

**CAPITALISM IN MORAL PERSPECTIVE –
AN ISLAMIC ALTERNATIVE**

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MA MINI – THESIS SUBMITTED IN PARTIAL FULFILMENT OF THE
REQUIRMENTS OF THE STRUCTURED MASTERS PROGRAMME
IN THE FACULTY OF ARTS



**UNIVERSITY OF THE WESTERN CAPE
DEPARTMENT OF RELIGION AND THEOLOGY**

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FEBRUARY 2011

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DEDICATION

I AM DEDICATING THIS WORK TO MY BELOVED PARENTS, AMINAH MOHAMED SALMAN AL-MANASEER AND MAMDOUH MOHAMED MFLIH AL-HAJAHJEH AL-ABBADI. I AM ALSO DEDICATING THIS WORK TO MY BELOVED WIFE INTESAR OQLAH AL-QUDAH AND MY CHILDREN MAJD AL-ISLAM, SHAHD, MAMDOUH, MOHAMED AND AHMED AND ALL MY FRIENDS, WHO SUPPORTED ME IN MY STUDY.



AKNOWLEDGMENT

I wish to express my sincere gratitude to all who has contributed immensely in one way or the other towards the success of this work. My first thanks go to the Almighty Allah for giving me health and energy to do this research.

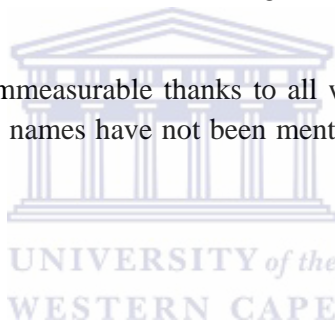
My special thanks go to the Rector of the University and the Dean of the Art Faculty, especially the Department of Religion and Theology, who gave me the opportunity to further my studies here at the University of the Western Cape.

I am most grateful to my erudite study leader, Prof. Christo Lombard, whose suggestions and criticisms were of great help. I especially appreciate his politeness in touching on Islamic issues that may differ with his Christian views and his help and patience with regard to the language issue.

Grateful acknowledgment is also due to my wife Intesar (who sacrifices a lot health-wise) and my children who went through a lot in order for me to finish my study.

Grateful acknowledgment is also due to “Islamia College”, where I work, for their support and patience

In general, I wish to express my immeasurable thanks to all who has kept on encouraging me in making my journey so easy, whose names have not been mentioned. I wish everybody all the best and good end.



February, 2011

Farouq Mamdouh Mohamed

(Al-Hajahjeh)

STATEMENT

I, Farouq Mohamed, hereby declare that *Capitalism in moral perspective – An Islamic alternative* is my own work, that it has not been submitted before for any degree or assessment at any other university, and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references.

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I, Farouq Mohamed, hereby cede to the University of the Western Cape the entire copyright that may in the future subsist in any research report or thesis submitted by me to the University in partial fulfillment of the requirements for the degree of MA in the Department of Religion and Theology.

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Farouq Mohamed



CHAPTER 1

INTRODUCTION

1.1 Abstract

Our time has been called the age of economics; the social philosopher Edmund Burke first used this term to characterize the eighteenth century, which was his own century and also the century of Adam Smith, but this expression has since become even more appropriate. While in the middle ages the beliefs that divide society and set large blocks of people at war with each other were theological in nature, in our time the great ominous divide between peoples is based on differing philosophies of economics (Lux, 1990:1).

Economists are now key advisors to governments, presidents, prime ministers, and even autocrats and dictators, in addition to their obvious and expected place in the world of business, banking, and finance. The celebrated twentieth-century economist John Maynard Keynes gives an apt description of the influence of economics in our time: “The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood.” (Lux, 1990:1).

The analysis presented in this study spreads over four chapters followed by a concluding chapter and the bibliography. For the full understanding of the need of this analysis and where it comes from; the methods that are followed; the literature used; the normative framework for evaluating the different systems, a brief survey is presented in the first chapter. The second chapter argues the need for an economic system that functions economically and morally; one that satisfies the criteria set by the widely accepted theory on justice by John Rawls. An analysis of the advantages and disadvantages, but especially the moral and practical shortcomings, of the current dominating global system, Capitalism, based on short-term human vision and planning, and a preliminary critical moral assessment thereof, is given in chapter three. The fourth chapter briefly presents the Islamic economic system as a possible alternative, more reliable, economic system, claiming to depend on divine knowledge. The strengths of this system are pitted over against the shortcomings identified in Capitalism and the possible viability of the Islamic system is tested against the criteria of John Rawls’ theory of justice. The concluding fifth chapter summarises the outcomes of the investigation and presents some recommendations for a viable economic philosophy and system for the future.

1.2 Key words

Capitalism, economy, wealth, interest, distribution, moral, justice, Qur'an, Sunnah, Shari'ah

1.3 Background and Rationale

This thesis investigates the economic and moral viability of the capitalist economic system, in order to compare it with the Islamic economic system in terms of justice and fairness. Earlier Marxist/Socialist critique of Capitalism focused on issues within Capitalism such as greed, corruption, cheating, bribery, pirating, abuse, and other market problems e.g. practices and regulations which lead to poverty, hunger, economic crises, collapse, inflation, stagnation and steep price increases. Instead of sloganeering from a distance, contemporary research on the problems of the world economy is replete with frank criticism “from the inside”, i.e. by capitalist economists themselves. In this study, written from a Muslim perspective, the problem within the capitalist system will be assessed in conversation with critique from “outside” and “inside” capitalist discourse.

All modern economic theories attest to the fact that they have real, concrete ways to deal with third world debt, to facilitate fair trade, to prevent or heal the hurt caused by economic crises, to guarantee a high employment rate, to ensure fair wealth distribution and to promote quality of life for children and the elderly, male and female. These lofty ideals, seldom attained, are in line with a positive definition of what “economics” is all about, such as suggested by Connell (1981:3): “Economics is concerned with the efficient utilization or management of limited production resources for the purpose of attaining the maximum satisfaction of human material wants”. However, after the collapse of Communism, and in a contemporary situation in which Capitalism is struggling with deep crises, and with the world economy on the verge of collapse (Soros, 1998:xi), it would seem that the human race has not yet found the economic formula balancing human flourishing and justice.

Political and economic experts today openly admit that theoretical assumptions, underpinning major economic theories, have combined with selfish human behaviour to lead to the current socio-economic mess worldwide. Soros (1998:102, 116, 125) indicates that the development of a global economy has not been matched by the development of a just global society. The defect of the market mechanism and politics based thereon, the effects of the credit system, military developments, different currencies, the utopian belief in a perfect free market, and the illusory

market value of stock and shares, are all factors - factors that call for moral assessment - that play an important role in Capitalism's failure. In this study I indicate how, ironically, the rules of Capitalism create and even need the mechanism of control, as implemented by the International Monetary Fund (IMF), World Bank (WB), and the US Federal Reserve, to guide a so-called Free Market. It thus seems that economic systems, such as Capitalism, fail because of internal tensions and inconsistencies, but also because of moral inadequacies.

Are there no alternatives to replace this economic theory or system to end these problems that have led to a global economic crisis in our own day? Do we not have any other option that can guarantee justice for all? From an Islamic perspective a modest starting point for answering such questions is suggested. Human beings cannot fully know or control, anticipate or realise, the future, as assumed by Capitalism. World ideologies and ideas change, peoples' thinking change, resources become depleted or change. Change can be good if it is for the benefit of humanity, but what guarantee can humans have to be sure of the positive outcome of any changes, if they cannot be sure what the future holds in store? Therefore, a strong and effective guideline, a clear norm for what constitutes justice to all, without favour or exception, is our urgent need. Muslims would call this "God's scale of justice" and Christians will talk about the Kingdom of God and its righteousness.

Islam as a revealed religion, operating with godly ideas and norms about justice and fairness, which can be compared to and even measured against other theories about justice, such as John Rawls' theory of justice as fairness, has much to offer to the world in terms of economic and moral viability. As a concerned Muslim who has studied economic theory and theories of justice and human rights, I would like to, by means of critical analyses of contemporary economic practices, show that Islam offers an alternative economic system that can be strongly considered in order to bring justice to humanity according to "God's scale of justice". This concept of justice is based on enduring divine revelation and prophetic guidance, in comparison with human ideas which are frequently based on "temporary" theories and expedient utility. The justice sought in the Islamic economic system is based on revelation of the One Who is seen to be the All Knowing (God) and the practice of the prophet who speaks God's words, as testified by the prophet Mohamed: "I have left behind for you two things, the Qur'an and my Sunnah; if you follow them, you will never go astray." (Coulson, 1969:15). While firmly believing in the truth and truthfulness of such divine guidance, I wish to illustrate on grounds of universal reason and morality, specifically in conversation with Rawls' widely accepted criteria for a just economic system, why an economic system following these Muslim perspectives can address the inherent failures and problems of our current systems.

Many Muslims will agree with Assader (1982:9) that the Islamic economic system can offer a solution to our global economic problems, but that this truth is hidden behind the political, economic and ideological control of Western powers over poor or weak Islamic countries. This system is not focused purely on material gain or human interest; it is revealed from Allah and covers all aspects of human life in balanced ways, guaranteeing justice: socially, politically and economically, creating balance within the individual and society (Assader, 1982:306).

Although the Qur'an and Sunnah do not cover all the finer details, they provide the framework for a comprehensive Islamic economy. Thus, qualified people with a certain level of knowledge and interpretative skill can find solutions for any problem whether social, political or economic by following clear religious and moral guidance provided by Shari'ah, based upon the Qur'an and Sunnah. Coulson (1969:2) describes this process as follows: "Between the original divine proposition and the eventual human disposition is interposed an extensive field of intellectual activity and decision." Consequently, even though based on the divine will, an Islamic theory includes, like any other theory, also human work, a critical hermeneutic, demanding faithful listening, careful analysis and imaginative application, to produce a suitable package for changing circumstances.

Despite the Islamic world's effort to produce an Islamic economy that can replace existing practices, it is still not introduced properly because of the lack of political power, differences within Muslim scholarship, lack of responsible human action grounded in virtue, and because many people have a negative connotation with anything associated with Islam. This is mostly due, on the one hand, to one-sided propaganda, or, on the other, can be blamed on incorrect practices of some Muslims who misunderstand their own faith.

This thesis shows that many economic problems resulting from currently practised systems are manageable and have possible solutions through the Islamic economic system, or at least through implementing the just principles involved in this system. For instance, the Islamic system aims at extracting raw material without exploitation or abusing the land of any individual or population; creating industries free of pollutants or causing diseases; providing business finance free of interest and depending on real partnership; eliminating false economic promises or the hiding of the real intrinsic value of products, or the high risk involved in making the profit; and employing people without abusing their right to fair remuneration, health care and profit sharing. This system also aims at employing principles of sustainability through the processes of extracting raw materials, manufacturing final products and disposing used products for the benefit of future generations. It

focuses more on the common good, on humanity in general, and not on a specific, elect group of people. This system has a unique distribution mechanism to guarantee utilization of all resources, encouraging creativity, and reducing unemployment.

The Islamic economic system is based on three pillars: *dual ownership* (constituting a joint private and public ownership - and thus overcoming the dichotomy between the two rival systems, Capitalism and Communism), *limited economic freedom*, guaranteeing certain human principles and dignities, and *social justice*, based on divine rules.

Islam does not approach these problems from a materialistic point of view and as separate entities, or from a human point of view only, but from God's framework that concerns all aspects of life. Islam sees that the issue to be addressed is a combination of human and material problems. The human dilemma is not primarily due to the lack of material resources. In the Islamic view, God can take care of resources, but that does not mean that humans have no input and control; on the contrary, they have been given the choice, whether this choice was in the political, social or economic sphere, or whether it was good or bad. Allah says in the Holy Qur'an: "and He made easy to use of whatever in earth and heaven, all from Him." (Sura Crouching verse 13) In Islam, the economic sector does not operate in isolation from the social and political sectors; instead each one affects, and is affected by, the others.



This study identifies the strengths and weaknesses of Capitalism. This will be done by analysing the theory of this system and the actual practice of it, and then evaluating the theory in terms of the actual practice. After looking at its performance from the social, economic, political, health, spiritual, environmental and individual development perspectives, respectively, and its sustainability for future generations, finally, the result will be compared to the Islamic economic system as an alternative. To facilitate this process of evaluation and comparison, John Rawls' framework for justice discourse will be used as a hermeneutical tool to speak about economics in a rational and moral way in non-religious language.

This research will try to show, through critical analyses of Capitalism practices, that the Islamic economic system described and proposed here should seriously be considered as a viable global economic system, or, alternatively, its principles as reasonable building blocks for a new world economy.

Questions that triggered this research are for instance: Is Capitalism serving humanity and human dignity? If not, why not? What modifications are needed within Capitalism? Which human principles are needed for a just economic dispensation globally? Do we have an alternative system or systems? Why is such a system not being implemented? Is the Islamic system viable and practical? What makes the Islamic alternative attractive?

1.4 Aim and objectives of this study

The aim is to study the strengths and weaknesses of current economic practices of the major economic system of the past few centuries, namely, Capitalism, including its outcomes, percentages of success, basic principles, the possibility of further improvement, and at the same time considering the alternative offered by the Islamic economic system, and its possible ability to replace Capitalism and face the old and new challenges created by this system successfully.

This aim is pursued through studying and analysing the proper sources, such as the work of selected experts in Capitalism (e.g. Smith, Soros, Stiglitz, and others) and the Islamic economic system (e.g. Assader, al-Masry, Kamali and others) in order to make the research more authentic and reliable. Through the methodology of assessing internal critique of Capitalism and the possibilities of an alternative, by means of Rawls' criteria for justice, I hope to illuminate my hypothesis about the viability of the Islamic economy towards the end of this study.

This research investigates, from a Muslim ethical point of view, human interference through various economic practices with what is known as "God's scale", which derives its guideline from the Holy Qur'an. In this regard Muslims frequently refer to Verse 49 Chapter 5: "So judge between them by that which Allah hath revealed and follow not their desires, but beware of them lest they seduce thee from some part of that which Allah hath revealed unto thee." (Coulson, 1969:15)

Capitalism, Socialism or any traditional economic system is the outcome of the human need and aspiration to reach civilized life for all. Each of these systems works toward that goal through what it believes to be the correct way, but the outcome of many of these systems has proven to be a disaster. This is evidenced by the lack of stability, huge government budget deficits, high taxation, increased poverty, environmental suffering, high interest rates, high unemployment rates, poor health and education services, wars, tensions, stress, depression, etc. In an Islamic view, these problems are the consequences of interfering in God's scale, which is designed in a perfect balance (cf. Surah The Moon Verse 49: "Lo! We have created everything by measure.").

This research explores the problem of the economic interference by human agents and its consequences for humanity. The human interference, or immoral and uncontrolled development, touches many aspects of our lives (mental, physical and spiritual); it also influences our lives from a social, political and economic point of view. The focus will be on what went wrong, where to seek help, what true human responsibility entails and what are the rules that we must follow in order to contribute towards justice without causing problems in God's scale of justice. Finally, the research will show the possibility of the implementation of the Islamic economic system, but also obstacles to be overcome and questions that can be raised.

1.5 Hypothesis

The study is based on the conviction, shared by many Western analysts, that the current economic systems are unjust to humanity in that they result in economic, social and political ills, because of their negative perspective of human nature, weak local and global economic rules and planning, misuse of science, utter reliance on rationality and neglect of future generations or the plight of the poor (see e.g. Andrew 1977; Soros 1998; Stiglitz 2006). Capitalism is thought to be the most effective economic system, yet it fails time and again, blaming mankind and unforeseen factors for its failure. Societies are still faced with severe social and other problems, like poverty, starvation, crime, poor healthcare and education and damage to the environment. Thus, when adopting any economic system we have to build in contingencies for mankind's ability to fail and those unknown and unforeseen factors. We also need reliable assumptions about human flourishing and principles of justice.

To deal with all these aspects of the problem focused on here, as a follower of Islam, believing that the guideline of "Scales of justice" have been revealed to us, and through critical analysis, I hope to show that Islam can present justice, fairness, equity and co-operation to achieve a viable process of globalization and can also offer solutions to problems of the past, the present and the future of the world's economy. My hypothesis thus states that, at a minimum Muslim economic principles can contribute towards building up a new viable global economy (based on a viable economic theory and enduring moral values), or at a maximum, that a Muslim economy, as a package, can replace the old and failing system of Capitalism. As will be shown in the next section, in this regard I shall be using theoretical experts in the field of Muslim economy, such as M. B. Assader, R. Y. Al-Masry and others.

1.6 Literature review

My research is located in the area of economic theory; it compares existing economic systems to an Islamic alternative. Through the work of Assader, Rima, Mour and Fourie, we explore the origins of the economy as a science. Next, we try to understand Capitalism, its features and its tools through the work of various scholars, from different backgrounds and perspectives. An older work, McConnell's *Economics*, already deals critically with unemployment, inflation, economic growth, economic productivity, taxation, public expenditure, poverty and income maintenance, balance of payment, the international monetary system, labour management relations, manpower development and training, pollution, discrimination on the bases of race and sex, competition and antitrust, as it appears in the United States annual economic reports, comparing these figures globally (McConnell 1981:4). Moore, in his book *The World Bank* (2007:27), explains “the ways in which the Bank constructs hegemony, how does it manufacture moral and intellectual leadership within the developing industry and on behalf of the protagonists of a global project.”

Weiss, in his book *Economy Policy in Developing Countries* (1995:6), discusses the developed countries' economic behaviour and shows that “governments have come to be seen as part of the problem rather the solution”, through neglecting their responsibility of a) managing macroeconomics, b) regulating and promoting transparent frameworks, c) investing in human capital and infrastructure, and d) protecting of the poor and vulnerable (Weiss, 1995, 8). Rogate Mshana in his edited work, *The Debt Problem for Poor Countries*, discusses the problems connected to illegitimate debt and arbitration as part of a WCC study on the IMF, WB and the debt crises.

Soros (1998), in *The Crisis of Global Capitalism*, and Harry Shutt (1998), in *The Trouble with Capitalism*, show the failure of past Capitalism and its free market mechanism, and present suggestions for an alternative economy system on the basis of reflexivity theory as a solution to the global capitalist system. Assader (1982), in his book, *Our Economy*, analyses Capitalism, before then explaining the Islamic economic system in detail and in response. F.R. Ansari (2002) in his book *Islam to the Modern Mind* (edited by Prof. Yasien Mohamed from UWC) explains materialism and its consequences for Muslims in particular and humanity in general. Klaus Nürnberger, in his *Beyond Marx and Market* (1998) discusses the principles of Capitalism and its advantages and disadvantages. Nassau Adams, in his book *Worlds Apart* (1993), discusses the special effect of the rich oil countries on the world economy, via the vast amounts of capital flowing with the flow of oil.

Noam Chomski (2005) discusses the questionable use of political power (within “democracy”) to control and manipulate poor countries and introduce Capitalism as the only way to achieve success socially, politically and economically, also indicating how it could survive for such a long period.

Joseph Stiglitz, in his book *Making Globalization Work* (2006) explains how globalisation could work, when principles of justice are followed. However, he also discloses how, through his work with the US government and The World Bank, he could see that market efficiency is a myth and that the slogan, that free market trade is inherently welfare-enhancing, is an invalid claim (Stiglitz, 2006: x). He also calls for turning away from ideological battles and move towards fixing the problem of Capitalism, and build an international economic and political system based on values and principles (Stiglitz, 2006: xii). Stackhouse and his partners in their four volume edited project, *God and Globalization* (2000-2007) argues that God is ignored in the new globalization system in which there are new standards, ethics, cultures and ideas (Stackhouse, 2000). Konrad Raiser, as General Secretary of the World Council of Churches, made the point in *For a Culture of Life* (2001), that the new complex system of globalization brought with it mutual interdependence and mutual suspicions that often end in violence. James Mittelman, in his book *The Globalization Syndrome* (2000), the All Africa Conference of Churches (AACC) in their paper, *A Challenge to the Church in Southern Africa* (2008), Dieter Hassle and Larry Rasmussen in their work *Earth Habitat* (2001), and Larry Rasmussen, in his work *Earth Community Earth Ethics* (1996), see the outcomes of globalization represented in environmental crises.

Dean Baker and his team, in their edited work *Globalization and Progressive Economy Policy* (1998), quote Taylor arguing that countries lost control of their economies (Baker, 1998). Jan Nederveen Pieters, in his edited work *Global Futures*, suggested a “global architecture” for the new globalization system (Pieters, 2000). Christoph Stückelberger, in his *Global Trade Ethics* (2002), tries to guide all fields of economic activity, especially world trade, with certain ethical rules. Paul Hirst and his team, in their book *Globalization in Question* (1999), argue against what is called “a truly global economy” and accuse it of being a “myth” for many reasons (Hirst, 1999). Summer B. Twiss and the contributors to *Explorations in Global Ethics* (1998) focus more on distributive justice, where they look at the who, when, where and how of the distribution of the benefits of production and trade, with a focus on those who pay, suffer, sacrifice and bear the burdens of those benefits (Twiss, 1998). David Held and his team, in their book *Global Transformations* (1999), critically discuss the fundamental features of contemporary globalization. Andrew Greeley in *No Bigger than Necessary* (1977) argues for a new model of globalization, based on moral principles which take the survival of species and the planet seriously.

Jim Wallis in his book, *God's Politics* (2005), discusses spiritual values and economic justices and poses the question: when did Jesus become “pro-rich”? Various recent contributions, such as Linda Woodhead and Paul Heelas, *Religion in Modern Times* (2000), Max Stackhouse and his team, in *God and Globalization* (2000), Stackhouse in his book *Public Theology and Political Economy* (1987), Rogate Mshana, in *Wealth Creation and justice* (2003), Gordon Anderson and his team, in *Morality and Religion* (1992), Peter Beyer in *Religion in Global Society* (2000), Roger Gottlieb, in *Liberating Faith* (2003), and Max Stackhouse in the influential compendium, *On Moral Business* (1995), help us understand the views of various religions, in general, and Christians, in particular, regarding contemporary economic practices and their moral implications.

John Rawls, in his book *A theory of Justice* (1971), discusses fairness from a human knowledge point of view and gives us an insight of the similarities or differences to the religious point of view. His theory regarding the “Original Position” will provide the criteria and the path that connect human theory and “God's Scale of Justice”, cutting out the possibility of mere self-interest when planning the possible outcomes of economic activity in the absence of reliable powers of foresight or prediction about the future and one's own relative position of power or influence.

James Ridgeway, in his book *It's All For Sale* (2004), the United States Catholic Bishops Conference in their work *Economic Justice For all* (1986), and Donald Dorr in his book *Social Justice* discuss different ways of achieving economic justice. Coulson, in *Conflict and tension in Islamic Jurisprudence* (1969), takes us through differences between Islamic scholars regarding interpretation of some Quranic and Sunnah rules, which led to the birth of the four schools of thought (Hanafie, Shafie, Malikie and Hanablie), that consequently gave Islam the flexibility to handle any new development happening at any point in time. Shaykh Al-Alawi, in his book, *Knowledge of God* (2005) agrees with Assader regarding the superiority of the Islamic Economic system. Assader has undertaken an authoritative, detailed comparison among the major three systems, arguing convincingly that the Islamic one is the most viable global economic system, in spite of the claims by Western economists as to the superiority, uniqueness or righteousness of Capitalism. Assader's point is that while current practices focus on the economy, including politics and social realities, the Islamic system incorporates the human soul as well. All contemporary economic practices seem to be collapsing or to be on the verge of collapse, although they claim that they are moving in the right direction. Facing such contextual analysis of where we are, it must be reasonable to ask for how much longer we are going to follow the process of trial and error, in which millions suffer because of temporary solutions which have a fixed lifespan before collapsing, taking down with its collapse all that it achieved? Next to the Assader, Al-Masry, in his book *The*

Principles of Islamic Economy (2005), in which he tries to take this knowledge back to its roots, makes his own interpretation, extract some ideas from other researchers and discuss some of Assader's contributions. Mohamed Hashim Kamali, in his books, *Islamic Commercial Law* (2006), *Shari'ah Law* (2008) and *Principles of Islamic Jurisprudence* (2003), discusses new phenomena proving Islamic economy's ability to handle any new development by using the main two sources of Islamic law; Qur'an and Sunnah, in addition to the input of qualified scholars.

For translation of the verses of The Qur'an the thesis used M.M. Pickthall's work. The book *A Brief Explanation of the Summary* of Abdullah Al-Harariyy (2004), the book of Imam T.M. Addimeshqi *Kefayat Al-Akhyaar fee Hall Ghayat Al-Ikhtisar* (1500) and the book of Imam SH. Aththahabi *Kitaab Al-Kaba'ir* (1300) will help to explain some compulsory knowledge in transactions. The work of Moulana Mujibullah Nadwi, *The Commercial Law of Islam* (2009), takes us through Islamic rules regarding transactions and regulation in Muslims life in particular and humanity in general. Finally, T. Arnold, in *The Spread of Islam in the World* (2006), discusses Islam as a comprehensive system, covering the social, economic, and political spheres comprehensively. Jim Wallis, an evangelical American scholar, in his influential work, *God's Politics* (2005), discusses economic justice in today's Capitalism and criticises conservative governments and their justification for so-called "Christian politics".

From this survey it should be quite clear that the last decade or so has produced a vast amount of extremely critical literature on Capitalism, arguing the case against a continuation of "business as usual" on strong moral and anthropological, if not ecological grounds. Simultaneously, a rich legacy of Muslim scholarship has been emphasising the moral "solutions" of an economy based on Muslim principles over against secularist, materialist and individualist ideologies of economy.

1.7 Theoretical framework

In the light of the current events that are taking place worldwide, especially in the area of the global economy, this thesis will discuss recent capitalist economic practices (e.g. over-extracting scarce resources, manufacturing unnecessary products while ignoring human necessities, using interest and speculation, the spread of unemployment, unjust distribution of wealth and resources, and growing poverty amid ostentatious wealth) from a religious and ethical point of view and their influence on the global economy. Islam claims that it has flexible, manageable and reasonable solutions to all aspects of life. Islam has its unique methods and approaches to human problems (e.g. human dignity and respect before material gain, individual sacrifice on behalf of the majority, encouraging

partnership and prohibiting interest loans, prohibiting speculations, considering next generation, encouraging the circulation of money and preventing blind investments, encouraging giving in order to gain, and prohibiting selfishness and other social diseases). Its theories are derived firstly from the spiritual and moral perspectives that exist in Islamic religion and secondly from rational perspectives which come from the combination of divine and human knowledge. These theories were ignored for long periods of time, but have also recently been rediscovered, even in some capitalist countries, such as France, England, USA, and South Africa. In France, for instance, they started looking at the Islamic economic system as an alternative system, by encouraging and opening Islamic banks; also in South Africa ABSA and Nedbank have introduced new Shari'ah compliant funds and accounts.

The thesis uses Rawls' theory of the "Original Position" as a criterion to see which existing economic theory and system is close to human needs and happiness by highlighting the Islamic economic, ethical and divine view through the work of Assader and others and comparing them with the economic and ethical views of capitalists, and thus evaluating them to come to reasonable recommendations and conclusions.

1.8 Methodology

The effectiveness of any theory is determined by its result, and the results are determined by their usefulness and helpfulness towards elevating the dignity and happiness of humanity, and thus finally by the percentage of humans who are benefiting from these theories, and the class (high, middle or low class) affected.

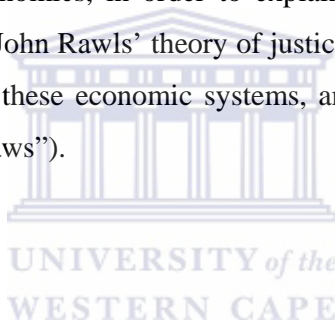
This research addresses Capitalism's existing practices by studying the effectiveness, weakness, and outcomes of its free market's "invisible hand" theory (as introduced by Adam Smith), unlimited freedom of ownership, the concept of individualism and practices and neglecting the moral aspect in its theories lead to its contemporary status. The study then shows how this system was successful, for shorter and longer periods of time, but started showing serious signs of collapse or being on the verge of collapse materially, and more importantly: morally. After that the question is investigated whether the Islamic economic system can replace it, through its dual ownership, limited economic freedom, social security principles, and moral focus. The current economic system's focus is purely based on using everything at one's disposal in this world for fulfilment in this life. Islam however instructs that all means at one's disposal in this life should be used to attain

success in the next life. These Islamic approaches carry in its fold just material distribution and deep (“subterranean”) moral concern.

Rawls’ concepts of “original position” and “behind the veil of ignorance” show what humans would have chosen if they were in the position of knowing nothing of the future and they want to create and implement laws to guarantee happiness for all. Would the person choose Capitalism in its current status, or the Islamic economy and its principles?

1.9 Delimitation of study area

My research focus is not on all aspects of the global economy, but specifically on the failure and shortcomings of the existing system (Capitalism), as also increasingly admitted and portrayed by capitalist criticisms. At the same time I am using Islamic Shari’ah (Islamic law) and selected scholarly work in the field of economics, in order to explain the Islamic economic system and compare it with Capitalism. Using John Rawls’ theory of justice as fairness, my research will touch more on the distributing sector of these economic systems, and especially on the missing divine factor (“God’s Justice” or “God’s laws”).



1.10 Chapter outline

The chapters simply follow, and hopefully also constitute, the logic as explained above:

- Ch 1 Introduction: Topic, goals, theory and methodology
- Ch 2 Finding an economic system that works economically and morally
- Ch 3 Practical and moral evaluation of contemporary Capitalism
- Ch 4 Islamic Economics: an alternative?
- Ch 5 Conclusion and Recommendations

CHAPTER 2

FINDING AN ECONOMIC SYSTEM THAT WORKS ECONOMICALLY AND MORALLY

2.1 Introduction

This chapter analyses the current economic situation and studies the crisis that is not only affecting certain countries, but taking down the global economy as well. In the process of studying the problem, we attest the hypothesis that the human scale of justice as represented by Capitalism is behind the current catastrophe and that there is a need for another system. We investigate another economic system that is not characterised by a purely human approach but operates within a divine framework, namely God's scale of justice as implemented in the Muslim economic system.

Although divine systems are supposed not to be tested, but rather obeyed and followed, we use Rawls' theory of justice to assess Capitalism and compare the Islamic economy to it in terms of "religiously neutral" but morally sensitive language, which is deemed suitable for such a task.

2.2 Economic background to the crisis in the world system

Things seemed to be working very well, with projects and developments taking place globally, but suddenly, as if history was repeating itself, the global economy started collapsing, with banks going bankrupt (in USA more than 100 banks closed down), companies going into liquidation, countries (such as Greece) seeking help to avoid bankruptcy, and national governments, such as the USA and England, interfering to bail out big lending companies (Klein, 2007:11-21).

Who should be blamed for this predicament; is it the people who cannot manage their life style, or is it the system that people use to manage their wealth and business? Or is it the government interfering in their business? To blame someone or something is easy, but to support your blame with rational evidence needs careful study and analysis (Klein, 2007:283-307).

At this stage, after a big scare and a huge downturn in economic activity, economic life is recovering again, as has happened after previous depressions. Economists are studying the cause of the problem, looking for new methods and rules to govern and prevent the wrong behaviours of the market and people from recurring again. Many questions were raised and are still prevalent in the

ongoing discussions: What are the changes that need to be made? If we agree that *humans* are the cause of the problems, what should be changed? Is it their understanding of material means; the control of their needs; or the way they care for others?

If the *governments* are the problem, what are the new rules that governments should follow to have an economy that can cope with future challenges? How and what system to be chosen? How, what and when should be spent? Should taxes be raised or new rules enforced?

If the problems are in the *economic systems* people use (e.g. the capitalist system in this case), what are the changes that need to be made to it? Is it its methods and rules? How can that be achieved when Adam Smith, “the father of the modern economy”, affirms the value of *self-interest* as the basis of economic activities: “it is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own self-interest.” (Lux, 1990:80) How can the economic system be prevented from falling into the same mistake? The irony of what is happening these days, as it had happened in 1929 and 1987, is that the cause of these crashes was and still is “the growth and power of trading in financial future and overzealous deregulation which is now widely recognized as having opened the banking doors to extensive greed, reckless investing and outright fraud and corruption.” (Lux, 1990:76-77) Is it the *ideology, principles and values* of Capitalism that are the problem? Assader argues that in Capitalism the system could not work without changing the mindset of people and government (Assader, 1982:25). Is the *mindset* behind the ideology and the system the real problem to be addressed?

We must agree that as long as we depend completely on human made systems there is room for error; humans naturally suffer from lack of knowledge, they cannot confidently know the future, they can cure many problems but they cannot easily prevent most of them. The need for a system that is free of practical and moral defects is an urgent one, as is the need for people to change their needs, wants and attitudes towards the limited sources that the earth has. People need to free themselves from the influence of Adam Smith’s philosophy which bluntly states: “We address ourselves not to their humanity but to their self-love ...” (Lux, 1990:81).

Governments need to apply their rules towards preventing exploitation and creating a balance inside their countries and with other countries, bearing in mind that they are no more living as single countries; they are all part of a global system; we are all part of a global system.

2.3 Globalization and Capitalism

Capitalism was never an ideology used by one country only; it has always been a system that is being used by the world; its method was implemented almost everywhere, and the result that was achieved was also on a grand scale. In this respect it reminds us of Socialism when it started; its results were flourishing and promising, but later-on it could not adjust to new circumstances and collapsed as a system.

Capitalism as a global system could not survive for long because of the ideology carrying it. Maybe its ideology is accepted in western countries, but that does not mean it will be accepted everywhere else - a factor that could easily create global conflict between different cultures and ideologies (Assader, 1982:30).

Stiglitz, an expert on Capitalism, in his book *Making Globalization Work*, focused on seven specific problem areas that affect globalization – international trade, patents and profits, problems faced by economies with abundant natural resources, environmental issues, transnational corporations, foreign debt, and the global macroeconomic system (Stiglitz, 2006:19).

Globalization could be a great benefit to all if it was carried by a system without flaws, but human-made systems will always have a lack of knowledge, preventing them from being perfect. If Capitalism wants to operate on a globalised level, its ideology should be adopted by all to work; people should change from caring for other fellow being to caring about themselves; they should activate their selfishness and individualist attitude in order for the system to work, otherwise it will always be challenged by people who do not accept this way of conducting business (Assader, 1982:255).

Chomsky, confirming this "law of consistency", argued that Capitalism will force itself to be everywhere; it needs resources and markets for its products, it needs more sales to satiate its love for profits and wealth (Chomsky, 2005:141).

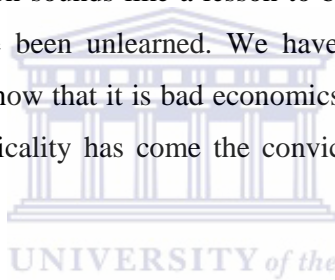
2.4 The problem: Humanity's scale of justice

What is the problem with Capitalism? Why did the capitalist system start with good results, and end with disaster that forced the interference of the state, although the same system originally called for no state interference. Is it because, as Adam Smith argued, its economic activities are a direct result

of self-interest and not of mutual benevolence (Lux, 1990:80), which according to Assader is one of the problems that caused the crash in the world economy (Assader, 1982:141)? Is it because, as he further argues, humanity's blind dependence on its own (limited) intellectual abilities is behind the world's problems (Assader, 1982:5)? Assader stresses the need for humans to be guided, because their knowledge is not perfect; which is also the reason for their failure to produce a system that can take care of the future. The viable system will be the system that can provide principles that can face the challenges of the future and provide a system that can handle it (Assader, 1982:5).

2.5 In search of an ethical alternative

Many experts claim that they have the solution to the economic problems that we recently had to face and are still challenged with; yet the same problems are returning again and again, and there is no guarantee that they will not keep cropping up again in the future. What Franklin D. Roosevelt said after the 1930 Great Depression sounds like a lesson to be learnt again and again: "Old truth have been relearned, untruth have been unlearned. We have always known that heedless self-interest was bad morals; we now know that it is bad economics. Out of the collapse of a prosperity whose builders boasted their practicality has come the conviction that in the long run economic morality pays." (Lux, 1990:9).



This way of thinking underlines the urgent need of a system that does not care for material gains alone, but also for creating a balance between humans and their needs and the environment and its capacity. The new system should not ignore the next generation and their needs as well. The new system should be based on benevolence and not self-interest, for its operations.

An urgent question thus presents itself: Where is that system that has the ability to anticipate the future problems and needs with sound moral principles? Where is the system that has such an ideology that can face and handle the plethora of future problems? How do we know if that system is the right one?

2.6 Towards a solution: God's Scale of Justice

Despite the modernist announcement that the religious passions of past history have now been superseded by economic ones, so that in this sense our ultimate cosmologies are now economic rather than religious (Lux, 1990:1), the need for divine guidance will always exist. Some spectacular personal successes in the material world led to the idea that humans can manage without

a need for a divine guidance, as was claimed by the communist adage: “There is no God and life is about materialistic means”.

Humans, naturally speaking, have an internal prompt that calls for a connection with the power of their creator; some respond to that call, while others choose to ignore it and claim that it does not exist. Those who choose to follow the internal call believe that any system that does not extract its ideology, rules and values from a divine source is going to collapse even if it shows a good outcome in the short run (Azmi, 2009:26). Many people resort to following human made systems because they are unable to discover or find alternative divinely guided systems. The lack of knowledge among their scholars, the control of stronger powers, or the influence of other ideologies are the reasons behind that disability (Assader, 1982:9).

The Islamic economy, like other systems, invites us to consider its principles, study its ideology and values, and consider its divine guidance that transcends human knowledge and guarantees present and future balance between all fields of life.

At this point we are facing a dilemma: People normally believe in their own systems and doubt others; they simply believe that their principles, values, sense of morality are superior. How are we to assess the claims of the competing economic systems: on which basis of “moral consensus”? We need a moral instrument that can be used as a mediating one, one that can be agreed upon by people to a certain extent.

2.7 Mediating language: Rawls’ theory of justice

In order to introduce ideas and suggestions to modify an existing economic system, these ideas and suggestions need to be tested, as well as the existing system itself.

A Theory of Justice (1971) is Rawls’ attempt to formulate a philosophy of justice and a theoretical program for establishing political structures designed to preserve social justice and individual liberty. Rawls writes in reaction to the then predominant theory of utilitarianism, which posits that justice is defined by that which provides the greatest good for the greatest number of people. Rawls proposes a theoretical person who, shrouded in a veil of ignorance, must design a just society without foreknowledge of his or her own status in that society. Rawls asserts that from this objective vantage point, which he calls the original position, the individual will choose a system of justice that adequately provides for those positioned on the lowest rungs of society. The individual

will do so because he or she may end up in such a disadvantaged position and will want to be adequately provided for. Rawls draws from earlier theories of political philosophy that posit a social contract by which individuals implicitly agree to the terms on which they are governed in any society. Rawls concludes that such a social contract, formulated from the perspective of the “original position”, will guarantee a just society without sacrificing the happiness or liberty of any one individual (O’Dowd, 2001:278).

In *A Theory of Justice*, Rawls begins with the statement that, “Justice is the first virtue of social institution” (Rawls, 1971:3), which means that a good society is one structured according to principles of justice. Rawls asserts that existing theories of justice, are not sufficient: “My guiding aim is to work out *A Theory of Justice* that is a viable alternative to these doctrines which have long dominated our philosophical tradition.” (Rawls, 1971:3) He calls his theory - aimed at formulating a conception of the basic structure of society in accordance with social justice - “justice as fairness” (Rawls, 1971:11).

Rawls sets out to determine the essential principles of justice on which a good society may be based. He explains the importance of principles of justice for two key purposes: first, to “govern the assignment of rights and duties”; and secondly, to “regulate the distribution of social and economic advantages” of society (Rawls, 1971:61). He observes that, by his definition, well-ordered societies are rare due to the fact that “what is just and unjust is usually in dispute.” He further notes that a well-ordered and perfectly just society must be formulated in a way that addresses the problems of “efficiency, coordination, and stability” (O’Dowd, 2001:278).

Rawls’ theory of justice revolves around the adaptation of two fundamental principles of justice; the First Principle of Justice being that “each person is to have an equal right to the most extensive scheme of equal basic liberties compatible with a similar scheme of liberties for others.” (Rawls, 1971:60). Rawls (1971:61) argues that basic liberties of citizens are, roughly speaking, political liberty (i.e., to vote and run for office), freedom of speech and assembly, liberty of conscience, freedom of personal property; and freedom from arbitrary arrest. However, he says: liberties not on the list, for example, the right to own certain kinds of property (e.g. means of production) and freedom of contract as understood by the doctrine of laissez-faire are not basic; and so they are not protected by the priority of the First Principle (O’Dowd, 2001:280).

The First Principle is more or less absolute, and may not be violated, even for the sake of the Second Principle, above an unspecified but low level of economic development (i.e. the First

Principle is, under most conditions, lexically prior to the Second Principle). However, because various basic liberties may conflict, it may be necessary to trade them off against each other for the sake of obtaining the largest possible system of rights. There is thus some uncertainty as to exactly what is mandated by the principle, and it is possible that a plurality of sets of liberties satisfy its requirements (O'Dowd, 2001:280).

The Second Principle of Justice is formulated as follows: a) Social and economic inequalities are to be arranged so that they are to be of the greatest benefit to the least-advantaged members of society (the difference principle), and b) offices and positions must be open to everyone under conditions of fair equality of opportunity (Rawls, 1971:302).

Rawls' claim in a) is that departures from equality of a list of what he calls primary goods - 'things which a rational man wants whatever else he wants' (Rawls, 1971:92) - are justified only to the extent that they improve the lot of those who are worst-off under that distribution in comparison with the previous, equal, distribution. His position is at least in some sense egalitarian, with a proviso that equality is not to be achieved by worsening the position of the least advantaged. An important consequence here, however, is that inequalities can actually be just on Rawls' view, as long as they are to the benefit of the least well off. His argument for this position rests heavily on the claim that morally arbitrary factors (for example, the family we are born into) should not determine our life chances or opportunities. Rawls is also keying in an intuition that we do not deserve inborn talents, thus we are not entitled to all the benefits we could possibly receive from them, meaning that at least one of the criteria which could provide an alternative to equality in assessing the justice of distributions is eliminated (O'Dowd, 2001:281).

The stipulation in b) is lexically prior to that in a). "Fair equality of opportunity" requires not merely that offices and positions are distributed on the basis of merit, but that all have reasonable opportunity to acquire the skills on the basis of which merit is assessed. It is often thought that this stipulation, and even the First Principle of justice, may require greater equality than the difference principle, because large social and economic inequalities, even when they are to the advantage of the worst-off, will tend to seriously undermine the value of the political liberties and any measures towards fair equality of opportunity (O'Dowd, 2001:281).

Like Hobbes, Locke, Rousseau and Kant, Rawls belongs to the social contract tradition. However, Rawls' social contract takes a slightly different view from that of previous thinkers. Specifically, Rawls develops what he claims are principles of justice through the use of an entirely and

deliberately artificial device he calls the “original position” in which everyone decides principles of justice from behind “a veil of ignorance”. This veil is one that essentially blinds people to all facts about themselves that might cloud what notion of justice is developed (Rawls, 1971:11).

“No one knows his place in society, his class position or social status, nor does anyone know his fortune in the distribution of natural assets and abilities, his intelligence, strength, and the like. I shall even assume that the parties do not know their conceptions of the good or their special psychological propensities. The principles of justice are chosen behind a veil of ignorance.” (Rawls, 1971:12).

According to Rawls, ignorance of these details about oneself will lead to principles that are fair to all. If an individual does not know how he will end up in his own conceived society, he is likely not going to privilege any one class of people, but rather develop a scheme of justice that treats all fairly. In particular, Rawls claims that those in the original position would all adopt a maximum strategy which would maximize the prospects of the least well-off (O’Dowd, 2001:282).

It is important to keep in mind that the agreement that stems from the original position is both hypothetical and a-historical. It is hypothetical in the sense that the principles to be derived are what the parties would, under certain legitimating conditions, agree to, not what they have agreed to. In other words, Rawls seeks to persuade us through argument that the principles of justice that he derives are in fact what we would agree upon if we were in the hypothetical situation of the original position and that those principles have moral weight as a result of that. It is a-historical in the sense that it is not supposed that the agreement has ever, or indeed could actually be entered into as a matter of fact. That led to the two lines of criticism of this position: “The first is that it is totally unrealistic. However logical it may be, it has nothing to do with the real world. The second is that the logic is flawed.” (O’Dowd, 2001:283)

Rawls claims that the people in the original position would adopt two such principles, which would then govern the assignment of rights and duties and regulate the distribution of social and economic advantages across society. The difference principle permits inequalities in the distribution of goods only if those inequalities benefit the worst-off members of society. Rawls believes that this principle would be a rational choice for the representatives in the original position for the following reason: Each member of society has an equal claim on their society’s goods. Natural attributes should not affect this claim, so the basic right of any individual, before further considerations are taken into account, must be to an equal share in material wealth. What, then, could justify unequal

distribution? Rawls argues that inequality is acceptable only if it is to the advantage of those who are worst-off. (O'Dowd, 2001:283)

2.8 Concluding note

Regardless of the criticism and the conviction that human theory will not be able to judge a divine system, we will run this test to see how Capitalism and Islamic economic theory fare in it, simply because there is general agreement that Rawls' emphasis on equal access and fairness in distribution and participation are fundamental to justice as fairness. A certain dose of idealism (working from or towards an idea we all seem to embrace, whether looked at from the perspective of "self-interest" or "benevolence") seems not to be misplaced when constructing a theory that goes against the grain of self-interest and the natural tendency of self-enrichment, and on this the world's major religious traditions agree.



CHAPTER THREE

PRACTICAL AND MORAL DILEMMAS OF CAPITALISM

3.1 Introduction

Buying and selling existed since the start of the human race. Initially it was simple and natural; later on and because of the increasing number of transactions and the use of the machines, the laws and rules regulating the ever more complicated process became complicated (Assader, 1982:8).

Different ideas for managing businesses were invented; each idea was considered a system and carried a different name; in this chapter we will explore one of the famous and most active ones namely, Capitalism.

Briefly, Capitalism 'refers to an economic and social system in which the means of production (also known as capital) are privately controlled; labour, goods and capital are traded in a market; profits are distributed to owners or invested in new technologies and industries; and wages are paid to labour¹.' Stackhouse and partners argue that Capitalism refers to a system of production or exchange that is characterized by the production for profit in the market place, carried on in firms (distinct from house holds) that become the dominant economic actors in society and regulate in such a non-monopolistic or 'open' fashion that it creates structural incentive for producers to seek competitive advantages through new economic technologies and market experimentations (Stackhouse, 1995:365).

According to Collier's Encyclopaedia it is "a type of economic system which is characterized by private ownership of property, freedom of enterprise with its accompanying profits and competition, and freedom of choice by individual consumers" (Collier, 1989:377).

Pure Capitalism according to Collier's Encyclopaedia is an economic system "based on the premise of laissez faire, where private individuals are free to exchange goods or services without intervention from the State" while a Mixed economy is "a system that refers to capitalism being mixed with central planning or statism, bear in mind that statism is the ideological opposite of capitalism". It is accepted however that private ownership of the means of production, creation of goods or services for profit in a market, paid employment, prices and wages set according to market

¹ <http://en.wikipedia.org/wiki/Capitalism> 13/9/2010 10:30.

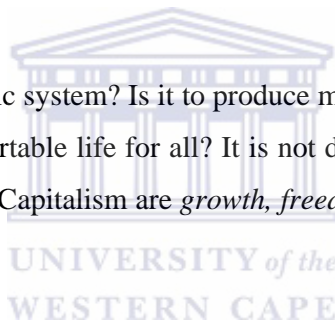
supply and demand are not only elements of pure capitalism but of a mixed economy too (Collier, 1989:378).

In order to understand and evaluate any system (such as Capitalism) its vision and goals, ideology and principles, characteristics, values, and ethics, need to be understood from the “inside” (for this see 3.2 - 3.5). However, equally important, the same system needs to be viewed in its interaction with the surrounding (external) environment; its positive and negative input into the world of humans, plants, animals, space, sea, and the inanimate world, and its future view of humanity and their environment (for this see 3.6)

3.2 Capitalism’s vision and goals

Having explored the origins and background of Capitalism, let us see how these inform and shape its *goals and visions*.

What is the purpose of any economic system? Is it to produce more? Is it just to fill the pockets with money? Or is it to provide a comfortable life for all? It is not difficult to get clarity on the goals of Capitalism. The economic goals of Capitalism are *growth, freedom, security, full employment, price stability and development*:



3.2.1 Growth

All economic activities according to Capitalism should lead to *economic growth*; this refers to the reduction of the size of the population and labour force or increase in the productivity of labour or both. McConnell (1981:381), therefore, argues that to achieve that, and since growth depends on investment, it necessitates the use of machinery and equipment ensuring more productivity, quality of labour and technological progress (McConnell, 1981:383-384).

The UN argues in its agenda for development that the crucial dimensions of development are located in peace as the foundation, the economy as the engine of progress, the environment as a basis for sustainability, justice as a pillar of society and democracy as good governance (Rasmussen, 1996:146).

The crucial question remains on the table: Can capitalism achieve its goal of *growth* without causing any damage or harm to our world?

This question was answered negatively by McConnell who sees that the side effects of this growth are many such as pollution, a failure to solve problems, human obsolescence and insecurity and growth and human value...etc.. At the same time, he accepts the World Bank's argument that there are advantages of this growth like improving the living standards, helping the environment, increasing income equality and other non-material considerations (McConnell, 1981:400).

The World Bank as one of the major institutions serving capitalist developmental ideals, tries to keep Capitalism as the only economic system, therefore, its strategy seeks to refasten chains which have been loosened by another period of downturn and crises, preparing the way for new rounds of expansion and contraction (Moore, 2007:89). Nevertheless, neither spontaneous nor intentional development as now conceived, can produce a world in which needs are joined to capacities for the free development of all (Moore, 2007:90).

In order to measure the economic performance and how far the economy is from achieving its goals, McConnell suggests looking at various economic indicators: Gross National Product (GNP) - the total market value of all final goods and services produced in the economy in one year; Per Capita Output (PCO) which, when GNP is increasing significantly, PCO becomes less; Net National Product (NNP) which is gross national product minus capital consumption allowances (depreciation); National Income (CI) which is the total income earned by resource suppliers for their contribution to the production of GNP; Personal Income (PI) which is the total income received by a household during a given year; Disposable Income (DI) which is the portion of personal income which remains after the payment of personal taxes (McConnell, 1981:147).

However, growth can be affected, firstly, by the lack of appropriate technology, or the proper environment, supporting this growth (where it is supposed to help applying existing knowledge, help finding new resources or discoveries, and increase resource productivity and returns to technology). Various factors influencing growth negatively have been identified. Capitalism is affected by inter alia the following such factors:

- * The first obstacle facing any country's growth is the weakness in its 'enabling environment' for private-sector growth, like infrastructure, well educated work force and macroeconomic stability (McConnell, 1981:405-406).

- * Secondly, the manifestation of impoverishment, ill health, insufficient formal education and training and the potential for disorder, together form a major current barrier to further growth (Moore, 2007:63).

- * Thirdly, the grip upon state power of a local ‘elite’ is increasingly an obstacle to turning rational state institutions towards the need of the ‘poor group’ (Moore, 2007:66).
- * Fourthly, the existence of scarcity in finance, leadership and infrastructure are the major barriers to the development of human abilities to imagine a better future (Moore, 2007:88).
- * Fifthly, war and defence expenditure can ruin any economy.
- * Sixthly, too rapid population increase can lead to higher levels of poverty and despair (McConnell, 1981:125).
- * Seventhly, urbanization and the demand for social good place high demands on financial provision and planning.
- * Eighthly, the quality of the environment; ninthly, the demands of equalitarianism, and tenthly, inflation rates, are all additional factors influencing the economy directly (McConnell, 1981:126).

Finally, Schumacher suggests four techniques to start economic growth without oppression: Having the workplace near peoples’ homes and properties, providing affordable workplaces, implementing simple methods of production, and using local material for production (Greeley, 1977:78).

3.2.2 Economic freedom

To attain the required economic growth Capitalism calls for *economic freedom*, arguing that economic freedom refers to the scope of action in production, trade, sales and the disposal of goods, ideas and services and the free choice of an economic system. Stückelberger (2002:52), however, correctly points out that all these actions are controlled within an ethical framework. (For a detailed analysis of this core value of Capitalism, see 3.3.1)

3.2.3 Security

Having economic growth and economic freedom should create economic *security* according to capitalism. Today’s economic theory addresses problems such as internal balance (inflation and low capacity utilization) and external balance (loss of foreign exchange reserves), using expenditure (switching and reducing polices) in order to achieve economic security. Economic security is not an easy mission for any economist or government, as mentioned previously; we need to consider God’s scale of justice when we produce new theories and policies. Weiss argues that the wrong implementation of certain theories can cause great damage, like highly protected developing economies have suffered from a serious misallocation of resources and in consequences have had a poor record of economic performance (Weiss, 1995:104).

Under-developed countries will suffer more from wrong theories and policies, due to their fragile economic conditions; poverty is one of the sectors that are getting worse because it is neglected in government planning which have the wrong focuses (Weiss, 1995:108).

The World Bank and IMF argue that the physical condition of the peoples has to be improved so that the poor countries may progress for they are the only labour force available to achieve development (Moore, 2007:27, but we need to understand poverty and its causes to create a world free of poverty (Moore, 2007:63).

Failing to create economic security means poor performance of the economy which will lead eventually poor employment of human resources, meaning unemployment to many. McConnell (1981:176) defines unemployment as something less than 100% employment of the labour force; it has different types: firstly, *frictional* which is either switching between jobs, having a job but waiting for some reason to continue, or looking for the first job (McConnell, 1981:175); *structural*, which is lack of readily marketable talents due to technology changes, and *cyclical*, which is due to a decrease in business activities (McConnell, 1981:176).

Capitalism has been focusing mainly on making profit, and therefore has hitherto failed to reach full employment; the focus on making profit is its primary priority whilst helping others is of secondary importance.

3.2.4 Equitable distribution

Achieving full employment means having a good an *equitable distribution* of income. Income in Capitalism is collected through different sources, such as the tax system. These sources should raise revenue for the government, impact on the efficiency of resource allocation, impact on distributional equity, and keeping the administrative cost at reasonable levels (Weiss, 1995:175). However, Capitalism has thus far failed to achieve this objective. Many call for the equitable distribution of the nation's products, such as Smith, who calls for dividing the nation's product among labour, capitalists and landlords (Rima, 1996:104).

Looking at the rules of income distribution and supply and demand in Capitalism, we notice that according to classical Capitalism the increase of wages will lead to making life more comfortable. Children will increase, which in its turn makes the workers' wages decrease due to the increase in

expenses. But in a society that have a proper social security system (Islamic) or in one in which the market system is cancelled (like Socialism) – this will not be a problem (Assader, 1982:269).

Before Smith’s intervention, labourers received the natural recompense or wages of labour, but this now changed to the new determining factor: the contract made between the two parties (the employer and the employee), whose interests are by no mean the same. Smith himself emphasised that labour must receive at least enough to maintain themselves and their families (Rima, 1996:105).

Because of the unjust wages system that came about within Capitalism, unions were established, initially including violent means of protest (McConnell, 1981:744); later on, generally speaking, unions were characterised by three fundamental ideas: *business unionism* (involving no violence and making sense from a business point of view), *political neutrality*, and *trade autonomy*, recognising that each trade was separate (McConnell, 1981:747).

Since World War II, women have become the major supply of labour, due to opportunities and needs, lack of education, the increase in family size, increased working life because of the decreased mortality rate, and substitution capital for labour at home (instead of staying home, rather go out and make money!). (McConnell, 1981:758)

Capitalism divided the distribution of income into functional distribution where society’s money income is wages (bulk goes to labour), rent, interest and profit, personal distribution (an indicator of how much each household receives of the income of society). (McConnell, 1981:110)

The equitable distribution of income requires a good *distributive justice system*, and capitalists, being realistic about the details of the economy, spend considerable amounts of time and attention to it. Twiss and Grelle argued that just distribution refers to suitable measures to create a proper balance between the benefits and burdens in several spheres of “social goods” that people have in common. Spheres can be private like family or public like education, health or economy (Twiss & Grelle, 1998:176). Twiss & Grelle (1998:177) argue that distributive justice is not just a matter of who gets which part of the resources, securities and provisions, or when, where and how they get them. It also is a matter of who pays, suffers, sacrifices and bears the burdens of those benefits. They say that just distribution is only possible if and when the people involved are characterized by integrity and a commitment to justice and when they are making an effort to be fair; appropriate social structures are also needed to sustain distributive justice (Twiss & Grelle, 1998:177).

According to them distributive justice is not well-understood in conventional western theory and practical reasoning and it is not sufficiently prominent either in comparative religious ethics or in interreligious dialogue. The argument above is due in part to the fact that because they are influenced by Capitalism's conventional theory and practical reasoning generally assume that the primary subject of distributive justice is the allocation of income and wealth (Twiss & Grelle, 1998:178).

3.2.5 Fair pricing

One of the main goals of Capitalism is to let the market decide "*fair price*". (McConnell, 1981:11) Price policy should exclude few consumer goods, allow fair competition to reach the world market prices, and recover as much as possible of the cost of production (Weiss, 1995:147).

Stückelberger observes that prices are influenced by a great number of factors: labour, real estate, and capital goods such as ground rents, interest rates, and by the prices on the goods markets. He also suggested applying the aspects of justice on pricing (Stückelberger, 2002:153) because prices should guarantee fair pay that provide for subsistence minimum needs; food, staffs, clothing, housing, health, education (including access to information and relationships) and security (Stückelberger, 2002:157).



Resources pricing, McConnell argues, is quite significant as a major determinant of money income, resource allocation, cost minimization, and ethical aspects (McConnell, 1981:588).

3.2.6 Sustained development

The aforementioned goals of Capitalism should lead to another object of Capitalism, namely *sustained development*. Capitalism calls for certain sustainabilities: mainstreaming environmental sustainability, encouraging inter-religious economic sustainability, concealing and downplaying the problem and contradictions of northern consumption issues (keeping the focus on economic sustainability and sustainable development by separating sustainable environment from sustainable development). (Moore, 2007:153)

In terms of capitalist ideals, and according to the WB, a good government is one that can sustain its development through transparency and accountability policies respect the rule of law and allow full participation of all sectors of society. The absence of these principles will cause the gap between the

rich and the poor in global society to steadily widen as clearly observed since the 1970s (Moore, 2007:216).

Weiss argues that government should follow the future areas of state responsibility such as having better management over macroeconomic activities and policies, having proper regulation and promotional frameworks, investment in human capital and infrastructure and protection of the poor and vulnerable (Weiss, 1995:7-8).

3.2.7 Minimal state intervention

Ironically, and somewhat contrary to the non-interventionist philosophy of Capitalism, the reform programs of IMF and WB suggest the following future areas of *state responsibility*: Firstly, macroeconomic management: because of the globalised character of today's economy countries need to consider and manage deficits, exchange rates, etc. (Weiss, 1995:8-10). Secondly, regulatory and promotional frameworks: to be able to be part of a global economy, you need to improve your internal economy; expand the private enterprise and the operation with greater efficiency for public enterprise; this calls for the removal of restrictions. The public sector became overextended because of the investment in productive enterprise that is difficult to operate (Weiss, 1995:11). Thirdly, investment in human capital and infrastructure: invest in education and health sectors (Weiss, 1995:13). Fourthly, protection of the poor and vulnerable through government (social security plans) and private and religious organisations (Weiss, 1995:13). Chomsky argues that the governments that follow Capitalism are withdrawing slowly from this commitment due to the fact that their economy cannot afford extra expenses (Chomsky, 2005:141).

3.3 Ideology and principles

Having given some basic background to the capitalist system, and its vision and goals, let us try to understand its ideology and its theories from the inside, i.e. in terms of its self-understanding, its principles and its philosophy. Identifying the theory and ideology of Capitalism is not an easy task. There are various types of Capitalism. The theoretical and ideological identification of Capitalism is dependent on how far or near the specific type of and Capitalism is to "pure Capitalism". However, capitalist ideology and theory is focused on certain fundamentals such as, freedom, productivity, scientific laws, wants and needs - to mention a few basic defining factors.

For a system to be recognised it usually defines itself through a certain *ideology* and specific *principles*. Capitalism is identified through three pillars, namely: 1. *unlimited ownership* of the means of production (land, machines, properties, minerals); 2. *unlimited access* to one's property and *the right to develop it freely*, and 3. *unlimited freedom of spending* (Assader, 1982:235). These three pillars that form the ideology of Capitalism are bound together by one concept: *individual freedom*, and encouraged economist John Robinson to say: "this is an ideology to end ideologies, for it has abolished the moral problem. It is only necessary for each individual to act egotistically for the good of all to be attained." (Lux, 1990:86)

3.3.1 Freedom

One of the main integrals of capitalism is its call for *freedom*, not any freedom, but an unlimited one. Capitalism believes that granting freedom to an individual will create a happy individual. This in turn will lead to the creation of a healthy society because a society of happy individuals is a healthy society. Also freedom leads to increased productivity; granting freedom to people leads to creativity and flourishing of the society.

Capitalism believes the freedom of trade is a natural right of humans and a practical expression of human dignity; it is not a tool of social welfare, or increased productivity; it is the outcome of people's humanity and their natural existence (Assader, 1982:271).

a) Assader (1982:272-290), criticises the way capitalists understand freedom, where according to Capitalism it is firstly *a means to achieve public benefit*. The natural desire to be the best encourages a person to try to produce or create things that can put him in the lead. Sooner or later others will follow. Failing to do so, he will be left behind or put out of the race. There is no need for moral control or virtuous motive to live your life. Spirituality and values will come naturally by following freedom-driven behaviour. Reality proved these as wrong claims and ideas, where crisis after crisis, calamities after calamities, showed the lack of spirituality, values, righteousness, and the appearance of oppression, neglect, greed and selfishness. Today's society is the negative outcome of Capitalism's economic practices and its neglect of spiritual life, which determined the problematic relation between contemporary societies. Capitalists have become aware of their system's faults, and they are trying to change it or hide its faults in order to keep their control for longer.

Capitalism and its 'tools' of freedom have become a weapon in the hand of the strong one to open closed doors, to be received on red carpets, to walk on the skulls of poor people and nations. The dignity of the human person has lost its value. Its products, regardless of their inherent usefulness, can be sold any time at any price, merely depending on the 'supply and demand'.

Rules of the market are the driving rules; the market is controlled by the rules of supply and demand, labour increases, wage drops, capitalist benefits. On the other side of the coin, pain, and suffering, loss of dignity, have increased and honour and values of humans have decreased.

For the poor, the threatening hegemony of Capitalism got bigger, looming like a monster, while the role of goodness, help, caring and sharing are disappearing in communities; in its place have come a lack of co-operation between individuals, who all only seek their own benefits, and will help others only when they may also benefit in some way from this 'altruism'

Ironically, after all the ups and downs of Capitalism in practice, the 'idea' of Capitalism remains one of its strongest weapons: the idea that it must succeed! Looking at the history of Capitalism we can observe the damage it caused to humanity, time and again, and still, society and nations are enslaved - hoping for the success of capitalism - directly and indirectly. Leading nations in the West were proud to stop slavery, but were smart to start a new, different enslaving *system*, where nations live as economic slaves inside their own lands.

b) Secondly, freedom has been generally accepted as a *means to achieve productivity and public welfare*. Freedom is seen as the motive to increase productivity. However, in reality, 'free' competition under Capitalism leads to the destruction of people, capital gets lost, labourers are unemployed, families are suffering, unfair competition is rife, the idea of sharing has become foreign, indulging in monopolies is accepted as lawful and a way of protecting one's greed and self, and a means of getting rid of others. Competition was supposed to increase productivity and lead to decreased prices and create fair income distribution among people, yet this is not what we are observing at all! As long as the distribution depends on a manipulated price system there will be no fair distribution in a capitalist society, since those who *have* will be the happier sector in the community whilst those who *have not* will form the ill-fated sector of such community.

c) Thirdly, freedom is an expression of human dignity and the right of humans to live. Freedom is an original *expression of human dignity*.

d) There are *two kinds of freedom*: natural freedom and social freedom. *Natural freedom*, as given to creatures, can be explained as follows. As an example, a stone A has no freedom at all, when stone B is thrown at it; then stone A has no freedom to change its line to avoid knocking B. Plants have a slightly better chance to move to another direction while growing to avoid obstacles, while animals have more freedom to avoid what comes their way. Humans experience the best freedom; their freedom is not a kind of ideology, it is granted to them by the Creator.

Social freedom is the kind of freedom which people can gain from their environment; this freedom is divided into two kinds: *formal social freedom* and *essential social freedom*. Essential freedom is the one that society grants to individuals, so you will have the means to buy a product and no one can prevent you from buying it. Formal social freedom, on the other hand, is the ability to do any act which is permissible; like the ability to be the president of a country, but which is not guaranteed to everyone; it is a freedom to strive for an ideal which may be reached or not.

Capitalism is not concerned with essential freedom; rather it focuses completely on the formal freedom. Everyone has the right to do whatever is allowed in a certain society if he possesses the means. Capitalism justifies its position from essential freedom by saying: We cannot make a stupid person clever, but if you have the ability to be the president then you will have the opportunity to try. If we give an individual extra help, it leads to such a person to becoming lazy, irresponsible, uncreative, and he will not find the need to depend on himself and use or explore his talent. Assader agrees with Capitalism's explanation to a certain degree, but he asserts that giving a certain level of help will not harm as long as free competition is guaranteed.

The contradiction between formal and essential freedom is the reasoning behind Capitalism's choosing of formal freedom; it is more suitable and easier to follow: the businessmen can hire and fire workers, the rich can do whatever they want with their wealth; the formal freedom grants people these abilities, but essential freedom will limit their actions.

Socialism took the complete opposite direction by dropping the formal and adopting and implementing the essential freedom as government grants society all its needs. Only Islam mixes both freedoms accurately to guarantee and provide society with what is enough to have a decent life without ignoring the talented and gifted people to exercise their ability to go further.

Allowing a person to practice complete freedom will lead to a clash between his desires to achieve his goal and having a happy life that in reality leads to stress and pressures. He is also forced to make certain decisions which invariably lead to the disturbance of his freedom of choices.

e) Assader argues that when it comes to how we are living our lives; there are three powers (Assader, 1982:291): *God's power*, which enforces rules that guarantee human happiness as in Islam and previously revealed religions (Theocracy); *government power*, like in Socialism, and *individual power* (with an emphasis on *unlimited freedom*, like in Capitalism).

However, this emphasis on *unlimited freedom* led to the selfish attitude associated with Capitalism. According to Assader, Capitalism respects in the person his selfishness and protects it for him as long as that leads to his happiness (Assader, 1982, 256). It targets the unlimited human wants and needs. To find the middle ground between the wants and needs and exercise a certain level of control over these wants and needs is the challenge that needs to be addressed by this system. This is one of the first problems faced by the very consistent philosophy of individual freedom on which Capitalism rests.

Levy (Anderson & Kaplan, 1992:58) indirectly agrees with Assader and explains how to avoid *selfishness* by responding to the question: why should we care about protecting the well-being of a human being? Firstly, and morally speaking, because it means that I have concern about my own well-being at the same time (equal respect); secondly, rationally speaking, it depends on an approach to the justification of rights according to which no person (or groups) can rationally reject the conferral on the other, of their preferred rights, optimally (Anderson & Kaplan, 1992:55); thirdly, politically speaking, it relies on a practice of “neutral political justification”, whereby political arguments and differences on human rights issues can be dealt with even-handedly in the realm of the *polis*; and finally, religiously speaking, it argues that caring about the well-being of all human beings is a sensible practice, and partly constitutive of ‘the goal life’ for everyone.

f) Capitalism argues that granting freedom to an individual will create *a happy individual*. This in turn will lead to the creation of a healthy society because a society of happy individuals is a healthy society. Capitalism argues that granting freedom to people leads to creativity and flourishing of the society (Assader, 1982:256). How do know whether the person and the society is happy or not? This question is debatable: in Islam, as long as you are close to God, you are a happy person in this world and hereafter, but according to Capitalism, the happy person is the one who is happy in this life. It is interesting to note that Mill (a proponent of liberal values) argued that measuring pleasure and pain and, according to the balance between them, judge happiness is unethical and sinful (Rima, 1996:117)

Adam Smith argued that it was not an easy task to favour another fellow being over your own wants and needs; he confronted the intellectual problem of reconciling the motive of self-love with sympathy for one's fellow being (Rima, 1996:87). The natural attitude, when a human does something, is to see to it that he is benefiting, otherwise, why would he waste his time? The attitude of care and love of the other leads to a different orientation: we address ourselves not only to their humanity but to their self-love and we talk to them not of our necessity but of their advantage (Lux, 1990:80; Rima, 1996:89).

g) Studies have shown that the *concept of money* and its exchange to have access to things we want developed on the basis of self-interested behaviour (Rima, 1996:97). However, Kenneth Lux argues that “the good of all is not attained by pure self-interest or egoism. There must be another principle operating in people, a principle that moderates *self-interest in favour of the general good* such as, honesty, fairness, integrity, reasonableness and a sense of justice.” (Lux, 1990:86)

3.3.2 Natural reason or natural law

a) To justify the ideology of sheer self-interest, Capitalism uses *natural law* arguments; it claims that its laws are “natural”; it follows natural and scientific laws, it is a natural development in human lives. It uses natural laws to prove its authenticity and legality, and on this basis it claims to be qualified to lead humanity's economic life. When the economy as a scientific subject started developing, two main criteria became prominent in an attempt to explain: *how does it work?* and *what is next?* (to what does its practices lead?). Economic life moves according to particular natural laws, it controls the economic life for the whole society. Scientifically speaking, we must discover these natural laws that explain the different phenomena and economic events, and these natural laws are going to guarantee human happiness if it worked in a free environment and if each member of society practices it freely; from the ownership and the exploiting to the spending point of view (Assader, 1982:258).

The first point deals with the scientific seed of Capitalism, while the second point reflects on its ideology and its consequences (Assader, 1982:259). These ideas were in actual fact not proven, either because these laws are not correct or these laws have changed due to the changes in the conditions and environment that created the first laws. Therefore, to prove them, they should be studied in the light of how much these laws can grant humans their dignity, and grant society its values (Assader, 1982:259). Assader argues that Capitalism does not extract its rules from scientific laws only; they are extracted from moral judgment and particular practical judgment, influenced by

particular interests (Assader, 1982:260). In addition, the laws of Capitalism are not suitable for all societies and places, and they are divided into two categories (Assader, 1982:264): Capitalism's laws that derive its importance from *nature* where every production depends on limited raw material and capitalism's laws are *politically* motivated, they are connected to human will and human wants, like supply and demand laws, or fixing prices.

Assader argues against the claims of being “natural”, of capitalist ideology. To prove that these laws are not natural, he said, let us look at all individuals in society, of whom Capitalism claims that they choose their economic activity from their material desires and to suit their benefits. This may sound realistic from a western point of view, but these “natural rules” could not find a ground when the ideology met another society with different values and principles (Assader, 1982:266-7).

Capitalists argue that a variety of beneficent economic institutions are spontaneously generated within the framework of the natural order, like division of labour, development of money, growth of savings and the investment of capital, development of foreign trade and the adjustment of supply and demand to each other; these, they say, spring into existence as result of natural human behaviour and operate for the benefit of society as a whole (Rima, 1996:91).

b) Capitalists argue that economic laws are not only natural, and scientific, but make sense, they are *rationally developed*. Adam Smith the founder of classical economics argues that economic rationality refers to the pursuit of self-interest. Smith argues that we all have within us the “desire of bettering our conditions”, a desire which though generally calm and dispassionate comes with us from the womb and never leaves us till we go to the grave. It is claimed that this happens through the “invisible hand” and certain universal laws concerning the natural movement of prices and wages (Moore, 2007:102).

Alfred Marshall, the founder of neo-classical economics, argues that *rationality* rests in the maximization of utility across a variety of goods, given limited resources (Moore, 2007:98), even if that inevitably creates ecological scarcity and ecological degradation through using nature as source and sink for economic production and consumption (Moore, 2007:148). John Hicks argues that it is a discipline that could rest simply on the assumption that individuals are able to rank their preferences in a consistent manner (Moore, 2007:98).

c) Part of the developments and learning stages that Capitalism is still experiencing is giving some attention to *social capital*. Since 1993 “social capital” has become one of the key terms of the

development lexicon, adopted enthusiastically by international organizations, national governments and NGO's alike. Moore argues that social capital is usually distinguished from physical, financial and human capital; it is like functional families, schooling, community life, work and organization, democracy and government, collective action and intangible assets (Moore, 2007:124-125).

3.4 Capitalism's characteristics

Understanding the ideology and the theory of capitalism cannot give us a full understanding of Capitalism, therefore, exploring Capitalism's characteristics can hopefully result in a better understanding.

Chomsky argued that a good economic system should develop its moral consciousness; the best human model "is reasonable to support that just as intrinsic structure of mind underlie the development of cognitive structure so a 'species character' provides the framework for the growth of moral consciousness, cultural achievement and even participation in a free and just community" (see Greeley, 1977:45).

Looking at the outcome of the existing economic system (Capitalism), we notice that the achievements are not as spectacular as they are claimed to be; on the contrary, it shows a rather poor result. Many economists (Stieglitz, Assader, Al-Masry, Marx) blame the existing system's *characteristics* for the failure of the system, on practical and moral grounds. We shall deal with the evaluation of Capitalism at the end of this chapter, and return to it in chapter 5, where a comparison with the Islamic system will be done, via the criteria of Rawls. It is important, however, at this point, where the focus will briefly be on the characteristics of this system, to keep the moral dilemmas created within the system in mind.

So, what are these characteristics? According to Greeley (1977:82-88) and Nürnberger (1998:32-35) they are:

- a) the belief that human nature is *selfish (functions on own self-interest) and individualistic*
- b) *personal freedom* to invest or not
- c) *private ownership* of the factors of production
- d) *total reliance on the market* and its laws of supply and demand
- e) a call for *free competition to increase productivity* (including replacing human labour with mechanical tools to reduce costs)
- f) belief in *scientific and rational economic development and in limited planning*

- g) the ideal of *no state intervention* (but accompanied by the irony that the state always ends up using monetarist controls to influence the system)
- h) belief that *the sacrifices* required by the system are made *for the benefit of the next generation*
- i) the requirement that *lesser-developed countries need social and cultural changes* (adaptations) to move to next step;
- j) the belief in *large size and centralization* in different ways;
- k) the inevitability of the *collapse of the 'feudal' social system* in the face of advance of 'science'

According to Moore (2007:270, 424, 436) and McConnell (1981:791-798), these characteristics were behind Capitalism's negative influence, which was enormous, influencing all aspects of life, and also leading to corporate or monopoly Capitalism and domination of the state. The nation state was influenced negatively by Capitalism which gave rise to corrupted governments, through its inbuilt resistance to and thus failure of social control, leading to a situation where those who were supposed to protect became the first to break the law.

Other corrupting influences in government are e.g. public subsidies, such as taxes, which indirectly serve the corporate connections, instead of providing the markets with government work (like the manufacturing of weapons by big corporations). The dynamics of capitalist expansion led to the creation of such producing "monsters" (enormous corporations) and the exploitation of resources, where one source exploits another, and whereby inequality is increased, while some jobs are secured and good while others are not. The alienation of the government's role in distribution of the nation's wealth led to less control over people's lives and general activities, leading to a type of irrational society where many products go to waste through a lack of efficiency in allocating resources. Through globalization an imperialism or internationalization of capital becomes the basic obstacle to the development of the poor countries, where some have excellent resources but lack the capital to invest in extracting it (McConnell, 1981:791-798). Free trade and its regulating framework (which is a contradiction in terms!) are favouring private sector investment and competition (Moore, 2007:270). Poor people suffer physical pain, caused by too little food and long hours of work, and emotional pain, stemming from the daily humiliation of dependency and lack of power, and the moral pain from being forced to make choices such as whether to use limited funds to serve the life of an ill family member or to use those same funds to feed their children (Moore, 2007:424). Moore, who has done research on perceptions about the neo-liberal economy, found through his interviews that people consistently assert that life was better under communism or before privatization (Moore, 2007:436).

3.5 Capitalism's structures and practices

After discussing the “theory” of Capitalism, we can now consider the *practical side*: its *structures and practices*.

3.5.1 Types of Capitalism

In order for capitalism to exist in reality; to put its ideology and theory in practice, and achieve its goals and visions, *various types of Capitalism were developed*. Capitalism takes different forms and each form has its own characteristics; these different forms indicate either the flexibility of a system or its stiffness. The fact that Capitalism saw the need to develop along such diverse lines may also be taken by critics as a sign of its weakness and undecisiveness on major issues.

a) The economy of *oil countries* is the first type of capitalist system, and it refers to the countries that depend mainly on the extraction of oil and refining it or selling it as is. They do not rely on an industrial or an agricultural sector. Some of these countries are part of an organization called OPEC (Organization of Petroleum Exporting Countries). This type of Capitalism ends the minute its oil ends. Adams (1993) recently indicated that many oil countries are trying to avoid collapse (where the end of oil production is anticipated) by indulging in industrial and military activities to sustain their development.

b) *Welfare Capitalism* is the second type, which started in the 19th century, and refers either to the combination of a capitalist economic system with a welfare state or in a strictly American context, to the practice of businesses providing welfare-like services to employees. Welfare capitalism in this second sense was centred in high wage industries (not in the industries characterized by low pay, high turnover, child labour, or dangerous working conditions.) Many companies started offering higher pay and non-monetary compensation such as health care, housing, and pensions, as well as employment bureaus, in-house training, sports teams and social clubs²

Esping-Andersen categorized *three different types* of welfare states in the 1990s in his book *The Three Worlds of Welfare Capitalism*: the ‘Social Democratic’ Model, as exemplified by the Scandinavian countries and particularly Sweden; the ‘Liberal’ Model, often related to the USA,

² http://en.wikipedia/wiki/Welfare_capitalism 13/9/2010 10:20.

Canada, Australia and increasingly the United Kingdom; and thirdly, the 'Conservative' Model, which is indicative of Germany, as well as France, Austria and Italy³.

The political theorist John Gay regards the demise of the welfare state as a direct effect of globalization. So, if the welfare system failed then what hope is there for the other systems? (Hirst & Thompson, 1999:163).

Denmark's welfare state was one of the successful examples of a system in which small and medium-sized firms were doing well and created multiple voices in the economic arena, over against a concentration of (multinational) power, reducing employment protection measures (to the point of being among the weakest in Europe) while making good provision for paid pensions (based on a general taxation of 5 to 6% of GDP) (Hirst & Thompson, 1999:170).

However, in spite of the many attractions of the welfare system, it was criticized for administrative inefficiencies, inequalities (where same needs were treated differently), and weaker work incentives (McConnell, 1981:737). In the long run welfare was severely impaired because of the ability of capital to escape taxation and move elsewhere (Soros, 1998:111). It became clear that the welfare system and Capitalism cannot really work together as harmoniously as imagined, because each one required the opposite: Capitalism does not want to use money for no return and welfare wants to take without return (Chomsky, 2005:141).

c) *Pure Capitalism* is the third type of capitalism, which refers to the Capitalism that embodies the philosophy and 'institution' of private property and individualism (giving individuals the freedom of enterprise and choice and encourage self-interest as the dominant motive). This philosophy is reliant upon the price system, the encouragement of free competition, a limited role for government, an extensive role of capital goods, promotion of specialization (to produce special products for special needs), money as an exchange tool, and demand and supply as the mechanism for all transactions (McConnell, 1981:41-44).

d) *Mixed capitalism* is the last type, which refers to the system in which government's involvement only extends to providing the legal foundation and a social environment conducive to the effective operation of the price system, maintaining competition, redistributing income and wealth, adjusting the allocation of resources so as to alter the composition of the national output and stabilizing the economy through reducing unemployment and control inflation (McConnell, 1981:91, 98).

³ http://en.wikipedia.org/wiki/Welfare_capitalism. 13/9/2010 11:00.

3.5.2 Market Models of Capitalism

McConnell (1981:116-117) argues that there are *four basic market models* that Capitalism adopts in its daily operations.

a) Firstly, *the model of “pure competition”*, which is characterised by very large number of traders, standardized products, lack of price-fixing, free entry, identical products, no marketing. This model does not exist in the actual market (McConnell, 1981:436).

b) Secondly, the *pure monopoly model*, which is characterised by a single seller, no close substitute for a unique product, the price maker can fix the price, block entry and use goodwill advertising. This model does exist and has led to strong monopolies in the market (McConnell, 1981:436).

c) Thirdly, the *monopolies competition model*, which is characterised by a large number of traders, product differentiation, limited price control, relatively easy entry and no price competition. This model does exist and explains the co-existence of various “competing” traders in a specific field of the market (McConnell, 1981:436).

d) Finally, the *oligopoly model*, which is characterised by small numbers: where the big 3 or 4 traders have 80% and the others have the rest, standardized or differentiated product, pricing interdependence (decrease profit and loose because of competition, increase profit and price yourself out of the market), difficult entry, and aggressive advertising and quality competitions. This model does exist and explains e.g. the four or five big oil companies in the world (McConnell, 1981:436).

Choosing any of these models does not depend on moral criteria as Capitalism claims; ultimately, Greeley argues that choosing any of these models does not show any concern about the most suitable, “it is however the one that is enforced by the one that is in control” (Greeley, 1977:19)

3.5.3 Capitalist Institutions

The different types of Capitalism that exist depend mainly on three institutions, the *Bretton Woods consensus*, the *International Monetary Fund (IMF)* and the *World Bank (WB)*.

Since the 1980s changes in economics started taking place, from fairly loose national planning arrangements to very specific government controls over prices, credit and foreign exchange,

measures which gave way to a more decentralised, largely market driven set of policies. At the same time there was a rise in international recessions, international interest rates and internal policy errors which meant problems in terms of scarcities of foreign exchange and finance for governments. Bretton Woods, the IMF and the WB provided financial support to many countries, but the cost was too high, not only from an interest perspective but also from a policy conditionality point of view, that placed service restriction on the freedom of actions on borrowing governments (Weiss, 1995:1).

The World Bank agreed that economic growth is necessary but is, by itself, not enough, and both IMF and WB acknowledged the links between inequality, poverty and growth (Mshana, 2003:83).

Because knowledge is fast becoming the most important form of global capital for productivity and accumulation of finance capital (Moore, 2007:158-159), the WB has deliberately become one of the knowledge sources (Moore, 2007:165). The WB argues that we need to start with a thorough understanding of what exists on the ground and emphasize 'good fit' rather than 'any-size' in search of 'best practice' expectations from participating nations (Moore, 2007:223). For underdeveloped countries to achieve progress they need to seek the help of WB to gain access to international capital markets on special terms; to develop appropriate research and policy designs and budgets, and to attract global media coverage of its major reports (Moore, 2007:269-270).

Critique of earlier IMF policies forced it to change slightly towards a more realistic approach to developing countries' needs, and forced the WB to change its application of conventional economy theory to problems of developing countries. This resulted in a wider acceptance of markets as the most affective mechanism for transmitting information and allocating resources, so that by the late 1970s neoclassical ideas had become the mainstream of development economies (Weiss, 1995:1).

WB and IMF reform programs that were adopted in this process have addressed internal imbalances (inflation and low capacity utilization) and external imbalances (loss of foreign exchange revenue). The two major driving forces, the IMF and the WB, each developed a specific focus. The IMF has become responsible for the demand side (concentrated on stabilization) and the WB has become responsible for the supply side (structural adjustment) (Weiss, 1995:2).

U. Pieper and L. Taylor criticize the WB and IMF programmes because most third world countries lack full control over their own economic policy and many of the 'recommended' actions of the

IMF and the WB to governments are intellectually ill conceived and counter productive in practice (Baker, Epstein & Pollin, 1998:37).

IMF and WB, in the process of avoiding errors and bringing improvement suggested certain programs to developing countries such as encouraging the adoption of open market strategies, based on the claims of a survey showing that the highly protected developing economies have suffered from serious miss-allocation of resources and in consequence have had a poor record of economic performance (Weiss, 1995:104). Privatization is another WB and IMF tool used to solve the financial crises in developing countries. It refers to the transformation of ownership from the public to the private sector (Weiss, 1995:220). Despite the expectation of the failure of such action, WB says that it works but it depends on how it is carried out (Weiss, 1995:224). However, if the objective behind it is not clear and market conditions not suitable, then privatization will not work and reform is the second option to solve public sector problems. Those who advocate privatization find reasons for their claim such as improved efficiency, a positive public finance effect and improving the national market with international expertise (Weiss, 1995:220).

Amid all these programmes IMF and WB still face problems while implementing capitalist policies, such as social and political conditionalities imposed on different countries (Weiss, 1995:4). Despite the new theories and reforming programs in the economic field, Weiss argues that theories do not have accurate calculation results yet (Weiss, 1995:6); also the political economy frameworks of some economies work in contradictory ways to other economies, so one economy model cannot necessarily serve as a model for other (Weiss, 1995:7). Weiss argues that no clear relation exists between adopting policy reform and worsened or improved poverty; actually, reform policies in many cases worsened poverty and positive responses have been very slow (Weiss, 1995:136). However, IMF programs did show improvement sometimes (Weiss, 1995:40). IMF and WB programmes have led to problems in some countries such as big deficits, but Capitalism developed a way of covering the budget deficit through money creation, running down foreign exchange resources, foreign borrowing and domestic borrowing (Weiss, 1995:20).

Although IMF and WB have paid some attention to advising means of softening the impact of adjustment on the poor (Weiss, 1995:135), and enforced price control may help to improve living standards (Weiss, 1995:136), yet there is no clear proof that price manipulation generally improves welfare (Weiss, 1995:170).

3.5.4 Financial systems

a) In order to run its operations, Capitalism creates its own *financing system*. The finance sector was developed through stages, from typical colonial finance system to autonomous central bank until it reached its final form where the financial sector is more established. (Weiss, 1995:232)

In Capitalism, the function of money is to serve as a medium of exchange, as a standard of value: it is the yardstick for measuring the relative world of goods and resources, and a store of value; a very convenient form to store wealth (McConnell, 1981:268).

Banks were developed later on with certain functions according to the capitalist system such as money creation and reserves; when paper money is issued, money is created (McConnell, 1981:288). Through central bank regulations panic and uncontrolled demand of money is limited (McConnell, 1981:289).

Banks can construct hegemony and manufacture moral and intellectual leadership within the development industry and work on behalf of the protagonists of the global project (Moore, 2007:27). Besides the banks, Capitalism creates varieties of methods to generate money such as tax systems. Capitalism believes that tax needs to be effective and the criteria to judge the effectiveness of a tax system is measured through the raising of revenue for the government, efficiency of resource allocation, distribution equity and having minimum administrative cost (Weiss, 1995:175). That is why it is recommended to have new structures of taxation in developing countries (Weiss, 1995:184).

b) Capitalism's need for money has affected the income of every person, except the very low income groups, especially through *an extensive tax system*. In order to finance social goods and services, increase income quality, stabilize the economy and strengthen social security, personal income has to be taxed (McConnell (1981:129-130). In the absence of an ethical framework, collecting tax can lead to double company tax and stockholders tax through corporate income tax (McConnell, 1981:130), also through sales excise and other taxes (McConnell, 1981:130).

Despite all efforts to prevent corruption in the tax system, there are loopholes in tax e.g. tax-exempt securities (by which 0% tax is paid through switching to state or local bonds), capital gains tax (by selling for more than bought for, less tax and other tax breaks) (McConnell, 1981:130).

c) Capitalism adopted *different methods of financing*. Firstly, monetary policy sets out measures to influence both the growth of money and the level of interest rate (Weiss, 1995:233). Secondly, 'equity finance' (an alternative of a loan) is where investors will share in both the benefits and losses (Weiss, 1995:250). Weiss argues that in reality this kind of finance cannot be implemented due to inadequate requirements for systemic accounting and disclosure of account information; taxation reform needed to remove any biases in favour of debt finance; the need for technical assistance and training for the development of institutions and intermediaries; the need for an appropriate framework for the supply of liquidity to the market, for example by allowing banks to participate (something that is happening, but only in small scale) (Weiss, 1995:251).

The current crisis in the finance sectors proves the point of view of Islamic economy that favours the second kind of transaction (where the lender shares the risk with the borrower); it can work any time and in any condition if global society together puts in place the mechanism for it.

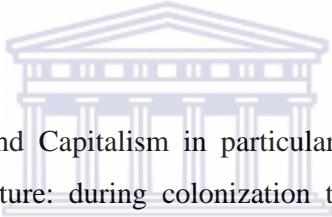
d) Another method of generating money is the *interest system* in which money is rented out. Capitalism cannot survive without the interest system, although, usury is considered rationally and spiritually a forbidden act. In Greece it was forbidden because it was considered to be unnatural (Rima, 1996:11). Aristotle considered retail trade and usury as unnatural, for their purpose was the acquisition of coins which was 'not useful as a means to any of the necessities of life' (Rima, 1996:14). Augustine spoke about the conflict between the city of God and the city of man (Rima, 1996:14). What Augustine has said about the City of God is close to what Muslims would consider to be "God's Scale of Justice". According to Rima the medieval church proclaimed that all must perform their duties according to the law by which God and nature would preserve the natural structures (Rima, 1996:15) It is unlawful to sell a thing for more than its worth and no one should do that (Rima, 1996:16), but churches started allowing a slight addition or subtraction that would not seem to destroy the equity of justice (Rima, 1996:17), but which led to violence in the "City Of God", step by step.

Jacques Turgot and Adam Smith were opposed to legal prohibition of interest, maintaining that it increased rather than diminished the evil of usury; Smith and others made no functional distinction between interest and profit; however, today the return on equity capital would be identified as interest rather than profit (Rima, 1996:107).

3.6 Capitalism and various “external” issues

Much time and effort have been invested to explain and understand Capitalism (and the Muslim economical system) from the “inside”, in order to compare these systems. However, these analyses in fact form the background to compare the systems in *praxis*, i.e. in their practical impact on people's lives, and thus *in their ethical and moral import*. Systems can be understood in terms of what they set out to offer (vision, ideology, principles, characteristics, structures), but the final test lies in what they deliver, how they perform in *praxis* and how they promote human well-being on a sustainable ethical basis. How Capitalism in fact relates in its practices with ethics, politics, religion, the global world and the environment, will thus serve as the most important point of comparison with the Islamic economic system. The main questions addressed in this study deal with human wellbeing, human dignity, ethical sustainability and the quality of life left behind for future generations.

3.6.1 Capitalism and Ethics



The world economy in general, and Capitalism in particular, face enormous ethical questions. Ridgeway sketches a sobering picture: during colonization the UK and various other political powers participated in the drugs trade in order to pay for their invasion of poor countries. We have scarcity of good land to plant wheat and corns to feed the people of earth, while, at the same time, 38000 hectares are planted with unnecessary and harmful plants (Ridgeway, 2004:155), e.g. 4500 square miles of opium fields (Ridgeway, 2004:149). By 2000 1.1 billion people smoked 5.3 trillions cigarettes causing 400,000 deaths annually in the USA only. Through the USA alone 18000-20000 people suffered human trafficking annually (Ridgeway, 2004:1-167).

In his book *All for sale*, Ridgeway (2004) argues that fresh water, fuels (coal, oil, natural gas and uranium), metals (copper, tin, zinc, lead, iron and steel), forests (wood and rubber), fibres (cotton and silk), fertilizers (nitrogen, phosphate and potash), food, flowers, drugs (opium, heroine, coca, cocaine, marijuana and tobacco), human being (slaves, body parts, cadavers for research use, blood, excrement and hair), the sky, the ocean, biodiversity; as raw material or finished products, and the labour accompanying them, are *all for sale*. Ridgeway asked: *what is the price that humanity has to pay for that development to continue and which rules should that market follow, if morals are also for sale?* This is probably the crucial ethical question to be dealt with in the global economy, and one which Capitalism as a system also has to face squarely. There are many possible approaches to answering this question. Here we shall simply focus on one voice in the ecumenical debate.

a) To answer Ridgeway's question we need to visit, firstly, the *domains of ethics*. Stückelberger, working on these issues within the framework of the World Council of Churches, has made interesting suggestions for demarcating the different areas of ethics pertaining to the global economy: *life ethics*: dealing with beginning, preservation and end of life; *ethics of community*: dealing with aspects of communal life; *environmental ethics*: dealing with the relation between human and non-human environment; *business ethics*: dealing with production, trade consumption and disposal of goods and services; *political ethics*: dealing with interaction between groups and communities through political institutions; *cultural and religious ethics*: ethics concerned with action and communal life through the medium of cultural and religious institutions (Stückelberger, 2002:3).

b) Stückelberger also suggested understanding the *forms of ethics* which are, firstly, *descriptive or pragmatic ethics*: describing the diverse manifestations of existing morals and customs of individual-groups people, institutions and cultures; secondly, *normative ethics*: evaluating existing morals and formulate standards from which action should take its bearings; and thirdly, *meta-ethics*: critically examining the ethical methods and develops them further (Stückelberger, 2002:3).

If trade is basically the exchange of goods and services (Stückelberger, 2002:5), and the functions of trade are good turnover, adaptation of demand (connecting material supply and service), support in making decisions on purchase (information), market equalization (settlements between supply and demand), and the processing of material goods (sorting, adaptation, installation, etc.), the question arises as to what morals should the trade mechanism follow?

c) Stückelberger suggested *four levels of ethical actions*, *individual ethics*: within persons (I-I) and (I-you), *personal ethics*: within groups (we-you), *institutional ethics*: structural ethics or social ethics: according to standard put by their institutions (I-we-it-structure), and *environmental ethics* (I/we-nature) (Stückelberger, 2002:9).

d) Stückelberger suggested the following *fundamental questions of business, economic and trade ethics* to be answered (Stückelberger, 2002:11): What should be produced and traded in? How should it be produced and traded? Where and by whom should production and trade be conducted? How should production and trade be conducted? When should production and trade be conducted? And for whom production and trade should be conducted?

e) Stückelberger also calls for *trade ethic revival* through: alternative trade: a ‘World Shop’ should be created to help the third world to become independent, fair trade: fair pay fair price (it has ethical character) comes to replace competition because business becomes big, sustainable trade: focuses ecology and emphasizes the classic triangle - economic, ecological and social dimension of sustainability, ethic trade: emphasizes social and ecological responsibility, and responsible trade (Stückelberger, 2002:20).

f) Stückelberger finally, argues, in line with Rawls’ theory of justice, that fairness should be sought in all transactions. Justice, within the sphere of economics, demands that each person must be given his or her due on the basis of their performance; a fair exchange must take into consideration human need; goods should be distributed fairly; there should be equality of opportunity (Stückelberger, 2002:47); fair and appropriate participation in decision-making should be ensured, as well as sustainable use and fair distribution of resources; there should be provision for fair placement and weighting of production factors; trading partners should be viewed and valued as human beings and not economic objects; fair procedures in trade relations should be followed; and all these aspects of justice should be connected (Stückelberger, 2002:48).

g) For example, from a Christian point of view, the *charging of interest* according to John Calvin (1509-64), has become a lawful act. It was however allowed in certain circumstances that were justified through the idea that the Bible wants to protect the poor and help the economy. Calvin, through his study of the Bible identified seven exceptions to the charging of interest: the poor should not be charged interest, the love of profit must not preoccupy people so that their attention is taken away from the needs of the poor, natural equity must be kept in mind, the borrower should benefit, we do not measure ourselves according to others but to God's word, and the benefit should benefit all (Stückelberger, 2002:161). All of this taken together is a far cry from claiming Calvin for an “economy of interest”.

h) The same applies to the charging of fair customs tariffs, fair taxation and fair profit (Stückelberger, 2002, 163-167); fair taxation meaning a fair amount to regulate business in the country under protection of government (Stückelberger, 2002:165), and fair profit meaning the kind of profit that does not affect necessary human needs adversely (Stückelberger, 2002:167).

In stead of dealing with various arguments on ethics and Capitalism we have here simply tried to give a picture of the kinds of considerations that live within deeply concerned ecumenical circles. These debates show, better than ideological critique from “outside”, the depth of ethical concern.

3.6.2 Politics

The second issue that concerns capitalists is the issue of the connection between Capitalism and politics.

The economic aspect of life is probably the most important issue that occupies any government these days; McConnell (1981:4) noticed that governments in their annual economic report includes unemployment, inflation, economic growth, economic productivity, taxation, public expenditure, poverty and income maintenance, the balance of payments, the international monetary system, labour management relations, manpower development, training, pollution, discrimination on the basis of race and sex, competition and antitrust. McConnell argues that most of the specific problems of today have imported economic aspects.

In his famous and paradigmatic *Wealth of Nations*, Adam Smith argued that a nation is well off in accordance with its supply of ‘necessities and convenience’ in relation to the number of its inhabitants, in real goods, not gold. This constitutes the wealth of the nation and through such wealth, political decisions weigh heavy and have a huge impact on the nation (Rima, 1996, 94). In his labour theory of value, Adam Smith also proposed that “all value produced in the economy comes from labour and that, furthermore, the role of the landlord, and perhaps also of the merchant or entrepreneur (the capitalist), in producing value is at least dubious.” (Lux, 1990:141) It may be worthwhile to re-study Smith’s definitions of politics, economy, wealth and well-being, and their inter-relationships and bearing on modern Capitalism, in the current crisis!

Political powers tried to change the ideology driving Capitalism by re-emphasising new concepts of “value”. J. Raban argues that Margaret Thatcher, ironically for the “Iron Lady”, attempted to bring about a form of Capitalism which is legitimized by the fact that rather than money being loved ‘for its own sake’ it is invested in the future and used for charitable purposes and so on (Woodhead 2000, 180). But as R.H. Tawney argues, Capitalism still encourages individuals to seek out their own ends. People misunderstood what kind of freedom needed to be implemented. R.A.D. Grant, for instance, argued that freedom consists in the ability to do what you want to do (Anderson & Kaplas, 1992, 13).

Political powers are facing more challenges, because the more rigid the ideology of Capitalism is interpreted and practised, the more difficult it is to change people’s regarding what is truly human and worthy. D.L. Levy argued that as the 20th century entered its final decade, the political culture

of liberalism and political theories that seek to justify it, find themselves in a paradoxical situation (Anderson & Kaplas, 1992, 27).

In what follows we listen to the outspoken voice of the philosopher Noam Chomsky, and some of the points he raises about Capitalism and politics in the new millennium. The internal capitalist dilemma, as sketched above, prompted a Chomsky to seriously criticize the hegemonic political behaviour of capitalist countries and the abuse of other weaker countries: "... And therefore another episode like Iraq is very likely, especially, if the occupation works the way the civilization planners at the Pentagon hope. If it is as easy a victory with not too much fighting and Washington can establish a new regime that it will call 'democratic', they will be emboldened to undertake the next intervention." (Chomsky 2005:1)

Chomsky argues that Israel understood the American fighting culture, to ask them to attack Iran because it can't do it (Chomsky, 2005:8, 29). Israel also understood the effectiveness of the media that creates fear in American hearts where anything can scare them (Chomsky, 2005:30), and also that Americans are used to easy answers (Chomsky, 2005:39).

Justifying political actions become an easy task for capitalists; conquest taxes were paid for the riches to be had in cotton and Palestine was targeted for a major strategic reason: its position (Chomsky, 2005:49). America is ambivalent about northern Asian economic integration (Chomsky, 2005:58) but has not made a serious move as yet. Politics becomes part of personal gain games; no one should dare to challenge the president; otherwise you will have to face the consequences (Chomsky, 2005:54), similar to what happened in Iraq.

Chomsky criticizes the governments that use the money of people to conquer them, then re-builds the place by using the same people (Chomsky, 2005:57), especially when a government such as the USA has the right to enter any country to rearrange its political and economic life (Chomsky, 2005:141). Chomsky argues that capitalist governments try to cover their internal failure. An example is social security in USA that will collapse unless the rich people pay what is due (Chomsky, 2005:142, 143). The family hierarchy in capitalist countries has collapsed and has been replaced by individual freedom (Chomsky, 2005:156). The US economy is subject to domestic policies that are frightening (Chomsky, 2005:191), while the care system is expensive and inefficient (Chomsky, 2005:196). These are some examples of the woes of the capitalist system in leading western countries, due to internal discrepancies, inconsistencies and ethical failure.

That is why capitalist countries such as the USA is characterized by an inherently weak currency (even when it appears strong at times), high deficit, very high individual consumer debt, abused credit cards, rising interest rates, personal saving rates being at an all times low, and foreign investors financing government debt by buying treasury securities (Chomsky, 2005:190). Chomsky (2005:190) argues that all of this is happening because the capitalist economy is set up to benefit some and harm others, while big corporations have their own techniques to avoid paying their own taxes.

According to Chomsky, democracy in USA is not real; even the plagued Haiti and Brazil have a more real democracy (Chomsky, 2005:200); the difference being merely that the USA is controlled by powerful hands in control of “capital” (Chomsky, 2005:201).

3.6.3 Environment

The third worry of capitalists is the connection between Capitalism and the environment. Although contemporary environmental abuses have their antecedents in earlier periods of history, globalization coincides with new environmental problems such as global warming, depletion of the ozone layer acute loss of biodiversity and forms of trans-border pollution (e.g. acid rain) planets regenerative system in trouble including its equilibrium among different forms of life and their support structures, because trespassing nature's limits is the result of hyper competition for profit that embedded in capitalism's ideology (Mittleman, 2000:179) Forms and sources of popular environmental resistance forms of environmental degradation are diverse and have several root causes such as hyper competition, social inequality and poverty, unsustainable levels of exploitation of resources, occupation of land and its conversions into commercial land industrial projects, migration and overcrowding, fears of displacement, debts structure which in turn further resources exploitation resources, criminalizing the customary use of resources and a lack of accountability (Mittleman, 2000:185).

We all need to cooperate, especially governments and civil societies, to save the earth, but it seems that both are getting corrupted (Mittleman, 2000:218). We should bear in mind that the earth is ‘a slow womb’ (Rasmussen, 1996:25) and that the universe has three principles: *differentiation*: in the universe to be is to be different, *autopoiesis*: nature has the capacity to self-organize, and *communion*: nothing is itself without everything else (Rasmussen, 1996:29).

The wise use of different ecosystems is the key to survival, as Clive Ponting argues; the most important task in all human history has been to find a way of extracting from the different ecosystems in which people have lived enough resources for maintaining life-food, clothing, shelters, energy and other material goods (Rasmussen, 1996:38).

Capitalism has the power to change humanity to be part of its big machine, as Max Weber argued; capitalist culture has built ‘an iron cage’ to trap all of us; it makes us ‘specialists without spirit’ and ‘sensualists without heart’, while we are asked to imagine that this nullifying dehumanization is ‘a level of civilisation never before achieved’ (Rasmussen, 1996:53). This powerful ideology can only be countered by a radical change in human values, as Christopher Lasch and Paul Kennedy have argued: a new civilisation of constraint, demanding new perspectives, institutions and values (Rasmussen, 1996:53). As humanity went through the agricultural, the industrial and the informational revolutions, which were focusing on utilizing the environment for the sake of society, we hope that the fourth one ought to be the *ecological revolution* and its characteristics should be to produce without destructiveness (Rasmussen, 1996: 54). Agreeing with this analysis, I would add that the fourth stage should first be a *human values revolution*, before the ecological one could take place successfully.

Capitalist ideology has to change, ought to distinguish between *big economy* (the present globalizing human economy) and *great economy* (the economy of nature), which is characterised by useful principles such as waste equal food (re-consume the fodder of others), nature runs off current solar income (don’t produce what can’t be re-used) and nature depends on diversity, thrives on differences, and perishes in the imbalance of uniformity (the earth has a certain capacity) (Rasmussen, 1996:111).

Christian Churches and other religions are contributing towards a better environment. The All African Council of Churches (AACC), in their annual conference, discussed the factors involved in the viable production of wealth (energy, natural resources, land, labour, knowledge and skills, the means of production (technology), strong corporations with efficient management system, cultural values and virtues (creativity innovation dedication), the availability of capital to finance, and access to viable markets (AACC, 2008:17-18). The AACC argues that Capitalism was established through historic injustices and the legacy of imperialism, colonialism, classicism, racism, sexism and cultural elitism (2008:17); they also addressed the economic inequalities where even teaching poor people how to catch a fish is not sufficient: they also need to buy the rod, access the sea, produce wisely and find a market to sell their products (AACC, 2008:19).

The AACC also argued that the climate change crisis is facing four critical factors: Increased use of energy, increase population numbers, expansion of the Chinese and Indian economy, and the hope of poor to attain better standards of living (AACC, 2008:23).

3.6.4 Religion

The fourth external issue that may challenge Capitalism is the connection between economy and religion, where the issue of living a decent, comfortable and peaceful life is the aim of every human on earth, but according to what standard or criteria? And what ethics or moral values should be followed? And what do we mean by ethics? Ethics concerns how we ought to live; it studies the various patterns of morality that exist in the habits of persons the fabric of communities or the teachings of the wise and analyzes which ones ought to be followed and how we know (Stackhouse, 1995:19). Modern economists argue that economics has a logic of its own and cannot listen to the influences or convictions of people or human communities following old Hebrew or Christian texts, which also refer to economic aspects (Stackhouse, 1995:31). Of course the writer could also have referred to Quranic texts, followed by millions of Muslims.

Religion's role is to guide, but the diversity between religions make it difficult to follow a specific one. Tawney argues that religion has to introduce to rulers and those who are in charge the ethic of economics (Woodhead 2000:181) R.J. Neuhaus also argues that the survival of liberal democracy is endangered by the exclusion of religion from public debate (Woodhead 2000:252).

One of the "internal" experts, writing about Capitalism and religion, is Max Stackhouse. We shall follow some of his arguments here. Stackhouse starts with the Old Testament. He argues that the Ten Commandments have serious economic implications (Stackhouse, 1995:59). Ancient religion did not encourage the negative possessing attitude. The Old Testament speaks about possessing for the possessing itself and criticizes such an attitude (Stackhouse, 1995:67). In such a "prosperity gospel", the purpose of wealth switched from helping others and obtaining it through lawful means to abusing others and using unlawful means; the moral problem then becomes the essential wickedness of the wealthy that chose to serve greed rather than God (Stackhouse, 1995:88).

How far did religion influence the current situation? What we have right now is obviously the product of human development, but Stackhouse argues that western ethics in regard to social life and thus to business is derived, some way or another, from the Bible, or at least: most of it (Stackhouse, 1995:108). Augustine argues that life is ordered by love, but the ultimate love is the

love for God (the main theme of his *City of God*), so we should follow God's command to have happiness because God's commands are not the ones that western culture is adopting these days (Stackhouse, 1995:115).

Many try to use religion to modify the existing way of life, as Martin Luther tried to use scripture to produce a fresh spirituality within a conservative structure for economic life (Stackhouse, 1995:173). Religion cannot be taken in bits and pieces, as Assader, Al-Masry and John Calvin argue from different perspectives, that scripture is not without order but present a most beautiful arrangement (Stackhouse, 1995:183). Also John Wesley argues that there is a methodical discipline among the laity in all areas of life including economics (Stackhouse, 1995:193). John Wesley declared that possessing whatever you can in a lawful way is lawful, but do not worship it and enjoy it without hurting minds or bodies (Stackhouse, 1995:193).

Religions have forbidden taking usury in different levels; the Hebrews, for example, did not allow taking interest from your "brothers", but from other it was permissible. Thomas Aquinas re-interpreted this statement by saying: all are our brothers! (Stackhouse, 1995:265).

Is religion still welcome or allowed to help? C.C. West argues that Marxist societies tried to separate religion totally from education, media, public, policy and economic activity. Political discourse and anti-religious propaganda were distributed (Stackhouse, 1995:284), although, Marx and Engels were surrendered by socialists claiming Christian bases of their radical convictions.

Stackhouse calls for studying the past to understand the future of corporations and adds that if we want the future to be a moral one we need to connect corporations to their moral and spiritual underpinnings. He also claims that modern corporations are religiously underpinned in many ways, but need more construction and modification (Stackhouse, 1995:501).

Religions are being accused of vague explanation of economic realities. Max Weber argues that economic ethics points to the practical impulses for actions which are founded in the psychological and pragmatic context of religion; no economic ethic has ever been determined solely by religion, but life conduct determined by religion is the main determinant of economic ethics. He argues that a way of life determined by religion is influenced by economic and political factors operating within given geographical, political, social, and national boundaries (Woodhead 2000:177).

Regarding Islam, R. Heftier argued that in Islamic civilization morality is as sustained or intense than in others, and he criticized western media of being selective when exploring Islam (Stackhouse, 1995:363). He also distinguishes between commercial and industrial capitalism, where the former refers to a form of economic organization characterized by the production and exchange of commodities for commercial profit; according to him Islam is compatible with this and supporting such ideas. He argues that a clash between Islamic economy and Capitalism is only evident in certain areas: *Riba* (interest) and *Zakah* (alms). Assader however disagrees about creating “similarities”, since the ideology of both is completely different (Stackhouse, 1995:364).

Some accused religion of being behind the capitalist ideology. In this respect one can refer to Raiser who argues that Christianity went everywhere to spread modernity in education, health care and economic development. Christianization and modernization went hand in hand (Raiser, 2001:50). Stackhouse confirms Raiser’s view but argues in vague terms that we must live together under God’s law (Stackhouse, 1987:75), without indicating which one, Christianity, Judaism or Islam. Beyer sees that we are not obliged to choose a specific religion because religion is not just a social institution that exists more or less in all societies and all periods of human history but takes on different forms in different circumstances (Beyer, 2000:299). He proposes that we take religion as a globally functional system and through it make a potentially significant contribution (Beyer, 2000:299).



Capitalists claims to help the poor to establish healthy economies to sustain and provide employment, to keep wages at pace with inflation, establish more policies to remedy the institutional cause of poverty, to create equal employment for women and minorities, to start special programs to help the poor to become self-sufficient, to empower the poor to take charge of their future and decision, to continuously evaluate the tax system, to show more commitment to educating the poor by investing in education, to support public schools, to support the family structures especially those affected by the economy, to keep mothers (of young children) at home, to improve child care systems, to address divorce and its consequences, and to address new notions of welfare (Gottleib, 2003:245).

3.6.5 Globalization

The fifth issue that worries the capitalists is the connection between the Capitalism and globalization. Globalization is a new term that is used to describe developments in the world’s economy over the past ten years following the collapse of the communist empire in Eastern Europe

(Raiser, 2001:3). But the issue is not so much the distance that is getting “shorter”, but the closeness between all aspects of life. As Stackhouse and Paris argue, this new world requires new standards, ethics, culture and ideas. That closeness shows the spheres of life that foster normative values economics, political, science, psychology and sexuality, mass media and the arts and religion. That closeness, however, does not come without problems (Stackhouse 2000:71). Soros argues that especially the finance issue of the Global Capitalist System (GCS) is serious: the GCS is a gigantic circulatory system sucking capital into the centre and pushing it out into the periphery (Soros, 1998:126).

The world has become one country, city, and village or maybe one house following one economic system called the global economy. According to Soros (1998:101) that global economy is characterized by *free movement of capital, interest rates, exchange rates and stock prices*.

“Globalization had succeeded in unifying people from around the world - against globalization. Factory workers in the United States saw their jobs being threatened by competition from China. Farmers in developing countries saw their jobs being threatened by the highly subsidized corn and other crops from the United States. Workers in Europe saw hard-fought-for job protections being assailed in the name of globalization. AIDS activists saw a new trade agreement raising the prices of drugs to levels that were unaffordable in much of the world. Environmentalists felt that globalization undermined their decade long struggle to establish regulations to preserve our natural heritage. Those who wanted to protect and develop their own cultural heritage saw too the intrusions of globalization” (Stiglitz, 2006:7).

The mix of religions and science, internal contradiction in both, political and military developments, also the tension between global scope of financial market and national scope of politics is not easy to control, while failing to control it, will lead to the collapse of the global system (Soros, 1998:125).

It is obvious that an unproblematic mix of these aspects of life will lead to many problems, such as the relationship between globalization and human rights from a religious point of view (Stackhouse 2001:76), medicine (health care) (Stackhouse 2001:107), technology and science vs. theology (Stackhouse 2001:139), and environment and theology in globalization (ecology) (Stackhouse 2001:166).

One of the problems that Soros observed in the future 'the guessing' which is influenced by guessing that preceded it, in this case we end having equilibrium because of deceptive concepts (Soros, 1998:49), which lead to the unsustainable expansion of credit that lead to financial crisis (Soros, 1998:122).

Raiser agrees with Soros that the process of transformation to globalization has brought into being a complex system of mutual interdependence as well as mutual suspicions that often end in violence. He calls for an 'ecumenical space' for dialogue and the building of community (Raiser, 2001:3).

Stiglitz has raised many concerns when he was explaining the wide-spread recognition that globalization was all "too good to be true." Along with globalization comes a myriad of concerns and problems.

The first concern being that the rules governing globalization favour developed countries, while the developing countries sink even lower. Second, globalization only regards monetary value of items, rather than other factors involved; one being the environment. A third concern is how developing countries are controlled by globalization and the negative effects it can have on their democracies. Developing countries borrow a large amount of funds from other countries and the World Bank which essentially causes them to give up the benefits of their democracy because of the strings attached to the loan repayment. A fourth concern regarding globalization is the notion that it does not live up to its original expectations. Globalization was advertised to boost countries economically; however, it has not shown improvement in developed nor developing countries. A fifth concern is the new system of globalization has basically forced a new economic system on developing countries. This new economic system is seen as the "Americanization" of their policies as well as culture. This has caused quite a bit of resentment and financial damage (Stiglitz, 2006:9).

Another problem that faces globalization is the issue of selfishness, as Raiser argues "for the economical community authentic human development can never be achieved when the ultimate goal is the amassing of wealth and material goals creating an unquenchable thirst for more power profiles and positions".

Soros suggested his theory of reflexivity which is the relationship between the participants thinking; participants seek to understand the situation in which they participate; they seek to form a picture that corresponds to reality (the passive or cognitive function) and they seek to make an impact to

mould reality to their desire (active or participating function). The overlap between these two cognitions, however, is an uncertain factor, leading to uncertain outcomes (Soros, 1998:6, 7).

Solving these problems according to Raiser is possible as he suggested a new approach to wealth and materialistic world. He calls for the recognition that real value is beyond monetary terms and essentially can't be commoditized. Having a belief in the inherent dignity and dignified life for every person, a commitment to an economy that serve people and earth, and a focus on the ultimate aim of economy life to nurture sustainable just and participatory communities, are simply needed. This requires a vision of a global community whose interdependence is not reduced to trade and markets, acknowledgment of a common destiny for which we all share responsibility and from which we should all equally benefit and a responsibility to uphold the right of all people to participate in the economic, social and political decision which affect them (Raiser, 2001:26).

Pieters, in this regard, suggested a mechanism to drive the new Global Architecture, which includes a global central bank to strapped countries and finance market, global investment trust to moderate flows of foreign capital, new rules for WTO including anti-monopoly, new rules to allow third world to access development knowledge and health care, new rules regarding global investment and respect local law, more flexible monetary rules help developing countries, global code of conduct for Multinational Corporation regards labour, environment laws (Pieters, 2000:14). He quotes Marshall Berman: "modernity is made of vital experience ... that is shared by men and women all over the world. Today to be modern is to find ourselves in an environment that promises us adventure, power, joy, growth, transformation of ourselves and the world, and at the same time, that threatens to destroy everything we have, everything we know and everything we are." (Pieters, 2000:133).

As many people call for the idea of global economy, there are who argue against it. In this regard Hirst and Thompson argue that a truly global economy is claimed to have emerged or to be in the process of emerging in which distinct national economics and therefore domestic strategies of national economic management are increasingly irrelevant; they argue that this is a myth because international economy is more closed than before; there is no major tendency towards the growth of truly international companies, capital mobility is not producing a massive shift of investment and employment, trade investment and financial flows are concentrated in certain areas, and still today regulations and controls, imposed by powerful governance pressures, govern the global market (Hirst & Thompson, 1999:19).

Is the global economy a global one as they claim? Or global for some and far from reaching others? Rogate and Mshana argue that Globalization indirectly forces all to be part of it, and causes some to suffer while others are enjoying success. Poor countries were run into finance problem, they are paying a heavy price for all kinds of morally questionable schemes surrounding the issue, suffering under “illegitimate debt” and an imperfect arbitration scheme (Rogate & Mshana, 2003).

How will the poor countries be able to face their challenges and join the globalization if they suffer from many problems: Less expenditure, more diseases, less education, less cloths and furniture, poor agriculture and transports ability and internal household? (McConnell, 1981:419) Also how can they manage if their human resources are characterized by over population and a poor quality of labour force? (McConnell, 1981:416) Poor governments have to take responsibility for their people and their development; there are many issues that need to be looked at: law and order, lack of entrepreneurship, forced savings and investment use and public goods infrastructure, as well as social-institutional problems (McConnell, 1981:423-424).

Why is getting involved in the global economy important? Its importance arises when a country (developed or not developed) cannot consume its own products. Being part of global trade leads to mobility differences (where you can move your products everywhere at your own risk), currency differences (where you can benefit or suffer under changing exchange rates), politics benefits or uncertainties in interaction with others (McConnell, 1981:809).

The above mentioned cannot be achieved by these countries alone; there are roles of advanced nations as well, through expanding trade, lowering international trade barriers, private capital flows and foreign aid (such as public loans and grants, direct aid, and world bank assistance) (McConnell, 1981:425).

Poor countries have to face their high debts and inflation. Capitalism recommended borrowing (selling interest-bearing bonds to the public) and issuing new money to its creditors to dispose of a surplus (McConnell, 1981:247). A government can dispose of a surplus in one of two ways: debt reduction (by pay its debt) and impounding (impounding the surplus funds by allowing them to stand idle, meaning extracting and withholding purchasing power from the incomes-expenditure stream), because failing to achieve that means going bankrupt. When this does not happen, then the burdens are shifted to the next generation who will suffer (McConnell, 1981:257). The real burden of the debt is external debt (owed to outsiders), incentives (interest on the amount without increasing it), the growing-out effect (reinforcing of existing public debt which will increase the

interest rate and reduce private investment spending), income redistribution (interest payments on the debt tend to contribute to income inequality, with the rich getting richer), and liquidity and inflation (McConnell, 1981:257).

Speaking about inflation requires us to understand its types, such as *demand-pull inflation* (change in the price level have been attributed to an excess of total demand), *cost-push inflation* (the price levels rise although demand does not rise; the unions push for increased wages and the factory increases prices), and *structural inflation* (prices and wages tend to be flexible upward but inflexible downward; so-called structure change in demand) (McConnell, 1981:181).

Poor countries will remain suffering, as Ibrahim M. Abu-Rabi argues, as long as the West does not raise the issue of human rights or the absence of democracy in these countries, what mattered was preserving the *strategic interests* of the West, which easily leads to sacrificing of these principles (Hessel, 2001:77). The existence of both West and Soviet gave relief for Third World countries to move freely, but the falling of Soviet power put the Third World under pressure politically, culturally and intellectually (Hessel, 2001:77).

The “notion of progress” is a mind-set of the west. Progress places economic expansion and technological innovation at the centre of importance, and that poses a major challenge to traditional cultures, their socio-economic basis, and their ethical worldviews. Today’s globalization leads to a *new form of colonization*, which is more subtle and destructive; globalization has created confusion as to what is important in life (Hessel, 2001:81-82).

The Muslim world considered European progress to lack any ethical foundation, but some argue that the ethical foundation built by the Western mind-set did not subscribe to the world view of the monotheistic revelations (Hessel, 2001:82), the Western mind-set, characterized by fast accumulation of wealth and power, and an absence of respect for natural laws, makes *extravagant consumerism* the rule of the day (Hessel, 2001:82).

Nevertheless, the fundamental features of contemporary globalization can be described as *spatio-temporal* (huge global flows in all social domains), *organisational* (very organised in all domains), *conjunctural* (unique gathering of globalization influence), *diverse* (with a growing significance of differentiated patterns of migration), *cultural* and *ecological* (these forms of globalization exist alongside the enduring presence of *military*, *economic* and *political* aspects of globalization), *reflexivity* (interconnectedness, reinforced by communication infrastructure), *contestation*

(encouraging contestation in all spheres, from the cultural to the military), *regionalization* (dissolution of global empires), *westernization* (which is now becoming less Eurocentric or Atlantic-centric), *territoriality* (no more border drawings, force political rule or authority), *state forms* (different forms of estate when it is costly to manage country and welfare for the citizen, and democratic government) (Held, 1999:430).

The outcome of *the global financial crisis* is that banks and companies have to be organized, people are losing their jobs, political tension runs high and keeps rising, corrupt and authoritarian regimes come to an end (Soros, 1998:133). This argument was supported with a summary of deficiencies in the Asia crisis model, where structural weakness in the bank system, structural weakness in the ownership of enterprises, the incestuous relationship between business and politics, the lack of transparency and the absences of political freedom were exposed (Soros, 1998:140).

Another global factor is the alarming *growth rate of the world population*. Generally speaking the industrially advanced economies of the world differ essentially on two grounds, firstly, the ownership of the means of production, and secondly, the method by which economic activity is coordinated and diverted (McConnell, 1981:34-35). However, Islam sees another ground, namely, the spiritual ground that should govern economic activities (Chapra, 1996:5).

Finally, Dr. Stiglitz, in his Book *Making Globalization Work* (2006), surveys the inequities of the global economy, and the mechanisms by which developed countries exert an excessive influence over developing nations. He argues that through tariffs, subsidies, an overly-complex patent system, and pollution, the world is being both economically and politically destabilized. Stiglitz argues that strong, transparent institutions are needed to address these problems. He shows how an examination of incomplete markets can make corrective government policies desirable. Stiglitz argues that economic opportunities are not widely enough available, that financial crises are too costly and too frequent, and that the rich countries have done too little to address these problems.

3.7 Provisional evaluation

In studying any problems or segment of the economy the economists must first gather the relevant facts. The facts must then be systematically arranged, interpreted and generalized. Valid generalizations are useful not only in explaining economic behaviours but also in predicting and therefore controlling future events (McConnell, 1981:5)

Marx argued that the capitalism was suspected to be a failing system, in spite of spectacular advances (Nürnberger, 1998:3), because of many problems. Some of these problems are: the economic process that it follows; the problem of limited resources for millions of people and a system that encourages all to want more; the factor of greed along the whole line of the process of extracting, processing and distributing, or managing the flow of the output (Nürnberger, 1998:9). Another problem is the ethical question regarding ecological sustainability, material sufficiency for all, equity in the distribution of sacrifices and benefits, provisions for the weak and vulnerable, balance of the satisfaction of the whole spectrum of needs (Nürnberger, 1998:23).

Many criticisms were launched and still pour in against the capitalist economy, such as hyper-abstraction: its equations not representing the reality; dodging values: shunning certain issues wherein values are inherently involved (e.g. fair distribution); disciplinary myopia: unwillingness to look across disciplinary boundaries and acknowledge the importance of other disciplines in explaining real-world events like social, political, cultural, historical, psychological and spiritual aspects (McConnell, 1981:14); real-world dynamics: what was suitable in 1930, does not suit 1980 or 2010 (McConnell, 1981:15); the balance between macro-economics and micro-economics: macro concern with the economy as a whole or with the basic subdivisions or aggregates, such as government, household and business sectors, vs. micro-economic concern with specific economic units and detailed consideration of the behaviour of these individual units (McConnell, 1981:16); the foundation of economics: people's wants are unlimited while economic resources are limited or scarce (McConnell, 1981:22); new definitions: the fact that new ideas about the economy come up everyday (McConnell, 1981:25); limitations of any economic system: capitalism simply does not contain any mechanism capable of guaranteeing full employment, capitalism is not a self-regulating system capable of perpetual prosperity, capitalism cannot be depended upon to 'run itself', the cause of unemployment and inflation lie to a very considerable degree in the failure of certain fundamental economic decisions - in particular saving and investment decision (McConnell, 1981:197); the struggle for survival: householders consume the bulk of their incomes (McConnell, 1981:202), leading to man against man struggle; private property and the exploitation of labour: the continuing reality of the economy, two great groups, viz. the protagonist capitalists (the bourgeoisie) and the workers (the proletariat); capital accumulation and its consequences: e.g. when output goes back not to labour but instead to the development of machines, substituting labour with further capital investment, which may lead to reduction in profit and increasing degradation of the working class, and not vice versa (McConnell, 1981:788).

Capitalism eventually encourages, or ends in, monopoly, with many disadvantages such as inefficient resources allocation, income inequality, and un-progressive political danger (McConnell, 1981:660). Some argue that it has many advantages such as encouraging workable competition, countering veiling power, and encouraging technological progress (McConnell, 1981:661). Capitalism causes an emerging self-entitled capitalist class, where internal contradictions (such as falling profits, marketing difficulties) easily leads to a workers' revolution, or unrealistic socialist reactions; (McConnell, 1981:789). Criticism was launched on the whole system, on various socio-economic problems, such as exploitation, inequalities, alienation, pollution, militarism and imperialism (McConnell, 1981:800). Capitalism is seen to grant human selfishness free reign, operating with a deficient concept of freedom - one that lacks a sense of responsibility and gives rise to unrealistic desires. 'Freedom is a myth' is thus proven through capitalism practice: politically you can vote once in a while in an election, but economically you can vote as much as your wealth can help you in the market (Nürnberger, 1998:39). In this system you are encouraged to compete with others and outsmart them, leading to corporations where economic power is concentrated and elites are managing things via highly paid executives to the liking of the investors (Nürnberger, 1998:40) Influencing the political powers, Capitalism favours the powerful at the expense of the less powerful, allowing structural mechanisms and the abuse of power to operate freely (Nürnberger, 1998:41) Capitalism favours the rich who spend, catering mainly for their needs and neglecting public necessities. The overriding obsession with economic growth, based on the credo that human wants are unlimited and that "everything is for sale", leads directly to wastage which exacerbates the enormous ecological problems of our fragile planet (Nürnberger, 1998:41-42).

Typically, capitalist institutions grant credit to those who cannot pay and which in the long run cause severe problems, and frequently result in boom, periods with too much stock, followed by recession and stagflation. This process is repeated, again and again, since the system corrects itself by treating the symptoms and not the causes (Nürnberger, 1998:43). A liberal economy thus, while respect a deceptive ideology, also has detrimental socio-psychological effects on mental, physical, social and spiritual wellbeing (Nürnberger, 1998:44). Capitalist countries frequently lack real democracy because in order to impose the capitalist rules an autocratic government is needed and not a democracy (Soros, 1998:109).

Looking at the above summarized criticism, mostly coming from critics from within the system itself, and the criticism of each field that capitalism affects, we can say that a person behind Rawls' *veil of ignorance* will not think of choosing such an economic system, knowing that people, sources and the environment are in danger, *unless the person is willing to take his chance*. This is exactly

one of the major critiques of Rawls' theory: even though his criteria pass the test of rationality and fairness, people may choose to take chances, to gamble, that they will not be at the receiving end of this gloomy picture, as delivered and caused by Capitalism, over and over again!

The need for a new, alternative economic system is an urgent one. We should give preference attention to the recurring failures of Capitalism and its 'market imperfections' which are bound to result in periodic excess of supply over effective demand, such as to precipitate sharp contractions in profit output and income (Shutt, 1998:182). The capitalist system's negative outcomes are far exceeding the positive ones, it is not working the way it was conceived or marketed, and needs to be altered or replaced completely.

Shutt argues that, in order to sustain growth and world order, we really do need to end our growth dependency; we do need a new collectivism that accepts that the maximization of profit can no longer be the main basis for allocating resources and new democracy (Shutt, 1998:214). He asserts that the fantasy of monetary targeting causes damage to the real economy (Shutt, 1998:47); that the philosophy of modernity (individual freedom, unlimited growth) is the cause of the crises and that a new model is required. Greeley (1977:29) agrees, but argues that it is difficult to ignore modernization and replace it with another model.



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One of the solutions available is the Islamic Economy, as argued by Assader, Al-Masry and others. In the next chapter we will explore the Islamic Economy and its features to be able to evaluate its validity to be a suitable replacement to the existing economic ideologies and practices.

CHAPTER 4

ISLAMIC ECONOMY: AN ALTERNATIVE?

4.1 Introduction

Religions are not only concerned about performance of rituals. Religions normally develop comprehensive systems dealing with all aspects of life, seeking to purify the self internally, as an individual, and externally, the society as a whole.

Religions in general, therefore, could be expected to also deal with the economy, which is one of the main issues in human life. Islam, for example, deals in detail with the issue of the economy. The question of natural resources, their distribution, their utilisation, manufacturing processes, avoiding inflation, getting rid of poverty, are all issues that Islam addresses extensively (Al-Masry, 2005; Assader, 1982; Azmi, 2009).

4.2 Vision, goals, history

Dr Chapra, the economic advisor to the Saudi Arabian Monetary Agency, supports Al-Ghazali's contention that the objective of Shari'ah, which includes economic issues, is to promote the welfare of the people which lies in safe-guarding their faith, their life, their intellect, their posterity and their property, and that therefore whatever ensures the safe-guarding of these five aspects is considered as serving the public interest and is desirable (Chapra, 1979:8).

Islam encourages material gain on a moral foundation. Allah says in Surah 'The Story', verse 77: "... [B]ut seek the abode of the hereafter in that which Allah hath given thee and neglect not thy portion of the world; and be thou kind even as Allah hath been kind to thee, and seek not corruption in the earth; lo! Allah loveth not corruption." (Chapra, 1979:10)

In Islam, if worldly possessions can be acquired without sacrificing spiritual ideals then there is no virtue in forsaking them (Chapra, 1979:9). The Prophet (peace be upon him) said, "The love of this world is the source of all evil" and: "he who loves the world prejudices his hereafter and he who loves the hereafter receives a setback in the world" (Chapra, 1979:10).

Chapra explains the fine balance to be achieved as follows: If only material well-being is catered for and there are no accompanying moral and cultural adjustments there would be increased

manifestation of the symptoms of *anomae* such as frustration, crime, alcoholism, extra-marital relations, divorce, mental illness, and suicide - all indicating lack of inner happiness in the life of individuals. If only the spiritual needs of life are catered for, the individual would find it impracticable and unrealistic, thus generating a dichotomy and conflict between material and spiritual values which may threaten to destroy all values in human society. This synthesis of the material and the spiritual is what is missing in the other two systems, Capitalism and Socialism (Chapra, 1979:10-11).

A short overview of the history of Islamic economics at this point should be in order. The history of Islamic Economics begins with the advent of Islam. Throughout the fourteen centuries of Islamic history we find a continuity of reflection in which economic issues were discussed in the light of Islamic Shari'ah.

Islamic nations, like other nations, went through different kinds of struggles, *internally* in terms of social, political and cultural aspects, and *externally* through the waves of Colonization (determined "wealth seekers", in search of raw materials), Christianization (driven by "spiritual savers"), Communism (propagated by "social changers") and other ideological movements. Since the birth of Islam, their first leader and last messenger (Prophet Mohamed, peace be upon him), his companions, Muslim traders, fighters, scholars, thinkers and researchers, all worked hard to influence faithful followers, and the rest of the world, with "the beauty and perfection of the Islamic way of life" (Assader, 1982:9).

According to Assader (1982:9), the Islamic world failed to influence some of its followers and the rest of the world because of three factors. Firstly can be mentioned *political control* of the process of *old colonization* (direct occupying of land and enslaving of indigenous people) and *new colonization* (indirect occupation), which is done, according to Chomsky (2005:57), under the name of Democracy - as it happened in Iraq and other countries, where Western powers establish a regime that suits their policies and run under their control. Secondly, following political control, the Islamic World, like other poor countries, have experienced *economic control* (economic colonization), when they sold the right of manufacturing and extracting their own land's raw material at cheap prices to developed countries; later on, they bought the final product of their own raw material or opened their markets for it. Thirdly, follows *ideological control*, resulting in those who try to break off the western control of their ideologies, finding themselves following the West's steps and examples (Assader, 1982:9).

Western influence has even penetrated Muslim countries' legal system; many Arabic (Muslim) countries lost their touch with Shari'ah except in marriage, divorce and inheritance, which leads to chaos and injustice in the life of Muslim society (Doi, 1984:450).

The early Islamic theory and practice formed a coherent economic system with “a blueprint for a new order in society, in which all participants would be treated more fairly”. Michael Bonner, for example, has written that an “economy of poverty” prevailed in Islam until the 13th and 14th century; under this system God's guidance made sure the flow of money and goods was “purified” by being channelled from those who had much to those who had little, by encouraging *Zakah* (compulsory charity) and discouraging *Riba* (usury/interest) on loans. Bonner maintains the Prophet (peace be upon him) also helped poor traders by allowing them tents in stead of permanent buildings in the market of Medina, and not charging fees and rental there⁴.

Dr Sabahuddin Azmi, in his book *Islamic Economy*, give an overview of authoritative books dealing with fiscal issues, such as *Kitab al-Kharaj* (the first one written by Abu Yusuf and the second one by Yahya b. Adam al-Qarashi, in the 15th century), and *Kitab al-Amwal* by Abu Ubayd al-Qasim b. Sallam (15th century). Al-Mawardi, Ibn Hazm and al-Ghazali (17th century) contributed substantially to the science of Islamic Economy (Azmi, 2009:10).

In 19th century many books were written by western scholars on the subject of Islamic economy such as Aghnides' *Mohammedan Theories of Finance* (New York, 1969), Daniel Dennets' *conversation and the Poll Tax in Early Islam* (Cambridge, 1950), Lokkegaard's *Islamic Taxation in the Classical Period* (Copenhagen, 1950) and others (Azmi, 2009:11).

4.3 Islamic Economics: ideology and principles

4.3.1 Ideological framework

According to Al-Masry, “economy” in its root meaning indicates moderation, no waste, as in Surah Luqman verse 19: “Be modest in thy bearing...” and Surah ‘The Table Spread’ verse 66: “... Among them there are people who are moderate”. This principle of “economy” is used in many aspects such as worshipping, lecturing, eating, drinking, disciplining, punishing and spending. Economy thus basically means the study of human behaviour in managing resources and producing products to fulfil human needs (Al-Masry, 2005:11-12).

⁴ : <http://www.socialismtoday.org/87/Islam.html>

As stated earlier, religions are supposed to have a comprehensive system which deals with all aspect of life, and to make that system work perfectly, its aspects should work together in harmony and in a well arranged manner.

Assader argues that “To understand the background of the Islamic economy in particular, you need to understand Islamic ideology in general; how it is formed and what it consists of.” (Assader, 1982:311) Assader (1982:311-314) illustrates the connection between the Islamic economy to other aspects of life, showing the well-arranged coherence of the religion of Islam. Firstly, he argues that Islamic economy is intimately linked to a *belief system* that connects each Muslim to his values and *principles* (belief system).

Secondly, Islamic economy is connected to a certain *ideology and philosophy* regarding the universe and life, like the Islamic view of profit and private ownership. Everything comes with responsibility and limited power, some generated profit in Islamic economy, which includes the principle of *sacrifice*, is considered by other economic practices as a loss, because Islamic profit is not purely material (the sacrifice system).

Thirdly, Islamic economy is connected to certain *passions and feelings* that are derived from Islamic *brotherhood* through economic sharing with others in the happy and sad moments (the passion system).

Fourthly, Islamic economy is connected to a certain *finance policy* that a country adopts, because economy is one part of the whole system that strives to create balance in the society (the social system).

Fifthly, Islamic economy is connected to a certain *political system*, where high authority has the biggest portion of the resources of the country, utilization of these resources can either lead to poor or effective economic performance and that leads to creating balance or imbalance in the country (the political system).

Sixthly, Islamic economy is connected to the *cancellation of the interest system* (the finance system).

Seventhly, Islamic economy is connected to certain *rules* regarding speculation, joint liability, solidarity and social security (the transparency system).

Eighthly, the cancellation of interest alone will not lead to chaos and freezing of trade life as contended by the West, if such cancellation is connected to the previous points (the comprehensive system).

4.3.2 Three basic principles (pillars)

The contemporary economic systems disagree with each other and are implemented differently when it comes to *ownership, freedom and social security*. Islam has its own view and *principles* regarding these aspects, although even some Muslims see Islamic economy as a combination of Capitalism and Socialism in different percentages to create a perfect balance. Assader disagrees with this perception, because of the connections that he indicates between economy and other aspects of human life in Islam (as explained earlier).

Fazlul Rahman agrees with Assader that the unfortunate conditions obtaining in the Muslim world today have misguided some to regard the Islamic economic system as a form of “Capitalism”. Nothing can be farther from the truth. When carefully considered it must be acknowledged that Islam is in a unique class, by itself. But if it has to be likened to any of the modern ideologies, that would be Socialism. A brief analysis of the economic teachings of Islam in the light of this fact may, therefore, be given, in order to bring into broad relief the role which Islam can play in defeating the challenge of Communism⁵.

Islam is not a “capitalist” system because, although it allows private property and gives the scope for personal initiative, it is definitely opposed to the concentration of wealth in the hands of a few. Islam achieves that end by different means, for example, it stands for the state ownership of such “means of production” as the mineral wealth, thus eliminating from its society the steel-barons and the oil-magnates. Also, Islam prohibits usury and interest in all forms. All students of economics know that the greatest impetus which Capitalism receives today is from the modern system of banking which functions on the basis of interest. Islam does not permit the rate of interest to rise above zero and conceives the Bank primarily as the medium of commercial transactions. In the field of Agriculture, Islam does not favor feudal absentee landlordism. Its ideal is the creation of a society of peasant-proprietors. Among all the systems of law, the Islamic law of inheritance is the

⁵ : <http://www.fazlurrahmanansari.org/Articles/islamvsmarxism.html>

most anti-capitalistic. It stands for the distribution of inherited wealth among the largest number of persons on the basis of the widest margin of relationship. Last and not least, Islam condemns the hoarding of capital in very strong terms. It imposes a fair tax on all capital, for the benefit of the less fortunate.

In order to distinguish between Islamic economy and other economic systems the three pillars of Islamic economy should be considered. According to Assader (1982:295), and other scholars, the Islamic economy consists of the following pillars: *dual ownership*, *limited economy freedom* and *social security principles*.

a) *Ownership*

Islam differs from Capitalism when it comes to ownership. Assader called it dual ownership where he distinguishes between private and public ownership. Each of these types has its own rules (Assader, 1982:295), while Al-Masry called it limited ownership, where he sees both the private and public ownership as limited and controlled by rules (Al-Masry, 2005:35).

When we speak about *private ownership*, we need to understand that according to Islam, in the greater scheme of things no one can claim ownership of anything, because everything belongs to Allah (God). Allah says in Surah Hadid verse 7 "... and spend of that whereof He hath made you trustees...". We are just trustees who are given responsibility by the Creator to handle limited wealth (i.e. abilities, children, properties, business ...etc), to see how to serve this trust and pass the test that is set by God, and in the hereafter each one will see the result of that test as God promised in Surah 'The Bee' verse 111: "On the day when every soul will come pleading for itself, and every soul will be repaid what it did, and they will not be wronged".

The Quran confirms the love of the son of Adam for wealth, women and children. In Surah Al Imran (family of Imran) verse 14, "Beautiful for mankind is love of the joys (that come) from women and offspring, and stored up heaps of gold and silver, and horses branded (with their mark), and cattle and land" but at the end of the same verse Allah declares that these are just "... a comfort of the life of the world. Allah! With Him is a more excellent abode".

Each person loves to possess the fruits of his or her labour; therefore, Islam grants ownership on the base of work to any individual (Assader, 1982:258). For example, dead land (land not being used by anyone) can be given for private ownership if a person can cultivate it, also someone's land can be

given for temporary ownership to another on condition it be taken care of, e.g. through watering, planting, etc (Al-Masry, 2005:42).

Beside private ownership we have *public ownership*, referring to things that belong to all; all have the right of access to it, but at the same time they can't sell or fence it (Al-Masry, 2005:43). This ownership takes different forms. Firstly, for example, rivers, sea, roads and forest, as the Prophet (peace be upon him) said: "Muslims are partners in three: water, pastures and fire", if someone precedes others in a place, then it is his temporarily until he leaves. The second form is the land of pastures, which normally is used for the cattle of *Zakah* (alms), but it can be used publicly on a small scale. Thirdly, a form of public ownership is the *Awqaaf* (charity donated for public use) like toilets, drinking water, scholarships, etc. (Al-Masry, 2005:43-45).

These public ownerships are on the national level, but there is another kind of public ownership, which is *international public ownership*. We refer here to the international water (oceans and seas). This water belongs to all, it is not dead land that needs cultivation, but it is a resource that is ready for generating profits immediately. From an Islamic point of view these resources are public ownership and everyone should receive a portion of its minerals that are extracted everyday by capitalists. This does not mean that because some corporations or nations have the capacity to access these resources therefore it is theirs (Al-Masry, 2005:46). Along similar lines one might ask: what about the search for another life in the universe? And who are the beneficiaries of that research?

Besides the private and public ownership there is *government ownership* (Treasury), here we refer to property that is owned by the government, whether it was removable or non-removable, which is the source of revenue which could manage the whole country's expenses. It divided into three treasuries according to (Al-Masry, 2005:47): *Zakah* (one the pillars of Islamic religion), this income has a variety of sources, e.g. personal savings, trade, cattle, etc; each kind contributed to the revenue with a certain amount or percentage. This income goes to eight categories all mentioned in Surah Taubah (repentance) verse 60 "The alms are only for the poor and the needy, and those who collect them, and those whose hearts are to be reconciled, and free the captives and the debtor, and for the cause of Allah, and (for) the wayfarers; a duty imposed by Allah...". We need to be careful when it comes to the category "For the sake of Allah", some people think that this refers to any form of good deeds, actually, it refers to the fighters who are fighting for the sake of Allah only.

Beside the Zakah, there is public interest, the source of which is 20% of the booty and land tax. This income goes for salaries, wages, roads, bridges, and supports the Zakah treasury if needed. Finally, the income from lost items (whose owner cannot be found), wealth that cannot be inherited and so-called blood money (an amount of money paid to the family of the killed person by the killer), goes to orphans or foundlings.

b) *Limited freedom*

To achieve the above mentioned ownership Islamic economy and part of its framework does not encourage *free trade*; the term 'free trade' does not exist in Islam; therefore, Muslims are free to do anything as long as there are no clashes between the action and the rules of Islam, which are the moral restrictions to any economic activity that Islamic economy is characterized by (Assader, 1982).

Muslims can partake in any economic activity, select their labour, product, place, quantity, export and import, determine their own prices (if there is no monopoly) and compete freely and fairly, as long as they do not exceed the set limits by selling liquor, wine, drugs, and useless items, or cause harm to others by doing cut-throats activities (Al-Masry, 2005; Al-Harary, 2004).

Islam also prohibits any person to touch the property or belongings of another Muslim unless he gives permission and show satisfaction. It prohibits any sale under force (practicing any kind of monopoly), but also does not approve of sale out of urgent need (when a person sells things cheaply because he is going through a tough time, in which instance he must be helped and not be abused) (Al-Harary, 2004).

Islam does not allow the selling or buying of that which is not known to both parties. There are also no limitations to someone's legal competence unless he is a minor, mentally ill or he is an imbecile or prodigal (Al-Harary, 2004).

The Islamic economy derives its laws from Islamic laws which are divided into different levels: *Haram* (forbidden), *Makrooh* (not preferable), *Mubaah* (allowed), *Mustahab* or *Mandoob* (preferable) and *Wajib* (compulsory). Wasting of money, time, and effort whether it is in a legal or illegal business is *Haram*, land left uncultivated where it was given to someone for cultivation, money kept in the safe and not put into the business cycle is not allowed, monopolies are not allowed, no cheating, no interest, no *Taghrer* (buying unknown items or where little is known about

it) are allowed. Inheritance should not be given to one person in order to forbid others from inheriting (except the third of the wealth and then given wisely, e.g. not for a dog!). Also prohibited is dumping of poison or waste in others' land or country (Al-Masry, 2005:62).

Owning wealth does not mean that you are alone in that wealth, it still for all, since indirectly Islam gives society more priority than the individual. In a case of urgency, Islam forces people to do certain activities or give certain material that is needed by society, if he is capable or possesses the needed items; at the same time, he will be paid justly (according to the market value) for these activities, services or materials. A Muslim's freedom ends where others' freedom starts (Al-Masry, 2005:63-64).

Islam fights the notion of free trade that refers to unlimited freedom; and adopts trade that involves government to arrange trade transactions and economic decisions to prevent contradiction with Islamic laws and its principles (Assader, 1982:298). Islam believes it promotes the real freedom, beyond fancy theories. It is the freedom that does not allow harming, abusing or cheating, by using the law. It guarantees protection of human dignity. It represents God's scale of justice in its input (raw material), in its processing (producing or manufacturing) and in its output (final or not final material), also in its labour involved (wages, salaries and other benefits). All these are done via a healthy and just government that takes its rules from its leader; the Prophet (peace be upon him), who is narrated in Bukhari and Muslim as saying: "If Fatimah, daughter of Mohamed steals, I would chop her hand off", the latter was emphasized by the words of the first prince of believers Abu Baker who said: "The strong among you is weak until I take the right of others from him, and the weak among you is the strong until I take his right from others", this was followed by the words of Omar bin Al-Khattab who said: "Since when do you enslave people who was born free?" (Al-Masry, 2005:65-66).

Islam's involvement in free trade takes two forms, firstly, *from within*; when the believers know that God is The Only Sustainer, internalize that, which will lead to an internal and spiritual motivation and discipline. It comes from within; it derives its strength from the Islamic identity and its spiritual content. It develops through the life of the Muslim where he/she grows learning Islamic values and principles from his/her environment and educational institutions. History shows that this kind of discipline gave its fruit over a short period of time, but did not last, not because it was imperfect; on the contrary, the followers were weak. However, these self-disciplined Muslims still exist among the general Muslims today, by paying their voluntary charity at all times and compulsory Zakah when they qualify for it either once a year (money) or once a season (crops), etc.

(Assader, 1982:299). Secondly, *externally* where there are rules that can be enforced by rulers through the authority that was granted to them by the people (Assader, 1982:299-300). This kind of discipline comes from another source other than the self; it comes from government, to ensure certain control over society's behaviour and force a certain discipline through forbidding monopoly and interest and the interference of the ruler to guarantee the implementation of Shari'ah rules in all transactions (Assader, 1982:300).

The ideology of capitalism is always to have "a perfect market", a market that is free of intervention of outside forces (e.g. government). For the market to be called a perfect market (where fair competition is guaranteed), Al-Masry (2005:57) argues that there must be many traders to prevent few from controlling the market, similar goods in such a way that buyers cannot be attracted to the next one, free entering or leaving for all to allow everyone to take part freely, free movement of the means of production without charges, because cost will rise and prevent fair competition, and transparency, where all are aware of what is happening in the market and everyone makes his decision according to the same information.

The reality shows that these points do not exist, and cause the "perfect market" theory to collapse, crises to happen, the global economy to suffer, and finally, all fields of life suffers as a result.

c) *Social security*

The above mentioned should lead to achieving social security which is the third pillar of Islamic economy. This pillar is connected to the distribution system that Islam calls for, which derives its rules from Islamic values and principles, within a particular social framework and it can be implemented in reality (Assader, 1982:303-307).

The social security that Islam calls for is divided into two principles; public solidarity and social balance and security. These principles were illustrated clearly in the first speech given by Prophet Mohamed (peace be upon him) when he established the first Islamic government in Madinah (a city in the Arabian Peninsula) 1430 years ago.

His speech included what life is all about, and what the hereafter will be all about. He said: "What after, Oh people, put forward for yourself as preparation for the hereafter, you know that anyone might be hit by lightning and die leaving his sheep without a shepherd, and he will be asked by his creator: did my messenger not give you my message? And did I not give you wealth and favoured

you? So what did you put forward for yourself? Then you will look to the right and to the left and see nothing, then you will look in front of you and will see only the fire, so whoever can protect himself from the fire with a charity of half a date, let him do so, otherwise through a kind word, that will help as well, any good deed will be rewarded with ten to seven hundred rewards. Peace is upon you and the mercy of Allah and His blessings” (Assader, 1982:304).

The speech was followed by the Prophet’s (peace be upon him) political system through the establishment of brotherhood between the migrants [Muhajereen: who came with the Prophet (peace be upon him) from the city Mecca or migrated from other areas to Madinah] and the supports (Ansaar: who lived in the city of Madinah and supported the Prophet when he moved to it). Through doing this he established the principle of solidarity and achieved the social balance and security (Assader, 1982:304).

This mixing between the achieving of goals and psychological aspect of humans make the Islamic security system reasonable, achievable and cover both aspects; the outside (economic aspects) and the inside (human spiritualities, ideological and psychological aspects) of the society (Assader, 1982:307).

Islamic economy has two phenomena that appear clearly through its values, principles and framework; firstly, the reality that comes from *the harmony between its rules, values and principles and between the nature, desires, and characteristics of the human*, no burdensome rules or rules that come from someone’s imagination (like capitalism and socialism) and can’t be achieved because of its pillars that depend on weak human capacity, lack of understanding of human nature and failing to see the coming future (Assader, 1982:305).

Secondly, *the moral or spiritual phenomenon that Islam calls for*, which comes from the understanding of the economic social life. Islam does not want to achieve its goal through material circumstances and natural conditions separated from the human. Islam cares about the psychological factor of the human, when Islam takes from the rich to give to the poor, it is not achieving the solidarity goal only, but it wakes up in the rich the love of helping others by making this help an act of worship (Assader, 1982:306).

Fazlu-Rahman Al-Ansari in his article Islam vs. Marxism argues that in Islam, social service is based on religious concepts. He added: Islam is not merely a Religion but an elaborate Social Order, a self-contained Culture and a full-fledged Civilization. Consequently, the entire Islamic system of

faith and practice ensures "Social Service based on Religious Concepts" by assimilating all the three basic concepts, namely, man, society and God into a harmonious whole, in contradistinction to Marxism which confines itself purely to the problem of "Man and Society" and also in sharp contrast to the general religious thought which confines itself to the problem of "Man and God". Indeed, even the purely devotional practices in Islam, like Prayers and Fasting and the Pilgrimage to Mecca, are social institutions and serve social ends⁶.

Besides this basic characteristic of Islam, there is also *a specific social code* in which social service has been raised to the dignity of the highest form of virtue, just as Prophet Muhammad (peace be upon him!) says "The best of you is he who is best to God's family (creation), i.e., mankind."⁷

Thus, while, besides the "Duties to God", "Duties to Self", "Duties to the Creation in General", we find a magnificent elaboration of "Duties to Others" (Individual as well as Collective) in the Islamic Moral Code, we also come across among the basic "Five Pillars" themselves an institution like the "Zakah", enthroned there as the very essence of Islam.

Zakah is the obligatory "Social Betterment Tax" - obligatory to the extent that its denial turns a person out of the fold of Islam—and it gives to Islam the distinction of giving to the world a system of "Organized Well-doing" in contrast to the haphazard form of Charity found generally in the practice of religious people. Comprising 2½% on all hoarded and productive wealth, it is essentially a state-institution and is meant solely for the benefit of the poor and for the general weal, as the Holy Prophet (peace be upon him) says:“(It is) taken from the well-to-do persons and given to the poor people.”⁸

Unfortunately, during the present age of Muslim disorganization (due to various causes which may not be recounted at the present occasion), the institution of Zakah has become a private affair and is being practiced by very few Muslims. But, during the glorious period of Muslim history, it existed with all the splendor of its revolutionary glory. Indeed, as all students of Islamic history know, it succeeded even in the earliest stages of its establishment in transforming a veritable desert of poverty, destitution and suffering into a paradise of plenty for all. And it can be said without the least shadow of doubt that it can perform the same miracle even today if it is organized properly by the Muslim governments. Zakah is not, however, the sole institution which Islam has given to us for

⁶ <http://www.fazlurrahmanansari.org/Articles/islamvsmarxism.html>

⁷ <http://www.fazlurrahmanansari.org/Articles/islamvsmarxism.html>

⁸ <http://www.fazlurrahmanansari.org/Articles/islamvsmarxism.html>

the eradication of social evils. Rather, there is a whole set of laws which aim at the establishment of a healthy economic adjustment in society⁹.

Chapra argues that we need the emergence of social health of a deeper level to be attained by dovetailing the economic system with moral philosophy norms of social and economic justice, equitable distribution of income, wealth and social welfare. The sharp distinction between the Islamic economic system and capitalism is the lack of morality based philosophy for social and economic justice and public welfare (Chapra, 1979:27).

4.4 Characteristics of the Islamic economy

This research wishes to point out the rational and moral basis for a legitimate consideration of the Islamic economic system as an alternative to Capitalism, and its validity as an ethical economic system, by studying the Islamic system, its ideologies, weaknesses, strengths and its performance, and weighing its positive and negative contributions to humanity.

As stated earlier by Assader, the Islamic economy is part of *a comprehensive system that covers all aspects of life*. Al-Masry and all Muslims scholars are in agreement with Assader's contention and explain this by showing the characteristics of the Islamic economy (Al-Masry, 2005:25; Assader, 1982, 14):

4.4.1 Spirituality

Islamic economy derives its rules from Shari'ah; that is why it should be characterized with spirituality. As mentioned earlier, there is a connection between Islamic economy and spirituality where Islamic economy is aware of the fact that none will be free of needs and calamities, Allah said in Surah Counsel Verse 43: "And verily whose is patient and forgiveth...". Therefore, Muslims have to practice patience in the case of loosing what is theirs, whether it was borrowed from someone or it was their own properties, and forgive in case of other loosing what is theirs.

Muslims should practice dependency by making sincere effort, including through learning and working, and following the right reasons, to accept Allah's will and train the self to accept the consequences.

⁹ <http://www.fazlurrahmanansari.org/Articles/islamvsmarxism.html>

Workers require perfecting their work: “God loves that when any one of you does a job, he does it perfectly”. The Prophet (peace be upon him) said: “an employee who excels in his devotion to God and also renders to his master what is due to him of duty sincerely and obedience for him there is double reward” (Chapra, 1979:17).

4.4.2 Uniqueness and originality

Because Islamic economy is connected to a religion, it is characterized with uniqueness and originality, since Islamic economy is independent and free of imitation that does not extract its rules from Shari’ah, as Allah said in Surah ‘The Table’ Verse 104: “and when it is said unto them: come into that what Allah hath revealed and unto the messenger, they say: Enough for us is that wherein we found our fathers. What! Even though their fathers had no knowledge whatsoever, and no guidance?”

4.4.3 Permissibility

Islamic economy is also characterized by permissibility to ease the life of people: the Shari’ah’s norm regarding commercial transactions and contracts is that they are *permissible* unless there is a clear injunction to the contrary in the Qur’an, sunnah and scholars opinions. Allah says in Surah ‘Crouching’, verse 13: “and hath made of service unto you whatsoever is in the heavens and whatsoever is in the earth; it is all from Him...” (Kamali, 2006:66).

4.4.4 Flexibility and rationality

If Islamic economy is connected to a religion and that religion is a universal one, then it follows that this economy should be suitable to all, which means it should have a percentage of flexibility and rationality. It does not mean that since Islamic economy depends on divine revelation that it therefore lacks flexibility and rationality. The principle of *Ta’lil* or ‘rationalisation’ in commercial transactions illustrates this. The law of transactions (Mu’amalaat) is also ‘open to rational analysis enquiry and evaluation’. *Tabiun* (those who came after the Prophet’s companions), validated price control (*Tas’ir*) despite the fact that the messenger refused to authorise it. They did that by ‘paying attention to the effective cause and rationale behind the original rulings’ and now benefit (*Maslahah*) exists more than before (Kamali, 2006:78). Islam is rational both in principles and practices on realization of benefits; the Qur’an thus clearly encourages rationality. Allowing some customs (*Urf*) indicates the level of flexibility, and choosing the right Urf indicates the level of

rationality that Shari'ah has. The essence of all this is reflected in the saying of the renowned companion Abdu Allah Ben Mas'ud that 'what the Muslim deems to be good is good in the eyes of Allah'. Imam Shafi also changed some of his Fatawa when he moved to Egypt because of the morals and customs of Egyptian society (Kamali, 2006:81).

4.4.5 Simplicity

For a system to be flexible, rational and universal it should cater for all and that is achieved through the simplicity of that system. Islamic economy is characterized by simplicity, by which things are made easier for people; removing unnecessary hardship from them are among the ordinal objects (Maqased) of the Shari'ah and these principles tend in many ways to characterise Islam itself (Kamali, 2006:70). The term "Taysir and Raft Al-Haraj" (make ease and uplift hardship) is mentioned in Surah 'The Pilgrimage' Verse 78 "...and He hath not laid upon you in religion any hardship ...". The main reason for rules is to prevent hardship as Allah says in Surah 'The Cow' verse 286 "Allah tasketh not a soul beyond its scope..." and a judge has to choose the easiest solution (Kamali, 2006, 71). This kind of simplicity and flexibility is also illustrated by so-called *fiqh* rules, such as 'necessity makes the unlawful lawful', 'hardship attracts alleviation', and 'when rigidity sets in any matter, it should be opened up' (Kamali, 2006, 71). Those who issue legal rulings (Fatawa) on matters that concern an entire community (or the world), should follow a motto of flexibility and ease, not rigidity and structure; this would be beneficial to people and show Islam to be a practical proposition rather than a rigid system and a reason for fear (Kamali, 2006, 72). As Allah says in Surah 'Women' verse 28 "Allah would make the burden light for you, for man was created weak".

4.4.6 Clarity

The simplicity of a system requires of that system to be clear and free of complexity, in order to prevent economic mistakes and searching desperately for solutions; Islamic economy forced certain principles in doing business such as taking possession prior to selling; this practice is to prevent *gharar* or uncertainty over the seller's ability to deliver in the event of destruction or loss (Kamali, 2006, xvi). The only valid future sale is the *Salam* ("pay in advance and receive later"). (Kamali, 2006, xvii) Selling what you do not possess was invalidated to prevent conflict because the person who sells goods which are not in his possession risks the possibility of those goods not being available in the market and failure to make delivery (Kamali, 2006, 78).

Also the subject matter must be in existence at the time of contract except *Istisna* or *Salam* (Kamali, 2006, 99) because selling the fish in the sea or “the unseen” (*bay'al gha'ib*), since knowing essence, quantity and value is an essential requirement of a conventional contract in Islamic law; knowing through seeing it or *having a full description* (Kamali, 2006, 103). Maliki has validated bay'al gha'ib on the condition that the type and quality of the goods are described and clearly identified in a manner that eliminate uncertainty (*Gharar*) (Kamali, 2006, 104). If not, then a new contract will be arranged. Abu Hurayrah reported that the Prophet (peace be upon him) had said that the type of person like ‘the one who buys something he has not seen shall have the option of (cancellation) when he sees it’ (Kamali, 2006, 105).

For the deal to be lawful items should be delivered (*Maqdur At-Taslim*). This is the third compulsory condition of a legitimate contract, except in the ‘gift’ contract. Thus, an immediate transfer of ownership and delivery should take place, except in the case of the delayed sale, such as in the cases of *Salam* or *Istisna* (Kamali, 2006, 106).

Islam does not allow you to sell what is not with you; subject-matter must be not only in existence but must also be owned by the seller (Kamali, 2006, 110). This prohibition may have another possible meaning: not to sell what you do not own (Kamali, 2006, 112), applies only to the sale of specified and unique objects (*Alayin*), but not to fungible goods that are not present and cannot be delivered (Kamali, 2006, 113). A future sale cannot be concluded on the basis of a sale of one debt for another, “bay al kali bi l kali”; it includes gambling uncertainty and risk taking (*Gharar*) (Kamali, 2006, xiv).

Selling an item without indicating the price is seen by some scholars as an unlawful sale. The price should be determined exactly to preclude conflict. Assargasy said that the sale is invalidated if the price is unknown. Shafi, Maliki, Zahir and Kisa'ay said that it is not a condition to know the exact figure of the price. Hanbali said that if there is an idea about the price based on the similarity of the item being sold or the price can be determined by looking at the market value of the item or a similar item, then this sale is valid (Kamali, 2006: 95).

4.4.7 Justice

A system characterized by the above-mentioned checks and balances has no room for cheating and cannot be unjust, because where there is clarity there is transparency and that leads to justice, according to what Allah wants for His creation, as expressed in Surah ‘The Bee’, verse 90: “Lo!

Allah enjoined justice and kindness, and giving to kinsfolk...” This verse illustrates the life that Islam calls for, whether in the social, political or economic sphere. When it comes to labour and justice Islam encourages equality as Prophet (peace be upon him) said “an employee is entitled to at least moderately good food and clothing and to not being burdened with labour except what he/she can bear.” Imam Malik advises that Othman, the third caliph said: “do not overburden your unskilled female employee in her pursuit of a living because if you do, she may resort to immorality and do not overburden a male subordinate for if you do so, he may resort to stealing; be considerate with your employees and God will be considerate with you. It is incumbent upon you to provide them with good and lawful food.” (Chapra, 1979:15) The Prophet (peace be upon him) said ‘your employees are your brothers whom God had made your subordinates, so he who has his brother under him, let him feed with what he feeds himself and clothe him with what he clothes himself.’ (Chapra, 1979:16) The Islamic economic environment should be characterised by brotherhood, justice and supremacy of moral values (Chapra, 1979:17).

When it comes to equitable distribution of income and justice, Islam encourage fairness as Omar, the second caliph, explains redistributive justice by saying that everyone has an equal right in the wealth of the community, that no one, not even he himself enjoyed a greater right in it than any one else and that if he were to live longer he would see to it that even a shepherd on the mount in Sinai received his share from his wealth. Ali, the fourth caliph, said ‘God has made it obligatory on the rich to provide the poor with what is adequate for them. If the poor are hungry or naked or troubled it is because the rich have deprived them (of their right) and it will be proper for God to have the rich account for it and to punish them’ (Chapra, 1979:18). Chapra claims that if *halaal* and *haram* principles are obeyed; the norm of justice to employees and consumers is applied; provisions for redistribution of income and wealth are implemented; and the Islamic law of inheritance is enforced, then there cannot be any gross inequalities of income and wealth in Muslim society (Chapra, 1979:20).

4.4.8 Freedom

When the above mentioned principles are implemented and their goals achieved, the issue of freedom will not be a problem. Islam in general, and in its economic system specifically, differs substantially from what other religions and economic systems grant their followers.

The Islamic view of freedom is that the freedom of each person ends where the freedom of others start. The freedom of contract (*Hurriyyat At Ta'agud*) in Shari'ah, for instance, entitles the

contracting parties to stipulate the terms of their agreement and insert conditions in contracts in order to fulfil their legitimate needs, but even so stipulations of this kind are valid in so far as they do not violate the essence and lawful purpose of the contract in question. The four main schools of thought (*Madhahib*) have differences regarding such stipulations (Kamali, 2006:74). Hanbalis see it as negotiable (“middle scope”), as long as no *Haraam* (prohibition) is in it (Kamali, 2006:76). The Hanafi and Shafi schools of thought have taken an intermediate position when they departed from some of the rigidities of other views by recourse to analogical reasoning and the consideration of public interest and custom; they thus validate certain types of stipulations and additions to nominate contracts. The Malik school of thought was close to the Hanbali position (Kamali, 2006:76).

Islamic freedom encourages the participation of all, Allah said in Surah ‘Counsel’ Verse 38: “... and whose affairs are a matter of counsel...”: no one has the right to make a decision without consulting others, if that decision will affect others.

4.4.9 Solidarity

Combining all the above-mentioned considerations eventually will lead to the final goal or end which Islam calls for: to strengthen the connection between individual and society. Islam organises the responsibility of individual within his society, as Allah said in Surah ‘Al-Hijr’ Verse 92-93: “them, by thy Lord, We shall question, every one, of what they used to do”

Fazlur-Rahm Ansari, in his discussion of Marxism, argues that as regards the relations of the individual and society, Islam gives to the individual what belongs to the individual and to the society what belongs to society. The individual and the society have been conceived in Muslim thinking not as antithetic but as complementary; the former realizing himself through the latter and the latter through the former. Indeed, in its unique system, Islam has steered clear of the shortcomings of both, cruel Individualism and brutal Collectivism, giving us a synthesis which is natural and rational.

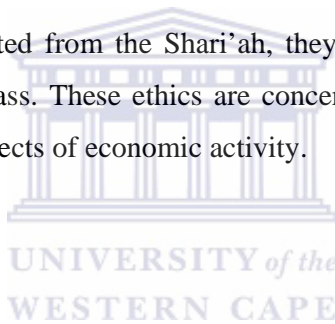
The individual is the spiritual unit of the society, while the family forms the social unit. Thus the individual has been regarded as basically a free being with a permanent identity and his moral struggle has been conceived as directed to the enrichment of his own personality as well as that of other individuals, contributing, in the final analysis, to the enrichment of the human society as a whole. As regards the family, it occupies, in the elaborate code of Islamic ethics, a privileged

position above all other challenges, and marriage, which forms the corner-stone in the superstructure of family life, has been declared to be a vital means, not only as regards the individual's social self-realization but also in connection with his spiritual perfection. Thus, for instance, the Holy Prophet (peace be upon him) Muhammad (Allah blesses him!) says: "Marriage is half the Faith."

The teachings of Islam concerning the individual and the family are directly and logically related to the principles stated in connection with spiritual assets. Islam stresses the principle of *co-operation* in contrast to the Marxist philosophy of *conflict*, and genuine cooperation cannot be possible except between free beings. Again, there can be no better training ground and no better nucleus for co-operation than the family. Hence the assurance of the basic freedom of the individual and the sanctity of the institution of the family is clearly stressed in Islam¹⁰.

4.5 Islamic Ethics and economic practice

Islamic economy ethics are extracted from the Shari'ah, they are not made by mankind to benefit certain circumstances or certain class. These ethics are concerning traders, stocks, trading, debts, poor, banking – all the practical aspects of economic activity.



4.5.1 Traders

The *traders* should be characterised by truthfulness and trustworthiness, as the Prophet (peace be upon him) said: "A truthful and trustworthy trader will rise up with the Prophets (peace be upon them), the righteous and the martyrs" Al-Tirmidhi (Doi, 1984:350,375).

Traders should have a certain level of sanity to be allowed to indulge in business, in other words he should be Mumayyiz (a person who can distinguish between right and wrongs), capable of disposing of his property, free and not by force; no minor, slave, person of unsound mind, or an intoxicated person is allowed to indulge in transactions (Doi, 1984:357-8). At the same time, men *and women* are allowed to indulge in lawful trade (Doi, 1984:353). In addition, Islam demands of Muslims to establish the trust, as Allah says in Surah 58 verse 4 "Allah does command you to render back the trust of the people" (Doi, 1984:382).

¹⁰ : <http://www.fazlurrahmanansari.org/Articles/Islamvsmarxism.html>

The ideology of Islamic economy should not encourage traders to abuse it; that is why Islam has a different view of freedom, not limited or unlimited, as Omar declared “since when have you enslaved people although their mothers had borne them free”. Shafi said “God has created you free and therefore be nothing but free”; Hanafi said; “no restriction may be imposed on a free, mature and sane person even if he spends his wealth aimlessly because he argues, in preventing, you are depriving him of the freedom of choice, which is like degrading his humanity and treating him like an animal”. Comparing both damages, spending is less harmful. This difference of opinion, however, exists only if an individual hurts his own interest without, of course, over-stepping the moral bounds of Islam (Chapra, 1979:20). Chapra argues that when the interest of an individual clashes with the interest of another individual and society, then the larger interest of society takes precedence over the interest of the individual; relieving hardship takes precedence over the promotion of benefits, and a bigger loss cannot be inflicted to relieve a smaller loss, or bigger benefits cannot be sacrificed for a smaller one (Chapra, 1979:21).

These are some of the rules for traders. On the other side, the trade and business should be carried out according to certain values, as Allah says in Chapter 4:29: “O you who believe, eat not each other’s property by wrong means, but let there be amongst you trade and business through mutual good-will” and Prophet (peace be upon him) said: “whosoever gathered unlawful riches and then gave out in charity, he will have no reward; on the contrary he will have to bear the burden of his evil deed” Ibn Habban (Doi, 1984:350-353).

4.5.2 Contracts

There are various *ethical guidelines regarding contracts*. A contract between traders should be honoured, but (and this represents the flexibility of Islamic economy) it allows the withdrawal of an offer before it is accepted (Doi, 1984:357) After accepting the offer, a contract can be terminated either by the mutual consent or on the basis of the nature of the contract; if a party is forced to accept in any manner then it is up to him to get out of the deal (Doi, 1984:358) So the people who are indulging in business should fulfil their obligation towards others and according to the deal that they instructed, whether it was verbally, in writing, through a message, signs and conduct (Doi, 1984:355-6), as Allah said 5:1: “O you who believe, fulfil all obligations.”, Bribery is one of the prohibited actions in Islam, where Prophet (peace be upon him) said “Allah has cursed one giving a bribe and one receiving a bribe as the go-between.” Unless it is to secure his right and avoid the harm, gifts can be a form of bribery (Doi, 1984:395-6).

4.5.3 Interest

Any business that includes *interest* is prohibited; interest in Islam is completely forbidden and out of discussion. The history of usury and examples shows the failure of such transactions (Doi, 1984:378-9), where it creates laziness among rich people, keeping the wealth in certain hands, abuses of poor, and destroying solidarity and mercy between people.

Thomas Erskine in 1809 A.D. said: “The crime of usury before the Reformation (i.e. the 6th century) consisted in the taking of any interest for the use of money and now in taking a higher rate of interest than is authorised by law”. Muslims believe they were the first to lay down the true foundation of proper trade and even banking in modern civilization. The word ‘cheque’ is originally an Arabic term “Sakk:Sukuk” Sir Hamilton Gibb also remarks that “Within the Western World, Islam still remains the balance between the exaggerated opposites” (Doi, 1984:398-405).

Why did Islam allow machines and tools to be rented out but not the money? According to the Al-Masry, when the machine is rented out, it belongs to the lender and he carries the risk, the debtor consumes its usability slowly (depending on the age of the product), for which he pays, but when the money is given to someone, he is the owner and carrying the risk without consuming it, because the same amount comes back, so the debtor guarantees the money, therefore, he should take the profit of what he guarantees, and not guarantees and pays profit (interest) at the same time. However, Islam sees that partnership gives that fair profit and benefiting for both parties (Al-Masry, 2005:213).

4.5.4 Transactions

Transactions can take different forms; some are allowed while others are not, for example, Islam does not allow two transactions in one sale. Extra conditions apply to different sales: of what one does not own; what one has not seen clearly; including bad behaviour in transaction; or instances such as meeting the caravan and trading with them through tricking the people of town, or the city dweller fraudulently acting as a self-imposed agent for sale and purchase of the simple villages (Doi, 1984:363-4).

There are many forbidden sales transactions in the Islamic economy according to shari'ah¹¹ such as what one has not received, meat for exchange of living animals, one debt for another debt, such as, for instance to sell "Zayd's" debt to "Omar" for a price to be paid after a month; other forbidden transactions are for instance what one does not owe or is not authorized to sell, what one did not see. According to a saying of Ash-Shafi'iyy, if the merchandise was described, then this selling would be allowed, but disallowed are goods that cannot be delivered, what has no benefit like burned bread, what is not be owned by one, such as the free person and un-owned land, the unknown, like saying to someone, I sell you one of my two cars, the *najas* - filthy materials, such as blood, every intoxicant, unlawful articles, such as the tambour (a musical instrument which resembles the lute), the lawful and pure article of which one knows that one will disobey Allah with it, like selling grapes to the one who will make alcohol out of them and a weapon to the one who will assault people with it. Also disallowed are intoxication substances, the defective article without showing its defects, selling by and to the non-accountable is invalid; selling without the exchange of an appropriate verbal statement from both parties according to some scholars. After establishing the price, it is unlawful for one to weaken the desire of the buyer or the seller with the purpose of selling to the buyer or buying from the seller; it is more sinful if this act is done after the contract has been conducted and during the period of choice of cancelling the sale; it is unlawful to buy food when it is expensive and needed in order to hoard it and sell it later for a higher price; it is unlawful to bid a higher price for an article in order to deceive another person; it is unlawful to separate the female slave from her child before the child is at the age of mental discrimination (Mumayyiz); it is unlawful to lie, cheat, or betray in measuring articles by volume weight, arm, length, or count, it is unlawful to lend money to the buyer with the condition to sell ones cotton, for example, at a higher price for the sake of the loan. It is unlawful to lend money to the tailor or any other hired person with the condition to hire that person for less than the going rate for the sake of that loan, or consume the money of taxes on trade.

One of today's common transactions is the Future Trade (Contract) which is buying an item and to deliver it after a certain period of time: you pay a deposit for it and before receiving the goods you sell it with profit so you sold what you do not have, and you have not received yet and you enter in a transaction hoping for (gambling on) success (Kamali, 2006:xiv). These kind of sales are not permissible according to many, for *inter alia* the following reasons (Kamali, 2006:xii): Firstly, the counter values do not exist at the time of contract; when no goods are delivered and no price is paid; it means no genuine sale took place, and it consists merely of an exchange of promises made for the sole purpose of speculative profit-making, so in terms of Islamic law, one of these, if not both, must

¹¹ : <http://www.aicp.org/islamic-information-mainmenu-42/english-mainmenu-44/the-summary/510-summary-part-6>

exist at the time of the contract (Kamali, 2006:xiii). Secondly, because the seller is not in possession or owns the commodity at the time of contract, he cannot transfer the ownership of what he did not own (Kamali, 2006:xiii). Finally, no receiving will take place since you have to possess before you can sell (Kamali, 2006:xiv).

In order to do legal business *the stock or the services must be available*, so when Islam speaks about stocks that are put for sale, it should be owned by the seller or his agent, in a position to be delivered (Gharar sale: fish in water is void) and should be lawful (Doi, 1984:358-9).

In order to avoid problems in any transaction the Shari'ah was very clear regarding *writing the deals down, especially the debts*, Allah says in surah 2 verse 282 "O you who believe! When you deal with one another, in lending for a term named, write it down...." (Doi, 1984:383) Some transactions do not have the consensus of scholars whether it is lawful or unlawful. This is partly due to the flexibility of Islamic economy that these transactions can be done in more than one way, for example, assigning debts (Hawalah) is one of the transactions that scholars differ about, e.g. how to handle it when A lends money to B, and A assigns the claim to C. This is accepted by Maliki, and opposed to by Shafi' and Hanbali, but Hanafi allowed it in certain cases. The general rules however are: debt must be lawful, all parties have mutual agreement about the assigning, debt must have fallen due, both debts must be the same, and no existence of foodstuffs in both debts. (Doi, 1984:359)

4.5.5 Partnerships

Business can be confronted in *single or partnership form*; the partnership in Islam signifies the conjunction of two or more persons to carry on a business to share the profits by joint investment. For example, "Shirkah al-Inan": *limited partnership*; where one partner is not allowed to do anything without his co-partner; "Qirad": *dormant partnership*; where a person entrusts funds to a trader (amil) in order that he shall trade with it, subject to the lender having a share in the profit; "Daman": *guarantee*; where the third person constitutes himself liable for the debt of another; "Ijarah": *hire*; where one party sells to the other the temporary enjoyment of moveable property other than ships and animals in return for a price (Doi, 1984:364-9).

4.5.6 Treasury House

Islamic economy has detailed regulations at the personal level, but also at government level. At *the government level*, Islam has its own Treasury House (Bayt al-Mal, The Centre of the Financial Organization of the Nation) what is now called the central bank. The sources from which funds are collected in the Bayt al-Mal are: Zakah, Sadaqah (voluntary charity), Jizyah (an annual tax levied on non-Muslim citizens living in the Islamic state, Muslims pay Zakah), Kharaj (a tax levied on the producer of the property owned by the non-Muslims in the Islamic state, Muslim pay the Ushr), Ushr (the taxation on the produce from the property of the Muslim), Khums (a certain percentage of whatever a Muslim army gets as a booty), Fay (the property captured from the enemy forces without fighting any battles with them), Dara'ib (general taxes which the Islamic state deems fit to impose on its citizens to carry out some public welfare works or when the state needs funds in the event of any emergency), Waqf (the religious trust, the proceeds of which go to the Bayt Al-Mal. Ushur (which constitutes the revenue collected from the proceeds out of the trade and business carried out by all the citizens of the Islamic state irrespective of their religious beliefs), Kira Al-Ard (the income generated from the government), Amwal al-Fadilah (any income from the government owned natural resources), and the estate left behind by one who has no heirs (Doi, 1984:387-91).

Treasury house has many responsibilities towards the people, such as the poor people; in Islam they are looked after from personal and government level. Islam prohibits miserliness, begging, difference between Muslim and non-Muslims in need, wasting of money by rich; in fact, it is the duty of the rich to help poor (Doi, 1984:391-3).

4.5.7 Wealth

Whether it was through single or partnership form, acquiring wealth in Islam is allowed; it is allowed for a person to have more than others as long as the wealth is acquired in a lawful way and he fulfils his financial Islamic obligations (Chapra, 1979:19). Any wealth that is acquired through unfair means, is positively unclean and unlawful, and anyone making use of it will be, according to the saying of the Prophet (peace be upon him): 'his prayers will not find acceptance with Allah, his supplications will not be answered, his petitions will not be granted, and in case he does good deeds they will avail him nothing' (Doi, 1984:373). The wealth, acquired in a proper way, should follow certain policies concerning distributing of wealth, which help in discouraging accumulations and concentration in a few hands (Doi, 1984:381).

Islam has its unique view when it comes to wealth, business and worldly substances, and that makes Islam different from Capitalism, because if we attempt to build our societies on economic

foundations alone, it would really mean that a man's position is being reduced to that of grazing animals. In a purely materialistic society, as we can see in the western world of today, where the spiritual and moral values of life are lost sight of, only the selfish thrive. In a world where only business motives and commercial ideas are applied in social conduct, humanity's rules are easily reduced to that of an economic animal. As a result, people forget that they were merely custodians over their property and not the real masters thereof and that the wealth was to be acquired by lawful means and not through dishonesty and treachery.

It is easy for wealthy people, forgetting their duty of vice-regents of Allah on earth, to describe their motto in life as "money, more money and yet more money". Doi gives a graphic depiction of the earthly logic of wealth. They have multiplied their necessities of life over and above their real need. This has created artificial requirements of self-indulgence and they struggle hard all their lives for their fulfilment. Their necessities have grown so much that they have devised evil methods of increasing their wealth through hoarding, giving less (in weight) and supplying inferior commodities, cut-throat competition and usury, selling human blood, pornography, cinema halls, prostitution market, high way robbery. They have drowned themselves in intoxication and self-forgetfulness and thus have created an artificial necessity for a large number of men to prepare liquor and hard drugs. Because of their ill-gotten wealth, adultery has been made a necessity for which an army of prostitutes and dishonourable agents have been recruited. While music has become an urgent need for which an army of musicians, dancing girls, drum-beaters and manufactures of such instrument have to be patronised. This, in turn has required an army of actors, and actresses, showgirls and tight dress-designers to stitch tight jeans, mini-dresses and unisex dresses. In order to satisfy their artificially created needs, they have needed more wealth which in turn has bred professional criminals and their active agents. It is in order to satisfy their lust that all illegal and dishonest ways of earning have been legalised by them and everything has been named a "business" (Doi, 1984:397-8).

4.5.8 Human input

Another issue that adds perfection to Islamic economy, and its framework, is that of allowing human inputs, to allow flexibility in its rules, because if everything was revealed then it will be hard and lack flexibility. Islam does not deprive humans from their own input. When it comes to lawful and unlawful matters are very clear in Islam, besides things which are in-between that are left for qualified scholars to decide under which category they should be listed (Doi, 1984:407).

A system with such framework, values, and principles should not be limited to certain group; on the contrary, it is there to be international and universal. That is why we find the term Al-Siyar (international law) in Islam, where Islam as a universal religion has established a globalized system with rules and laws to govern the relationship between countries (Doi, 1984:421).

4.6 Islamic distribution system

4.6.1 Islam and other distribution systems

Assader argues that the economic activities, whether it was extracting the raw materials, manufacturing them or distributing the outcomes, are according to individual (capitalist) or societal (socialism) standards. The distributing of both systems have caused through human history huge oppression and disastrous consequences on humanity (Assader, 1982:344). The Islamic distribution system claims to have a different approach to the issue of distribution, which is based on two pillars, namely work and need.

Each individual works in society, his basic needs should be covered, whether he produces a lot or little, because society is a huge body and each individual is only one piece of that body and he/she get melted in that society, therefore, each one should be given according to his effort and need. Like the engine, all parts need oil, regardless of their roles in that engine. Capitalism holds the view that any object is valuable because of the need for that object; even if that object is immoral and no need for it, e.g. fashions, gambling, prostitutions, movies and music.

Islam, on one hand, does not accept communism's view that the individual is a hidden part within the society, and has no value or feelings. On the other hand, Islam does not agree with the marxist view that work is the only thing that gives an object its value and work qualified an individual for a portion of the produced object. Work in Islam is one of the reasons why a person should possess and own an object; naturally; any person loves to possess his work and the fruit thereof. But work alone is not a sufficient factor to possess the produced objects; there are different factors involved in any job such as effort, time, tiredness, and capital.

In summary, communism claims that work is the reason behind the ownership of society and not an individual. Marxism sees that work is what gives an object its value; therefore, workers are the owner of their work Capitalism sees that the need for the object is what gives value to the object. Islam holds the view that work is one of the reasons behind the ownership. At the same time Islam

does not agree that work is the one that grants value for that object, e.g. a diamond is valuable by itself and not the work spent in extracting it only gave that value (Assader, 1982:345-356).

When it comes to the need, Islam grants the worker the value of his work even if its value is more than his needs, at the same time Islam guarantees the worker to have more than the value of his work, if the value cannot cover his needs. In the latter instance, the worker would not receive as much as in the former instance (Assader, 1982:345-356).

Islam differs from socialism and capitalism when it comes to the third kind of society mentioned above, where Islam considers those people to be part of the society and it is obligatory upon government and people who qualify to pay Zakah to help them. Socialism and capitalism consider these people as a burden and consider helping them a favour (Assader, 1982:345-356).

Because of need and work, societies are divided into three categories: Societies that have the physical and mental abilities; these societies are the *working societies*. Societies that can work, but cannot cover their needs; these are the *working and need societies*. Societies that can't work for valid reasons; these are the *need societies*.

Whatever the category is, the distribution system according to (Al-Masry, 2005:161) is divided into: distributing according to ability and qualification, distributing of income between the means of production, and re-distributing according to need, relationship or reconciliation of certain people.

In dealing with ways of distribution, Assader was more specific in talking about distribution. He distinguishes between the distribution before and after production. In his view, before production includes raw material and the manufacturing of the raw material (Assader, 1982:433). Chapra argues that the Islamic program for redistribution consists of three criteria; get job for people and pay them justly as we discussed earlier, Zakah and divisions of the estate of a deceased person (Chapra, 1979:19).

Generally speaking, Islamic distribution is divided into: Distribution before production and distribution after production.

4.6.2 Distribution before production

Distribution before production refers firstly to the distribution of the land. Al-Masry contends that land is divided into seven kinds (Al-Masry, 2005:165-166): If the land belongs to people who become Muslims then it is theirs; if the land belongs to people who enter into peace agreements with Muslims, then the land ownership is according to the agreement; if the land was left by the owners, then it belongs to the public or can be divided by the ruler; the land that is naturally abundant like forests and pastures belong to the public; the dead land that is revived is owned by whoever re-animates it (Al-Masry, 2005:174); this ownership according to Assader is not a permanent one, he is the owner as long as he is using the land. Its ownership reverts to the government the moment he leaves it without care (Assader, 1982:461).

The land that is taken by force (war), will be divided among the public or it will be left for the rulers to choose between dividing it or leaving it for public use; the dead land that is granted to people, either by way of ownership or renting is allowed, because this form of feudalism will lead to the flourishing of once dead lands and increase the income for the government. But this type of feudalism is different from that of the Middle Ages, where good lands were given to leaders and masters to guarantee their loyalty to the king (Al-Masry, 2005:176 and Assader, 1982:508), under the granting of land we can include the granting of mineral rights, if these minerals need work to be extracted. This type of granting of rights is temporary.

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Assader however divides the land in Islam into *four types* (Assader, 1982:441-474); lands acquired through war will be for the public if it was an inanimate land, otherwise it will be part of the government lands; lands acquired through Islamic missionaries belong to its inhabitant, but the dead land or green land belongs to the government; in the case of lands where Muslims have peace agreement with their inhabitants, the agreement conditions are followed, and the land that is possessed peacefully belongs to the public.

Second is the *distribution of the booty*. Movable property is distributed into five portions of twenty percent each, four of them (eighty percent) go to the fighters; the rest goes to treasury for general welfare. For immovable property, there are different opinions such as distributing it among fighters or leaving it for public use (Al-Masry, 2005:167).

Thirdly, the *distribution of the water*, the water is divided into three kinds according to the Al-Masry (Al-Masry, 2005:169): water belongs to a person who spends money and effort to collect or dig for it; water existing naturally belongs to the owner of the land, but if there is more than his need then it is for the public; and water of sea, oceans, valley, rivers and lakes, belongs to the

public. Assader sees that water is divided into two parts (Assader, 1982:519): naturally available and not available naturally, which needs some work to become available for use. Both writers have divided the water differently, but both agreed about the distribution of it.

Fourthly, the *distribution of the minerals*. Minerals are divided into three kinds according to the Al-Masry (Al-Masry, 2005, 168-169): if it is in private land, then it is either for the owner or public, if it is in the treasury land, then it belongs to the treasury, if it is in a public land, then it belongs to the public. Assader classifies minerals into two parts (Assader, 1982:494-501): visible or ready, but needing an effort to extract it, like oil, gold, and diamonds (this kind belongs to the public), and invisible or not ready, needing an effort to be used (in this case the one who works to make it available has the right to take his needs first, and then others can benefit).

Fifthly, the *distribution of the pasture land*: this depends on whether it is part of the public land; whether it belongs to the treasury and for the animals of treasury and for the poor if they have a little cattle; or whether it belongs to a private owner (when he plants its grass, then it is his, but if the grass grew naturally, then it is either his or for the public use).

Sixthly, the *distribution of the fire*. If we refer to the light of the fire, then it belongs to everyone, if we refer to the fire itself, then we look if the wood that was used is from the public, then he cannot stop people from taking from it and benefitting from the heat, but if the wood was private, then it is his but he cannot prevent the public from benefiting of the heat.

Finally, the *distribution of the other resources*, here we refer to fishing, hunting, the wood of the forest, the sea pearls: all of these belong to the public. When it comes to the distribution of the *international water*, this water belongs to all, and whoever has the ability to extract its wealth, he must share with the rest of the people, because it is a public resource and does not belong to any specific country (Al-Masry, 2005:49).

4.6.3 Distribution after production

a) After talking about the distribution before production let us now turn to the distribution after production, where the *means of production* and its revenue according to (Al-Masry, 2005:181 and Assader, 1982:581) are: firstly, *land* where its benefit comes through its revenue. The revenue of any land does not come from work that land does; therefore, its revenue comes through leasing it or crop sharing, although scholars differ in this regard. Some goes with what the Prophet (peace be

upon him) said: “whoever has land, he should plant it or grant it to his brother to benefit from it” and also: “to grant your brother the benefit of using unused land of yours is better than taking something in return”. Other scholars see no harm in leasing and crop sharing your land. (Al-Masry, 2005:188; Assader, 1982:600) Leasing the gardens and lands has rules, where it is not allowed to lease the trees, because the fruits are not for rent but for sale. Also you are not allowed to sell the fruits before appearing or before getting ripe and ready (Al-Masry, 2005:190).

b) Secondly, *work*, where its benefit comes through wages. It is a kind of return given to the workers for certain kind of work agreed upon between both parties; the worker and the owner. The worker is obliged to finish the work according to the agreement (Al-Masry, 2005:194; Assader, 1982:615). But there are rules regarding the agreement. The deal should be clear, the wages clear even if it was little, the worker should be paid on time, work should be lawful and manageable, and the worker should have the qualification for doing it and he should be the best among those who came forward to do the job, and wages can be in advance or delayed (Al-Masry, 2005:195).

Al-Masry disagrees with Assader regarding the using of workers who has capital to extract raw material, because this is the way capitalists work (Al-Masry, 2005:196). Al-Masry calls for more research regarding wages, since there is not much written about it and calls for justice in doing it; wages should be fair and not just enough. He distinguishes between any work and the government’s work, like judges, soldiers, rulers, and teachers. Reference is made to what ‘Aai’ shah, the Prophet’s wife said when her father, Abu Baker, became the ruler: he was reported as saying that people knew that he had the ability to look after his family, that is why he will take wages from treasury for his work of looking after the Muslim affairs; his wages was enough to cover his food, drink, clothes, house, Umrah and Hajj (two rituals performed in the pilgrimage to Mecca) (Al-Masry, 2005:202).

c) Thirdly, *capital*, where its benefit is profit. This applies whether it was lawful (accepted in Islam), or unlawful (if the capital was borrowed from finance institution on the base of interest). Capital is two kinds: Assets and Cash. The revenue of the assets is generated through renting these tools to a business for an amount of money, while the revenue of the cash can be generated through investing this money in a business or lending it and expect payment for the use of money, the first one is acceptable, while the second one is completely prohibited and called Riba (*interest or usury*).

d) *Interest* or usury (Riba) in Islam is one of the great sins and the Holy Qur’an contains many verses to discourage people from indulging in such transactions. In the chapter ‘The Cow’ verse 275-278 Allah says: “Those who swallow usury cannot rise up save as he ariseth whom the devil

hath prostrated by (his) touch. That is because they say: Trade is just like usury; whereas Allah permitteth trading and forbiddeth usury. He unto whom an admonition from his Lord cometh, and (he) refraineth (in obedience thereto), he shall keep (the profit of) that which is past, and his affair (henceforth) is with Allah. As for him who returneth (to usury) - such are, rightful owners of the Fire. They will abide therein. Allah hath blighted usury and made almsgiving fruitful. Allah loveth not the impious and guilty. Lo! those who believe and do good works and establish worship and pay the poor-due, their reward is with their Lord and there shall no fear come upon them neither shall they grieve. O ye who believe! Observe your duty to Allah, and give up what remaineth (due to you) from usury, if ye are (in truth) believers. And if ye do not, then be warned of war (against you) from Allah and His messenger. And if ye repent, then ye have your principal (without interest). Wrong not, and ye shall not be wronged.” (Pickthall, 2005:49).

It is unlawful to do, consume, take, write down, or be a witness to usurious gain. The Prophet (peace be upon him) said: “Every money-lending contract that generates (by its term) a benefit (for the lender only or him and the borrower) is a case of *riba*”. *Riba* comprises: selling gold for silver, silver for gold, gold for gold, or silver for silver, whether coined or not, made into jewellery, the ore itself, or otherwise with the condition of postponing the payment; selling the aforementioned items with the buyer or seller leaving one another before exchanging the payments; selling gold for gold or silver with silver with inequality in weight; in the case of selling foods for other foods, it is not lawful to sell one type of food for another, such as wheat for barley, except with two conditions: the buyer and seller must not postpone the payment and must not leave one another before exchanging payments. In the case of similar types of food, such as wheat for wheat, one must fulfil the aforementioned two conditions along equality in measurement. Hence it is not lawful to sell barley for barley if there is inequality in volume, or the condition of postponing the payment is included, or the buyer and seller leave one another before exchanging payment (AICP, 2004:20), The Prophet (peace be upon him) said: “Selling gold for gold, silver for silver, wheat for wheat, barley for barley, salt for salt, and dates for dates, is a case of *riba*, unless equal quantities of the same kind are exchanged and mutual delivery of the goods in the same session is made. However, if the exchanged types are different, then sell the way you want, along with delivering the goods in the same session.” (AICP, 2004:21). Someone might ask; what about *exchanging money*? It is lawful if the exchange takes place immediately without postponing it (Al-Masry, 2005:208).

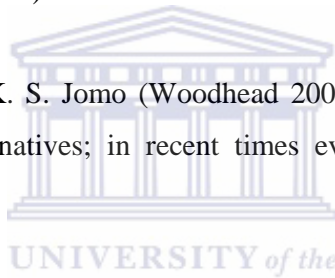
e) And finally, it must be acknowledged that *management* is also a factor in distribution after production: management helps produce what can be called profits.

4.7 Islamic Banking

Islamic banking or banks are different from other capitalist banks, where it does not perform any transactions that contradict Islamic Shari'ah, e.g. *riba*, unknown sale, etc. According to Gottlieb the first Islamic bank was Dubai Islamic bank in 1975, and according to 2003 records there are 100 Islamic banks around the globe (Gottlieb, 2003:293).

There is an acceptance of Islamic banking ideology, especially in the field of investing in short term commodity (future) trades. There is about \$50 billion (according to 2006 records) invested in short term commodities in Arab countries, but most of Islamic transactions are still done in a western bank, like Citybank (Kamali, 2006:xxi).

Internationally, and according to K. S. Jomo (Woodhead 2000, 178) there is growing interest in Islam and Islamic economic alternatives; in recent times even the IMF has endorsed Islamic banking principles in mid 1980s.



R. S. Gottlieb argues that the principles and advantages of Islamic banking compared with the capitalist banks (Gottlieb, 2003:292-293) are: while both are providers of finance and men of capital share risk, Islamic banks only invest in permissible practice and products, and apply flexibility in case of problems.

If we want to discuss the history and background of Islamic Bank we notice that¹² during the Islamic Golden Age, early forms of proto-capitalism and free markets were present in the Caliphate, where an early market economy and an early form of mercantilism were developed between the 8th-12th centuries, which some refer to as “Islamic capitalism”. A vigorous monetary economy was created on the basis of the expanding levels of circulation of a stable high-value currency (the dinar) and the integration of monetary areas that were previously independent.

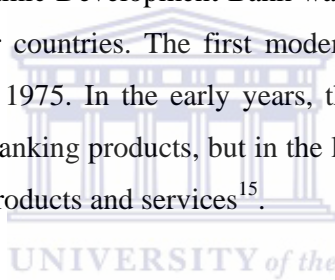
A number of innovative concepts and techniques were introduced in early Islamic banking, including bills of exchange, the first forms of partnership (*mufawada*) such as limited partnerships (*mudaraba*), and the earliest forms of capital (*al-mal*), capital accumulation (*nama al-mal*),

¹² http://en.wikipedia.org/wiki/Islamic_banking

cheques, promissory notes, trusts (see *Waqf*), startup companies, transactional accounts, loaning, ledgers and assignments. Organizational enterprises similar to corporations' independent from the state also existed in the medieval Islamic world, while the agency institution was also introduced during that time. Many of these early capitalist concepts were adopted and further advanced in medieval Europe from the 13th century onwards¹³.

The first modern experiment with Islamic banking was undertaken in Egypt under cover without projecting an Islamic image - for fear of being seen as a manifestation of Islamic fundamentalism that was anathema to the political regime. The pioneering effort, led by Ahmad Elnaggar, took the form of a savings bank based on profit-sharing in the Egyptian town of Mit Ghamr in 1963. This experiment lasted until 1967, by which time there were nine such banks in the country¹⁴.

In 1972, the Mit Ghamr Savings project became part of Nasr Social Bank which, till date, is still in business in Egypt. In 1975, the Islamic Development Bank was set-up with the mission to provide funding to projects in the member countries. The first modern commercial Islamic bank, Dubai Islamic Bank, opened its doors in 1975. In the early years, the products offered were basic and strongly founded on conventional banking products, but in the last few years the industry is starting to see strong development in new products and services¹⁵.



Islamic Banking is growing at a rate of 10-15% per year and with signs of consistent future growth. Islamic banks have more than 300 institutions spread over 51 countries, including the United States through companies such as the Michigan-based University Bank, as well as an additional 250 mutual funds that comply with Islamic principles. It is estimated that over US\$822 billion worldwide Shari'ah-compliant assets are managed according to *The Economist*. This represents approximately 0.5% of total world estimated assets as of 2005¹⁶.

The World Islamic Banking Conference, held annually in Bahrain since 1994, is internationally recognized as the largest and most significant gathering of Islamic banking and finance leaders in the world¹⁷.

¹³ http://en.wikipedia.org/wiki/Islamic_banking

¹⁴ http://en.wikipedia.org/wiki/Islamic_banking

¹⁵ http://en.wikipedia.org/wiki/Islamic_banking

¹⁶ http://en.wikipedia.org/wiki/Islamic_banking

¹⁷ http://en.wikipedia.org/wiki/Islamic_banking

The Islamic banking system still rising in its influence; nationally and internationally. In June 2005 Dow Jones Indexes, New York, and RHB Securities, Kuala Lumpur, teamed up to launch a new “Islamic Malaysia Index” - a collection of 45 stocks representing Malaysian companies that comply with a variety of Shari’ah-based criteria. Three variables (the total debt of an indexed company, its total cash plus interest-bearing securities and its accounts receivables) must each be less than 33% of the trailing 12-month average capitalization, for example¹⁸.

Today there are many financial institutions, even in the Western world, offering financial services and products in accordance with the rules of the Islamic finance. For example, legal changes introduced by Chancellor Gordon Brown in 2003, have enabled British banks and building societies to offer so-called Muslim mortgages for house purchase. In 2004 the UK's first stand alone Shari’ah compliant bank was launched, the Islamic Bank of Britain. Several banks offer products and services to its UK customers that utilise the Islamic financial principles; such as Mudaraba, Murabaha, Musharaka, and Qard, etc¹⁹.

The Islamic finance sector was worth between 300 and 500 billion dollars as of September 2006, compared with 200 billion dollars in 2004. The number of Islamic retail banks and investment funds number in their hundreds and many Western financial institutions offer products that comply with Shari’ah law, including Citigroup, Deutsche Bank, HSBC, Lloyds TSB and UBS. In 2008, at least \$500 billion in assets around the world were managed in accordance with Shari’ah, or Islamic law, and the sector was growing at more than 10% per year. Islamic finance seeks to promote social justice by banning exploitative practices. In reality, this boils down to a set of prohibitions--on paying interest, on gambling with derivatives and options, and on investing in firms that make pornography or sells pork²⁰.

With the recent ability to patent new methods of doing business in the United States, a small number of patent applications have been filed on methods for providing Shari’ah compliant financial services. These pending patent applications include: US patent US20030233324A1 Declining balance co-ownership financing arrangement. This discloses an allegedly Shari’ah compliant financing arrangement for home purchases and refinances that does not involve the payment of interest and WO patent WO06068837A2 Controlling a Computer System Enabling

¹⁸ http://en.wikipedia.org/wiki/Islamic_banking

¹⁹ http://en.wikipedia.org/wiki/Islamic_banking

²⁰ http://en.wikipedia.org/wiki/Islamic_banking

Shari'ah -Compliant Financing. This discloses an improved computer system for carrying out Shari'ah compliant financial transactions²¹.

Today, even the religions, such as Christianity, represented by the Vatican has put forward the idea that “the principles of Islamic finance may represent a possible cure for ailing markets.”²²

*Islamic Banking Principles*²³

When we speak about the principles of Islamic bank we notice that Islamic banking has the same purpose as conventional banking except that it operates in accordance with the rules of Shari'ah h, known as *Fiqh al-Muamalat* (Islamic rules on transactions). The basic principle of Islamic banking is the sharing of profit and loss and the prohibition of *riba* (usury). Common terms used in Islamic banking include profit sharing (*Mudharabah*), safekeeping (*Wadiah*), joint venture (*Musharakah*), cost plus (*Murabahah*), and leasing (*Ijarah*).

In an Islamic mortgage transaction, instead of loaning the buyer money to purchase the item, a bank might buy the item itself from the seller, and re-sell it to the buyer at a profit, while allowing the buyer to pay the bank in installments. However, the bank's profit cannot be made explicit and therefore there are no additional penalties for late payment. In order to protect itself against default, the bank asks for strict collateral. The goods or land is registered to the name of the buyer from the start of the transaction. This arrangement is called *Murabaha*. Another approach is *Eljara wa Elqtina*, which is similar to real estate leasing. Islamic banks handle loans for vehicles in a similar way (selling the vehicle at a higher-than-market price to the debtor and then retaining ownership of the vehicle until the loan is paid).

An innovative approach applied by some banks for home loans, called *Musharaka al-Mutanaqisa*, allows for a floating rate in the form of rental. The bank and borrower form a partnership entity, both providing capital at an agreed percentage to purchase the property. The partnership entity then rents out the property to the borrower and charges rent. The bank and the borrower will then share the proceeds from this rent based on the current equity share of the partnership. At the same time, the borrower in the partnership entity also buys the bank's share of the property at agreed installments until the full equity is transferred to the borrower and the partnership is ended. If default occurs, both the bank and the borrower receive a proportion of the proceeds from the sale of

²¹ http://en.wikipedia.org/wiki/Islamic_banking

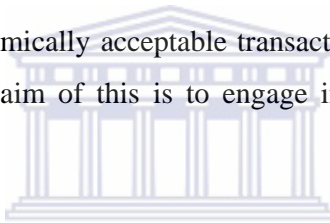
²² http://en.wikipedia.org/wiki/Islamic_banking

²³ http://en.wikipedia.org/wiki/Islamic_banking

the property based on each party's current equity. This method allows for floating rates according to the current market rate such as the BLR (base lending rate), especially in a dual-banking system like in Malaysia.

There are several other approaches used in business transactions. Islamic banks lend their money to companies by issuing floating rate interest loans. The floating rate of interest is pegged to the company's individual rate of return. Thus the bank's profit on the loan is equal to a certain percentage of the company's profits. Once the principal amount of the loan is repaid, the profit-sharing arrangement is concluded. This practice is called *Musharaka*. Further, *Mudaraba* is venture capital funding of an entrepreneur who provides labor while financing is provided by the bank so that both profit and risk are shared. Such participatory arrangements between capital and labor reflect the Islamic view that the borrower must not bear all the risk/cost of a failure, resulting in a balanced distribution of income and not allowing lender to monopolize the economy.

Islamic banking is restricted to Islamically acceptable transactions, which exclude those involving alcohol, pork, gambling, etc. The aim of this is to engage in only ethical investing, and moral purchasing.



In theory, Islamic banking is an example of full-reserve banking, with banks achieving a 100% reserve ratio. However, in practice, this is not the case, and no examples of 100 per cent reserve banking are observed.

Islamic banks have grown recently in the Muslim world but are a very small share of the global banking system. Micro-lending institutions founded by Muslims, notably Grameen Bank, use conventional lending practices and are popular in some Muslim nations, especially Bangladesh, but some do not consider them true Islamic banking. However, Muhammad Yunus, the founder of Grameen Bank and microfinance banking, and other supporters of microfinance, argue that the lack of collateral and lack of excessive interest in micro-lending is consistent with the Islamic prohibition of usury (*riba*).

Islamic banks have many advantages that do not exist in other banks: Firstly, Islamic banks operate on the basis of *zero interest*. Critics of Islamic economics argue, however, that the fundamental characteristic of charging interest (i.e. charging a premium, on the principal amount of a loan, for the time value of the loaned money) is not truly eliminated in Islamic banking, but rather the interest is merely hidden and relabelled. This would be true if the bank paid the money to the seller

and transfer the object to the buyer's name, but if the bank transfers the object to its name and carries the risk of the cancellation of the sale and losses of the object's value, then sold it to the buyer with profit. The aforementioned transaction utilizes valid sales transactions called Murabaha. The issue of time value of money is unlawful in Islam.

Secondly, different from the normal banks, Islamic banks do not reduce the price of any object whether the money is paid before the time or later.

Thirdly, most Islamic economic institutions advise participatory arrangements between capital and labour. The latter rule reflects the Islamic norm that the borrower must not bear all the cost of a failure, as "it is God who determines that failure, and intends that it fall on all those involved."

If we look at the Islamic economy and market economy we notice, according to Al-Ansari, the origins of Capitalism and free markets can be traced back to the Islamic Golden Age and Muslim Agricultural Revolution, where the first market economy and earliest forms of merchant capitalism took root between the 8th–12th centuries, which some refer to as Islamic capitalism. A vigorous monetary economy was created by Muslims on the basis of the expanding levels of circulation of a stable high-value currency (the dinar) and the integration of monetary areas that were previously independent. Innovative new business techniques and forms of business organisation were introduced by economists, merchants and traders during this time. Such innovations included the earliest trading companies, big businesses, contracts, bills of exchange, long-distance international trade, the first forms of partnership (Mufawada) such as limited partnerships (Mudaraba), and the earliest forms of credit, debt, profit, loss, capital (al-mal), capital accumulation (Nama al-mal), circulating capital, capital expenditure, revenue, cheques, promissory notes, trusts, start-up companies, savings accounts, transactional accounts, pawning, loaning, exchange rates, bankers, money changers, ledgers, deposits, assignments, the double-entry bookkeeping system, and lawsuits. Organizational enterprises similar to corporations' independent from the state also existed in the medieval Islamic world, while the agency institution was also introduced. Many of these early capitalist concepts were adopted and further advanced in medieval Europe from the 13th century onwards²⁴.

The systems of contract relied upon by merchants were very effective. Merchants would buy and sell on commission, with money loaned to them by wealthy investors, or a joint investment of several merchants, who were often Muslim, Christian and Jewish. Recently, a collection of documents was found in an Egyptian synagogue shedding a very detailed and human light on the

²⁴ <http://www.socialismtoday.org/87/Islam.html> 14:00 10-10-2008

life of medieval Middle Eastern merchants. Business partnerships would be made for many commercial ventures, and bonds of kinship enabled trade networks to form over huge distances. Networks developed during this time enabled a world in which money could be promised by a bank in Baghdad and cashed in Spain, creating the cheque system of today. Each time items passed through the cities along this extraordinary network, the city imposed a tax, resulting in high prices once reaching the final destination. These innovations made by Muslims and Jews laid the foundations for the modern economic system²⁵.

4.8 Conclusion

Chapra does not claim the originality of Capitalism, it derived most of its principles from early Islamic practices, but, and I agree with him and Assader, that recognition by Islam of the freedom of enterprise along with the institution of private property and the profit motive does not make Islamic economic system akin to Capitalism. Chapra explains his view saying that, firstly, in Islamic economy even though property is allowed to be privately owned it is to be considered as a trust from God. Mankind are the viceregents of God: “To God belongs whatever is in the heavens and whatever is in the earth” (Chapra, 1979:23-4) secondly, because he is the viceregent of God he is bound by the conditions of the trust and moral values of Islam such as Halaal/Haram, brotherhood, social and economic justice and fostering the common good. Prophet (peace be upon him) said “this wealth is certainly green and sweet (enticing) but he who acquires it rightfully for him it is an excellent assistant while he who acquires it without his right is like one eats but never satiates.” (Chapra, 1979:24).

Chapra argues that to distinguish between the above two factors mentioned and capitalist practices (Chapra, 1979:24-26), you need to consider the philosophy behind capitalist ideology: Firstly, the market system represent a plebiscite, where each unit of currency spent by an individual represent a ballot, and where national resources get automatically allocated among different wants on the basis of total ballots cast by all individual, if more money is spent on liquor, then more of national resources will be allocated to the production of liquor, this according to the price system brings about an optimum allocation of national resources. The market system is therefore a judge that is normally neutral and makes decisions only on the basis of the result of this plebiscite; however, the Islamic economic system cannot be morally neutral. In Islam the allocation of resources is optimal if it is first in conforming to the norms of Islam and then is in accordance with the consumer’s preferences. In a truly Islamic society there is no likelihood of any divergence between the two, but

²⁵ <http://www.socialismtoday.org/87/Islam.html> 14:00 10-10-2008

if there is any divergence then the state cannot be a passive observer, it must educate public opinions in accordance with the teaching of Islam and guide and regulate the machinery of production and distribution so as to bring about an allocation of resources which is in conformity with the goals of Islam. But who will decide the conformity if it is correct or not? It will be decided by the democratic process of decision-making that is inherent in the political teachings of Islam (Chapra, 1979:24-5).

Secondly, the market system assumes that the wants of different individuals can be compared with respect to their urgency by the use of prices, because each unit of currency represent a ballot. The willingness on the part of two individuals to spend an equal amount is assumed to indicate wants of equal urgency. Even if such an inter-personal comparison of the urgency of wants is possible, the free play of the market forces for a desired allocation of resources would require that there exist an equitable distribution of income in the economy. If this agreement does not exist then we cannot represent the majority. This means then that the national income is allocated to the minority and that is a waste. An equitable distribution of income which is one of the goals of the Islamic economic system is a prerequisite to the attainment of a desirable allocation of resources through the functioning of the price system (Chapra, 1979:25).

Thirdly, there may be imperfections in the efficient operation of the market forces introduced by monopolies, or conditions in which prices may not reflect real cost or benefits, not only that, prices of goods or services may be far above opportunity costs, or that payments to resource owners may be far above or below the values of their contribution to real output, but also because social costs and benefits may be disregarded by individual in their accounting, although their costs or benefits may be very important from the point of view of social welfare, which carries a significant weight in the Islamic economic system, the self-correcting tendencies in the price system, which tends to eliminate the divergence between private and social interests may take as intolerable long time, because of the imperfections usually found in the operation of the market and the limited horizon of individual and firms in the face of such imperfections, the market system alone without some guidance regulations and control from a welfare oriented government may not be able to achieve an optimum allocation of resources (Chapra, 1979:25-6).

Fourthly, in the capitalist market system, since the individual is the primary owner of his own goods he may do what he pleases with them hence there is no moral sanction against destruction of output by say burning or dumping into the ocean in order to raise prices or maintain them at a higher level but in the Islamic economic system since all wealth is a trust from God it would be a grave moral

crime to do so. Destroying both life and property has been declared by the Qur'an to be equivalent to spreading mischief and corruption in the world (2:205) it was this teaching of the Qur'an which prompted Abu Baker the first caliph to instruct his general Yazid Ibn Sufyan going on a war assignment not to kill indiscriminately or to destroy vegetable or animal life even in enemy territory if this is not allowed in war then is not question of its being allowed in peace and that too for raising prices the social cost of such an act is much too high and the Islamic state just cannot allow it (Chapra, 1979:26).

Fifthly, by itself the market system even under conditions of healthy competitions which is a prerequisite for its efficient operation has manifest no inherent tendency to solve the economic problem of unemployment economic fluctuations and stagnation or to bring about an equitable distribution of the social product there has therefore to be some direction and regulation by a goal-oriented government (Chapra, 1979:26).

Sixthly, success in the competitive struggle may be possible through means which are morally questionable and which conflict with the goals of social and economic justice and equitable distribution of income, therefore, unless there are moral checks an individual accompanied by effective regulations by a morally-oriented government, competition may not necessarily eliminate the inefficient rewards, socially useful behaviour, enforce social and economic justice and foster an equitable distribution of income (Chapra, 1979:26).

Therefore, although the market system has been recognized by Islam because of the freedom it offers to the individual it is not to be considered sacred and inalterable.

I agree with Chapra that Market systems must be modified as a necessity to make it conform to the ideals of Islam, because modifying Islamic laws to confirm to the ideals of market will allow human interference to weaken God's scale of justice. Government intervention is required but it is not enough to create a healthy moral economy oriented to justice and social welfare even though it can remove some of the limitations of the market system.

The Islamic economic system shows that the material well-being is based on the unshakable foundation of spiritual values that constitutes an indispensable plank of the economic philosophy of Islam.

Other economic systems, namely Capitalism and Socialism, are not oriented to spiritual values and that is why the superstructure must necessarily be different, so any attempt to show similarities between them is showing a lack of understanding of basic characteristics of them (Chapra, 1979:21). The Islamic system is unflinchingly dedicated to human brotherhood accompanied by social and economic justice and equitable distribution of income and to individual freedom within the context of social welfare. This dedication is, it must be stressed, spiritually oriented and finely interwoven into the whole fabric of its social and economic norms (Chapra, 1979:21-22).

The orientation of modern Capitalism to social and economic justice and to equitable distribution of income is only partial, resulting from group pressures. Socialism on the one hand has a lack of human brotherhood and spiritually-based, fair and impartial criteria for justice and equity and on the other hand has loss of individual dignity and identity resulting from the negation of the basic human need for freedom. Individual freedom is essential in Muslim community where free mutual consent of the buyer and seller is according to all schools of Muslim jurisprudence a necessary condition for any business transaction (4:29 - Qur'an) and Prophet (peace be upon him) said "leave people alone for God gives them provision through each other" (Chapra, 1979:22).

Long ago, the acquisition and disposal of private and business property, purchase and sale of merchandise, Zakah and inheritance, have all been universally upheld by Islam, with rare exceptions. Market merchandise is also an integral part of the Islamic economy. Profit is recognized in Islam; Jaziri on his well known work on the *fiqh* (the legal position) of the four Sunnite schools of jurisprudence said: "in Shari'ah profit is allowed when the law has not prohibited profit nor has it set limits". It has, however, prohibited fraud and cheating and ascribing to a commodity attributes it does not possess (Jaziri, 1999, V. II:283-84).

Making profit the primary goal leads to social and economic ills which are why Islam places certain moral restraints on this motive so that it fosters individual self-interest within a social context and does not violate the Islamic goals of social and economic justice and equitable distribution of income and wealth.

CHAPTER 5

EVALUATION (VIA RAWLS) AND RECOMMENDATIONS

5.1 Introduction

In this chapter we will summarize the disadvantages and advantages of Capitalism and the Islamic Economy system, in order to give the reader the opportunity to test according to Rawls' theory of justice which of the two systems is morally preferable. We merely refer to the analyses already given in chapters 3 and 4, and draw a few conclusions from the detailed arguments.

The ideology of any system is the first thing that attracts any academic, rational person who is placed in a position to choose a certain system, based on sound principles and reasonable outcomes.

5.2 Islamic economy and Capitalism: ideology, principles and characteristics

As we noticed in chapter three, understanding Capitalism's ideology and its theories from the inside, i.e. in terms of its self-understanding, its principles and its philosophy, was not an easy task. There are various types of Capitalism. The theoretical and ideological identification of Capitalism is dependent on how far or near the specific type of Capitalism is to "pure Capitalism". However, capitalist ideology and theory is focused on certain fundamentals, such as freedom, productivity, scientific laws, wants and needs - to mention a few basic defining factors.

The three pillars that Capitalism claims to stand on, namely: 1. unlimited ownership of the means of production; 2. unlimited access to one's property and the right to develop it freely, and 3. unlimited freedom of spending (Assader, 1982:235), are criticised by Muslims scholars such as Assader, who challenges the way capitalists understood freedom (Assader, 1982:272-290). These pillars are rejected, together with the claim that Capitalism provides the ideology to end ideologies, under the pretext that it has abolished the moral problem, through the neat philosophy which claims that "it is only necessary for each individual to act egotistically for the good of all to be attained." (Lux, 1990:86)

This emphasis on unlimited freedom led to the selfish and greedy attitudes associated with Capitalism. According to Assader, Capitalism's failure is due to such an ideology (Assader, 1982, 256). Assader (1982:256) called for a middle ground between human wants and needs and exercising a certain level of control over these. This is one of the first problems faced by the very

consistent philosophy of individual freedom on which Capitalism rests. The claim that granting freedom to an individual will create a happy individual, a healthy society and leads to creativity and flourishing of the society was not accomplished historically and experientially. Even Mill argued that the idea of measuring pleasure and pain, and according to the balance judge the level of happiness is unethical and sinful (Rima, 1996:117).

Islam has a different view of freedom, not limited or unlimited, as Omar declared “since when have you enslaved people although their mothers had borne them free”. In the same vein Shafi said “God has created you free and therefore be nothing but free”. Hanafi, again, argues that no restriction may be imposed on a free, mature and sane person even if he spends his wealth aimlessly, because he argues, in preventing such person, you are depriving him of the freedom of choice, which is like degrading his humanity and treating him like an animal. Comparing both these possible damages, spending is less harmful, but this fact or insight does not mean that the moral bounds of Islam have been over-stepped (Chapra, 1979:20). Chapra further argues that when the interest of an individual clashes with the interest of another individual, or society, then the larger interest of society takes precedence over the interest of the individual; relieving hardship takes precedence over the promotion of benefits and a bigger loss cannot be inflicted to relieve a smaller loss or bigger benefits cannot be sacrificed for a smaller one (Chapra, 1979:21).

Capitalism’s claim that its laws are “natural” and “rational” because it follows natural and scientific laws is not real, or true. The outcomes of Capitalism’s current practices do not reflect such claim. Where are the happy individuals, societies and countries this ideology is dreaming of? Natural and rational laws should complement each other and balance each other. Looking at the outcome of the dominant economic system (Capitalism), we notice that its achievements are not as spectacular as they are claimed to be; on the contrary, it shows a very poor result. Many economists (Stieglitz, Assader, Al-Masry, Marx) blame the existing system’s characteristics which have been discussed in details in chapter three for these negative outcomes (see 3.4).

Islamic economy, at the same time, argues that its laws are divine, and that, therefore, they are natural, rational, and have future flexibility, otherwise, this divine claim will be under a big question mark. According to Al-Masry, Islamic economy derives its first law from Surah Luqman verse 19: “Be modest in thy bearing...” and Surah Maidah verse 66: “... Among them there are people who are moderate”. This principle of “economy” is used in many aspects such as worshipping, lecturing, eating, drinking, disciplining, punishing and spending. Economy thus

basically means the study of human behaviour in managing resources and producing products to fulfil human needs (Al-Masry, 2005:11-12).

To understand the ideology of the Islamic economy in particular, one needs to understand Islamic ideology in general. Assader (1982:311-314) illustrates the connection between the Islamic economy to other aspects of life, showing the well-arranged coherence of the religion of Islam (see 4.3.1) Assader further argues that the economic activities whether it was extracting the raw materials, manufacturing them and distributing the outcomes are according to the standards of both the individual (as in Capitalism), or society (as in Socialism). The distributing of both these systems has through human history caused huge oppression and disastrous consequences for humanity (Assader, 1982:344). The Islamic distribution system claims to have a different approach to the issue of distribution, which is based on two pillars, namely work and need (see 4.6).

The finance system used in the Islamic economy is different from Capitalism's one. As we noticed, it does not perform any transactions that contradict Islamic Shari'ah, e.g. *riba*, unknown sale (see 4.5.4). There is a growing acceptance of Islamic banks philosophy, especially in the field of investing in a short term commodity for future trades. There is about \$50 billion (according to 2006 records) invested in short term commodity in Arab countries, but most of Islamic transactions are done often in a western bank, like Citybank (Kamali:2006:xxi).

Islamic banks have many advantages that do not exist in other banks: Firstly, Islamic banks operate on the basis of "zero interest". Secondly, Islamic banks do not reduce the price of any object whether the money is paid before the time or later. Thirdly, most Islamic economic institutions advise participatory arrangements between *capital* and *labour* (see 4.7).

To understand the ideology you need to understand the characteristics of the Islamic economy which are according to Al-Masry (2005:25) and Assader (1982:14): spirituality, uniqueness and originality, permissibility, flexibility and rationality, simplicity, clarity, justice, freedom, and solidarity (see 4.4)

Fazil Al-Ansari and Assader have pointed out that the unfortunate conditions obtaining in the Muslim world today have misguided people to regard the Islamic economic system as a form of "Capitalism". In order to distinguish between Islamic economy and other economic systems the three pillars of Islamic economy should be considered. According to Assader (1982:295) and other scholars (Al-masry, Azmi, Kamali, Chapra), the Islamic economy is based on the following pillars:

dual ownership, limited economic freedom and social security principles (see 4.3.2). As argued previously, these principles together offer an ethically sound ideology for a just economy.

5.3 Capitalism and Islamic economy practices

5.3.1 Ethics

Ridgeway (2004) and Stückelberger (2002) had an interesting, indirect debate, where the first asked: what is the price that humanity has to pay for capitalist development to continue and which rules should that market follow, if morals are also for sale. The latter answered by showing the need to visit, firstly, the domain of ethics, secondly, understanding the forms of ethics, thirdly knowing the four levels of ethical actions, and finally, calling for a total trade ethic revival. (see 3.6.1)

Capitalism is facing a huge challenge when it comes to its ethical practices. Islamic economic ethics are unique, it is extracted from the Shari'ah; they are not made by mankind to benefit certain circumstances or a certain class. These ethics are concerning traders; what kind of traders? Has he got knowledge of Shari'ah regarding trading? Stocks? What type of stock? Is it available? Is it needed and lawful? Trading? What kind of business is lawful or unlawful? Contracts? Are they clear, agreed upon by parties and lawful? Debts? What kind of debt? Is it written down? Is it free of interest? Poor? Are they looked after by treasury house? Are the measures of preventing begging in place? These examples are given simply to show in which detail Islamic ethics, based on Shari'ah, deals with all aspects of the economy (see 4.5).

5.3.2 Politics

Government involvement in economic debates is unavoidable, whether in the Capitalist or Islamic system. Discussing unemployment, inflation, economic growth, economic productivity, taxation, public expenditure, poverty and income maintenance, the balance of payments, the international monetary system, labour management relations, manpower development and training pollution discrimination on the basis of race and sex, competition and antitrust is an annual exercise in any modern state.

The approach each government adopts is different, and depends on its ideology, principles and characteristics. In general terms, however, Capitalism's approach can be designated as materialistic, while the Islamic one presents itself as much more holistic.

Chomsky (2005) criticizes the hegemonic political behaviour of capitalist countries and the abuse of other countries on account of their weakness. Justifying political actions becomes an easy task for capitalists because of their power and influence in the global economy. Capitalism, according to Chomsky (2005) (see 3.6.2), uses the power of money to control the people, Islamic economy uses the economy to uplift human needs and dignity (see 4.8).

5.3.3 Environment

Contemporary environmental problems such as global warming, depletion of the ozone layer acute loss of biodiversity and forms of trans-border pollution (e.g. acid rain), trouble with the planet's regenerative system, including its equilibrium among different forms of life and their support structures, are linked to humanity's trespassing of nature's limits and as a result of hyper competition for profit, as embedded in the capitalist ideology driving the so-called free market economy (Mittelman, 2000:179). On the other hand, the Quranic source of laws for the Islamic economy considers it unlawful to harm your self or others (other humans or their environment) (see 4.6.2). In Christian circles, especially in the circles of the World Council of Churches and the World Alliance of Reformed Churches (WARC), there are heated debates on and severe criticism of the assumptions driving globalization. The AGAPE document calls for an alternative to the greed-driven globalization which destroys the earth, and the ACCRA Declaration (2005), coming from Africa within the WARC, even calls for a *processus confessionis*, a confessional process, against especially the two major effects of the current ideology of globalism: the growing gap between rich and poor and the ecological destruction of the earth. [These examples of course also deal with "religion" and "globalization", following hereunder].

5.3.4 Religion

Religion's role is to guide, but the diversity between religions makes it difficult to follow a particular one. Tawney argues that religion has to introduce to rulers and those who are in charge a reliable economic ethic (Woodhead 2000:181).

Both Islam and Christianity argue [see Assader (1982) and Al-Masry (2006) on Islam and Stackhouse (1995) on John Calvin], that their scriptures are "not without order but present a most beautiful arrangement" (Stackhouse, 1995:183). John Wesley added that there is a methodical discipline among the laity in all areas of life including economics (Stackhouse, 1995:193).

In spite of these similarities, R. Heftier argues that in Islamic civilization morality is sustained more intensely than in others (Stackhouse, 1995:363). He argues that a clash between Islamic economy and Capitalism is unavoidable at least in two areas: *Riba* and *Zakah*, interest and alms-giving.

5.3.5 Globalization

Globalization is a new term that is used to describe developments in the world's economy over the past ten years following the collapse of the communist empire in Eastern Europe (Raiser, 2001:3). But the real issue is not that the distances between places or e.g. trading partners are getting shorter, but the closeness between all aspect of life, as Stackhouse and Paris argue that totally new standards, ethics, cultures and ideas have appeared.

The influence of globalization can be noticed clearly. "Globalization had succeeded in unifying people from around the world. Factory workers in the United States saw their jobs being threatened by competition from China. Farmers in developing countries saw their jobs being threatened by the highly subsidized corn and other crops from the United States. Workers in Europe saw hard-fought-for job protections being assailed in the name of globalization. AIDS activists saw a new trade agreement raising the prices of drugs to levels that were unaffordable in much of the world. Environmentalists felt that globalization undermined their decade long struggle to establish regulations to preserve our natural heritage. Those who wanted to protect and develop their own cultural heritage saw too the intrusions of globalization" (Stiglitz, 2006:7). This globalization did not follow a particular standard, values, ethics, but it used and forced its own. The irony of globalization is that it is driven, and spread to other countries globally, by the same Capitalism that failed to succeed in the countries of its origin. No wonder that Stiglitz also raised many concerns when he was explaining the wide-spread recognition that globalization was all "too good to be true." (see 3.6.5).

As Capitalism tries to reach everywhere and spread its ideology, Islam's goal is to reach all as well, spread its values, principles and ideology to the globe; not for profit and power gaining, but to spread its divine message to all, a major part of which is creating economic justice (see 4.4.4).

5.3.6 Poverty and Unemployment

One of the final goals for any economy is to achieve 100% employment and a world free of poverty. When we see capitalist practices lead to more poverty than wealth and wellbeing, because

its ideology does not really consider the fellow human being, we should realise that this system is not capable of solving the growing problem of desperate poverty worldwide. Many analysts now even say that this system is the generators of the gap between rich and poor. The Islamic economy developed its own methods to help the poor and solve poverty, based on a form of spirituality that takes the material world and its needs also seriously. (see 4.5.6)

5.4 Conclusion

Capitalism has to fail, due to its characteristics as summarised by Greeley (1977:82-88) and Nürnberger (1998:32-35) (see 3.4). At the core of this failure lies the problem of “self-interest” which on the basis of “individual freedom” develops into “greed”, abuse of “power”, and lack of “compassion”(for others) or “care” (for the earth and the environment). All of this is ironical, since the founders of Capitalism expected self-interest to lead to a better world for all. The original idea was that a market-based economy will operate in a more or less “natural” way, following natural laws (of freedoms and rights). This idea of “natural self-interest”, of an economic rationality inherent in all persons, forms a central part in the justification of the activities of the World Bank. However, in crises it became clear, again and again, that the system needed state intervention, or even in “normal times”: state protection (see Moore, 2007:95).

Marx argued that Capitalism could be expected to become a failing system (see 3.7). The vision and goal that Capitalism hoped to achieve have failed. The bad result (of frequent crises in the world economy, the growing gap between rich and poor and ecological destruction and lack of sustainability), according to Dorr (1991:7-39), underpins the major consequences of social injustice. This is now clear for any reasonable observer to see and judge for himself or herself: the increasing discrepancies between rich and poor (also within first world countries), international debt, oppression and attempts at liberation through violent or non-violent resistance, discrimination leading to war between nations, injustice for women, racism, lack human rights, the population explosion, ecology problems, refugees and unemployment.

In the current state of the world, the idea of an Islamic economy starts getting more recognition from around the world; economists and finance institutions start recognising its methods and patterns; its banking ideology is accepted around the world, at least by major banks who allow for this as an alternative system within the main system. It is an interesting question to ask whether the Islamic- economy would not be today’s practiced economy if it had been considered earlier and was

studied carefully by pioneers such as Adam Smith, Soros or Stiglitz. At least, it is now receiving increased academic and economic attention by experts.

5.6 Implementing Rawls theory of justice

In his theory, Rawls calls for us to have the “*original position*” in which everyone decides principles of justice from behind “*a veil of ignorance*”. This veil is one that essentially blinds people to all facts about themselves that might cloud what notion of justice is developed (Rawls, 1971:11). No one knows in advance and with certainty about Capitalism’s or Islamic economy’s advantages and disadvantages; no one knows whether he will be rich enjoying his wealth without control, gambling it away or wasting it on women and drugs, investing it in a system that allowed abusing others; or being poor, having no one to help you, not even your own family, living in a system that will marginalize you or eliminate you because you are a burden (both equally possible under Capitalism). Is this better, or would one choose a system that will take care of you whether you were rich (by limiting you power in case of wasting and destroying yourself and others) and if you were poor (by guaranteeing you to have a decent life), bearing in mind that you do not know: where you are going to end? (These options are offered in advance by the Islamic economy).

Do you want to be in a system that allows you making any business you want regardless whether it is going to harm others and the environment or not, or being a labourer and being paid the minimum wages, not enough for your family and you to have a good life? (Capitalism). Or would you prefer a system that limits your choices of making a business that is good for you and others, or being a labourer who is paid enough so that he can eat and dress like the business owner, who will not be asked to do more than his ability, and who will be guaranteed to have his dignity untouched? (Islamic Economy).

Under the “veil of ignorance” the same type of questions about your “original position” can be asked to any person, whether you are living in a First World or Third World country; whether you have a proper education or are illiterate; whether you are living in a democratic country or not; whether you are having a social security system and medical aid or not (see 3.7).

According to Rawls (see 2.6), being ignorant of our position in the future, while choosing the type of system that will guarantee “justice as fairness”, will lead to having life that is fair to all. If an individual does not know how he will end up in his own conceived society, he is likely not going to privilege any one class of people, but rather develop a scheme of justice that treats all fairly. After

analyzing both systems, what would the reader choose? Capitalism with its obvious self-interest and ideology of selfishness, or a system that adopts the motto “do unto others as you would have them do unto you”? We must not gamble when we choose, hoping to have a good position in the future; we need to be honest with ourselves.

Honestly speaking, if the choice was up to me, I would have chosen the Islamic economy, not merely because I happen to be a Muslim, but also because the Islamic economy has an ideology, values, principles and characteristics that are straight-forward; its deals, contracts and transactions do not include speculating or gambling, it does not allow cheating using the laws, or conning others depending on their ignorance. It implements justice as fairness.

5.7 Recommendations

Humanity and “Mother Earth” are on the verge to be destroyed while the advocates of Capitalism continue defending their system. The main issue is not whose system should be implemented, or where does it come from? All must accept that mistakes can happen (human inputs and not divine laws) and they should be faced and fixed. To sustain growth and world order we need to end growth dependency. New collectivism to accept the maximization of profit can no longer be the main basis for allocating resources and new democracy (Shutt, 1998:214).

Does the fantasy of monetary targeting cause damage to the real economy? (Shutt, 1998:47) Or does modernity cause the crises and a new model is urgently required? Is it difficult to ignore modernization and is it difficult to accept it as a good model? (Greeley, 1977:29)

There is an urgent need for a new, alternative economic system. Capitalism is not working, and its outcomes are enough proof thereof. One of the solutions that should be given serious consideration is the Islamic Economy, as Assader, Al-Masry and others argue.

Here I would like the reader to consider K S Jomo’s argument that there is growing interest in Islam and Islamic economic alternatives in recent times. Even the IMF has endorsed Islamic banking principles in the mid 1980s (Woodhead 2000:178). Jomo argues that the Islamic system is a mix between Capitalism and Socialism, but then with the added principles concerning *Riba* (interest), *Zakah* (alms) and *Niyyah* (intention). (Woodhead 2000:179).

The need for new alternative economic system is an urgent need, the capitalism system's negative outcomes is exceeding the positive ones, it is not working the way it was marketed, and need to be altered or replaced completely.



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