Economic Doctrines of Islam
by Hans F. Sennholz

American observers are dismayed about the dreary economic conditions in most Islamic countries. Some may point to inadequate natural resources; others, to various political and economic systems which brought poverty, misery, and tyranny. In Iraq, they may refer to the Baath party, a socialistic group whose overall goal was Arab unity, which gave the country its political and ideological color for more than forty years. It not only brought economic want and famine but also fostered military dictatorship and led to bloody wars with its neighbors. It bred corruption and oppression and gave rise to a reign of terror by the most evil of all, Saddam Hussein.

Western critics rarely ever dare to make reference to the political, social, and economic doctrines taught untiringly by the clerics of Islam who are the most influential force in the lives of all believers. Their sacred scripture is the Koran which contains the revelations of Mohammed, the Prophet of Islam, collected and published by his followers soon after his death in 632. It comprises one hundred and fourteen chapters or sections, called Suras, which the angel Gabriel revealed to him over some twenty or more years. It is the Islamic Book of books with a message for all humanity and for all ages. A complement to the Koran is the Shariah which is almost as important as the Koran; it is the body of traditional Islamic law, observed by orthodox Muslims and based on the Koran and the Sunna, the teaching and practice of the Prophet and his oldest disciples. The religion of Islam, just like Judaism and Christianity, comprises articles of faith and ordinances for daily living.

An economist does not dwell on the theology of Islam, its creed and various interpretations and movements, but he may search for their influence on the economic lives of the believers. He does not question the obligatory duties called the pillars of Islamic theology, but he may inquire into their economic ramifications as well as the economic functions of the Muslim State as they affect the lives of all believers. After all, the State administers law and conducts policies promoting the causes of Islam through the enunciation of moral principles and actual legal enactments. Indeed, Islam not only is an earnest religious faith but also a socioeconomic reform movement building on strong religio-ethical beliefs.

Most Muslim countries are poor and weak economically, politically, and militarily, always in need of foreign assistance and protection. Throughout most of human history poverty meant starvation or semi-starvation, physical and mental suffering, and short lives. Although these penalties of poverty now are comparatively rare, it is estimated that more than one-half of the human race still subsists on nutritionally inadequate diets. Many live in Muslim countries, struggling to survive on meager earnings. In Afghanistan, Pakistan, Indonesia, Iraq, Mali, Niger, Chad, and Sudan, for instance, national production per capita is estimated to amount to less than $1,000 per year, which compares with some
$36,000 in the United States. In Kuwait and the United Arab Emirates, the two wealthiest Muslim countries with the largest per-capita production, it is less than one-half of average American output despite bountiful oil resources. And even this amount does not consider the lofty emoluments of emirs, sultans, and princes whose share obviously reduces the average income of the common populace.

Economists distinguish between four types of income: payment for services rendered, interest on money lent, entrepreneurial profit, that is, financial reward for new discoveries and developments of new products and services, and transfer income which may flow from private or collective charity and from government welfare in various forms. The Koran limits all believers to just two, the payment for services rendered as wages, salaries, or fees and to transfer income. It prohibits interest payment (Riba) over and above the actual amount of principal. "Believers, do not live on usury, doubling your wealth many times over. Have fear of God, that you may prosper, guard yourselves against the Fire prepared for unbelievers." (The Koran, Sura 3:131) Similarly, it prohibits any economic undertaking that involves uncertainty, risk, or speculation (Ghara). Any economic transaction entered into should be based on knowledge of the value to be exchanged. Therefore, options and futures are un-Islamic as are foreign exchange transactions based on interest differentials. Moreover, investments must not support activity that is forbidden, such as the production of alcohol or the construction of a casino.

For more than one thousand years after the Prophet, Muslims everywhere have interpreted the word Riba to mean any interest payment on cash loans and advances, which obviously prevented the development of commercial banking and loan markets. It thwarted the creation of many business ventures, the construction and purchase of many houses, shops, and factories, and the development of trade and commerce.

In the Medieval Christian world, social and economic thought was similar to that of the world of Islam today. The Church was the dominant organization preaching theology and principles of morality. The Church fathers, just like the muftis and qadis of Islam, were unaware that inexorable principles of human action transmute unhampered economic life into an orderly and productive system of economic cooperation that raises all levels of income. Mindful of Aristotle’s critique of interest and following the teaching of Islam, they, too, prohibited all forms of interest-taking called usury. At the Church Council of Vienna in 1311 Pope Clement V even threatened with excommunication any government official who passed laws favorable to interest-taking. We may conjecture whether he echoed Greek philosophical thought or Muslim social view with which he undoubtedly was familiar.

In recent decades, a global network of Islamic banks, investment houses, and other financial institutions has appeared with multi-billion dollar deposits worldwide. Just as some Medieval Christian businessmen managed to circumvent the
Church’s prohibition of interest, so have a few Muslims found new ways to reinterpret the Koran’s ban. The Book does not disallow partnerships of lenders and borrowers. Islamic law decrees that the provider of capital and the user of capital should share equally the fruits of business, whether they be in commerce, agriculture, or service industries. Depositors, bankers, and borrowers are business partners, sharing the risks and the rewards of financing business ventures.

It is doubtful whether or not a few Islamic partnership-banks can give rise to viable capital markets throughout the world of Islam. But the want of such markets, which generate the funds to acquire or improve capital assets such as buildings and machinery, condemns the believers to perpetual poverty. High productivity requires large amounts of capital in manifold forms. Raw materials are obtained, extracted and transformed with the aid of capital. Entrepreneurs may organize the forces of production and assume the risk. Their important function is to anticipate the economic demand for goods and produce the kind and quality of goods which are in demand. Groups of entrepreneurs and speculators seek to meet the great expenses of mass production, particularly the capital necessary in most industries. They invest their funds in the hope and expectation of profitable returns commensurate to the risk they take. In the world of Islam such thought and action may signal an illicit abandonment of the Faith, liable to severe punishment. "Your hearts are taken up with worldly gain from the cradle to the grave. But you shall learn. Then you shall surely learn. Indeed, if you learned the truth with certainty, you would see the fire of Hell: you would see it with your own eyes. Then, on that day, you shall be questioned about your joys." (Sura 102:1)

While the Koran admonishes the believers about the wickedness of usury and profit by venturing and gambling it does not look askance at transfer income. In its untainted form, charity, it consists not only of money and goods given to the poor but also of every good deed and expression. In several Suras the Koran enjoins kindness to orphans and widows and charity to the poor. Almsgiving is one of the most important duties of Muslims. Yet, charitable giving is rather small in importance when compared with transfer income in the form of government welfare, compensation, and pension. The Iraq Foundation (www.iraqfoundation.org) estimates that the State owns over 80 percent of the productive economic assets of the country. Many were nationalized or expropriated without compensation or merely with token payment. Many have been misused, abused, expended, or kept idle, as their owners left the country. It is difficult to determine the proportion of labor income and transfer income in such an economy. As most publicly owned enterprises suffer deficits and therefore need to be subsidized, the workers in such operations obviously enjoy some transfer income. According to old estimates, Iraqi self-employment is reported at 33.9 percent of national income, wages and salaries at 23.9 percent, and transfer income at 23 percent. As some government departments busily transfer income and wealth from taxpayers to many beneficiaries, their wages and salaries, too, obviously constitute transfer costs, which substantially
increases total transfer costs. All in all, Iraqi transfer income probably exceeds 50 percent of national income. As a result, the burden of transfer not only depresses economic activity but also infuses a high degree of social imbalance. In recent years Iraq experienced mass migration from the country into the centers of transfer, the towns and cities, many lacking basic amenities. For Allied troops in Iraq this rootless town proletariat, for the most part unemployed and depending on government handouts, adds a dangerous element to their difficult task.

The Iraqi masses are pitifully poor in worldly goods but blessed and rich in children who are gifts of God. "He gives daughters to whom He will and sons to whom He pleases. To some He gives both sons and daughters, and He makes sterile whom He will. Omniscient is God, and mighty." (Sura 42:49). In most Muslim countries the population is growing rapidly, which obviously affects the levels of income per head of population. Rudimentary economics teaches that if the stock of productive capital rises at the same rate as the population, the levels of living tend to remain the same. If it rises faster than the population growth rate, standards of income and living are bound to rise. But if it should stagnate for any reason while the population is growing, the levels of living are likely to decline. They are bound to fall in most Muslim countries where the birth rates are among the highest in the world and the economic expansion rates some of the lowest. In Iraq, for instance, it is given at 34.6 per 1000 population, in the Sudan even at a 37.9 rate, which compares with 14.7 in the United States, 11.4 in the United Kingdom, and 9 in Germany. In short, the population of Iraq and other Muslim countries is multiplying rapidly, doubling every twenty to twenty-five years, while the stock of productive capital expands slowly or not at all, which is bound to aggravate economic conditions and reduce the levels of living. If poverty is the great enemy of human existence, it is the arch foe of the Islamic world.

Western observers must appreciate the universality and centrality of religion in the lives of Muslims, which may explain the apparent fatalism, the indifference to public affairs, and the political docility and conformism. They also illustrate the wretched position of one-half of the population, that of women. The status of women probably is the most glaring difference between the Judeo-Christian civilization and that of Islam. Sura 4 of the Koran contains most of the rules of marriage, divorce, and inheritance. Section 34 dogmatically sets men and women apart. "Men have authority over women because God has made the one superior to the other, and because they spend their wealth to maintain them. Good women are obedient. They guard their unseen parts because God has guarded them. As for those from whom you fear disobedience, admonish them, and forsake them in beds apart. Then if they obey you, take no further action against them. Surely God is high, supreme."

The Prophet may have been familiar with the writings of Aristotle who believed that women's primary virtue was obedience, being less courageous and weaker than men. Mohammed obviously rejected the Christian position that women have souls equal, in the sight of God, to those of men. Christianity offered equality to women, except in theology, which was closed to them. Throughout the ages
upper-class women enjoyed education and position equal to men, lower-class women carried on the world's work with men.

The heart of Islamic society is the Muslim family and home. To protect them from immorality and promiscuity, women must not reveal their faces, their arms, and their legs, or mingle socially in school or the workplace with men. Head scarf and veil are powerful symbols of cultural difference. While Muslim men may wear Western clothes as signs of modernization, Muslim women have no such choices. Western dresses signify betrayal of true Islamic values and may be punished accordingly. Relegated to the home and an inferior position in society, Muslim women are deprived of contributing their talents and energies to commerce and industry. With one-half of population excluded from market production and the other half severely limited in its economic activity, poverty is the constant companion of the world of Islam.

***

Many Muslims throughout the world live in a severe state of confusion. Clinging to Islam as their source of identity and theology, they face political frustration, economic stagnation, and social disorganization. In some countries, such as Iran and the Sudan, they returned to so-called Islamic fundamentalism as a potential cure for their ills. In the Arabic language of the Koran, Islam indeed means submission to Allah. In every case the cure actually aggravated the problems.

Some secularist elements insist on applying Western political, economic, and social principles subject to slight modification. But their views are readily rejected for being heretical and signaling a drastic break with the long tradition of Islamic theology and mores. They face opposition from the vested interest of powerful clerical forces as well as the repressive and authoritarian political regimes throughout the Islamic world. It cannot be surprising that few individuals dare to express their thought for fear of being branded as apostates and even stalked and killed by the faithful. Ayatollah Khomeini of Iran, for instance, called on all Muslims to seek out and kill Salman Rushdie, a Muslim novelist and British citizen, for his irreverent references to the Prophet of Islam. Another Muslim writer, Mahmoud Mohammed Taka, was executed for apostasy in the Sudan in 1985. Such examples cause Muslim thinkers and writers to evade all human rights issues and the Muslim population to be rather indifferent to public affairs. Political docility and conformism permeate the lives of most Muslims from Morocco in the West to Indonesia in the East. A few unruly fundamentalists who are willing to give their lives to Allah may wage war until death.

Source: www.sennholz.com