam Smith tradition, which were better identified as usurious, monetarist, free market economics. Chapra calls the usurious IMF an instrument of "neo-classical liberalization."

Another 'third way'

There does exist another, actually noble tradition, which properly goes under the name of capitalism. This is associated with the banking and economic policies of Alexander Hamilton and the great Friedrich List. It is this latter tradition, responsible for the industrialization of America as well as of Germany and most other successful economies in the 19th century, which, in explicitly rejecting Adam Smith monetarism, predicates economic progress on the development of human labor power potential, human creativity, through science. It is this tradition, which finds no mention in Chapra's book, that is the ideal historical interlocutor for scientific Islam.