

Islam and the Path to
Human and Economic Development

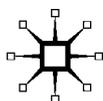
ISLAM AND THE PATH TO
HUMAN AND ECONOMIC DEVELOPMENT

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ISLAM AND THE PATH TO HUMAN AND ECONOMIC DEVELOPMENT
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Softcover reprint of the hardcover 1st edition 2010 978-0-230-10388-7
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First published in 2010 by
PALGRAVE MACMILLAN®
in the United States—a division of St. Martin's Press LLC,
175 Fifth Avenue, New York, NY 10010.

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Basingstoke, Hampshire RG21 6XS.

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ISBN 978-1-349-28831-1 ISBN 978-0-230-11001-4 (eBook)
DOI 10.1057/9780230110014

Library of Congress Cataloging-in-Publication Data

Mirakhor, Abbas.

Islam and the path to human and economic development / Abbas
Mirakhor and Hossein Askari.
p. cm.

1. Islamic sociology. 2. Economic development—Religious aspects—
Islam. 3. Economics—Religious aspects—Islam. 4. Islam—Economic
aspects. I. Askari, Hossein. II. Title.

BP173.25.M565 2009
338.90088'297—dc22

2009049010

A catalogue record of the book is available from the British Library.

Design by Newgen Imaging Systems (P) Ltd., Chennai, India.

First edition: August 2010

10 9 8 7 6 5 4 3 2 1

May Allah (SWT) accept this effort as a modest contribution in walayahh. May He guide our children—Hassan, Cyrus, Hashem, Afsaneh, and Sonya—to His path. And may their development be complete and their journey filled with peace, blessings, and much happiness.

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Foreword

Most people do not make a connection between the religion of Islam and the vital issues of economic and social development; and when they do, it is often to disparage Islam as a hindrance, even a retrograde force, in the progress of Muslim societies. The attempts by Muslim social scientists and economists in the past decades to develop a coherent discipline of “Islamic Economics” have not gone beyond the confines of the academic world, and, with the limited exception of Islamic banking, have not had a serious impact on either policy planners or the general public. They have also failed, I believe, to make the case that Islam has something distinctive to offer to the resolution of the myriad problems that face humanity, both in the rich and in the developing world: from poverty eradication, income inequalities, good governance in the poor countries to the problems that affect the rich world of overconsumption, alienation, and social fragmentation. At its heart, the inability to argue convincingly for a uniquely Islamic pathway to development has been because those who appear to advocate such a course have been unable—or unwilling—to base their case on a fundamental shift in their frame of analysis. That is until now.

Abbas Mirakhor and Hossein Askari have written a pioneering and profoundly significant work. Both writers have a long and distinguished record of scholarly achievement and have occupied prominent positions as policy makers and advisers to a variety of international agencies and national governments. Their work combines academic rigor, a thorough understanding of the evolution of economic and social theory and policy in the Western world, together with remarkably fresh insights into the moral and spiritual universe of Islam and its significance to the outer world of material achievement. It is in the way that they have woven the spiritualized precepts of Islam into the articulation of an alternative understanding of the nature, meaning, and purposes of economic development that sets this work apart. In the process Mirakhor and Askari have set markers for a new field of inquiry in economic development.

The authors demonstrate how economic theory became progressively distanced from its rooting in moral and political philosophy, until a reaction of sorts set forth with the rise of the New Institutional Economics of the postwar era. This opened economic development theory once again to a greater concern with the ethical component of economic activity, a position best exemplified in the work of writers such as Amartya Sen. Nevertheless, Mirakhor and Askari emphasize that in each era where a particular school of economic theory prevails—for example, the neoclassical economics that dominated economic theory and policy in the 1950s and 1960s—there are implicit underlying conceptions of *homo economicus*. These are the basic assumptions and postulates that drive the economic decisions of the irreducible individual. But this basic building block of all economic theory is not an invariant factor. It is one that changes with the age, and reflects the circumstances, values, and assumptions of that age. However, the models of *homo economicus* that have evolved to explain economic behavior have all tended to reflect the increasing secularization of society, where moral decisions are no longer embedded in the sense of the sacred. So that even when moral considerations appear to prevail—such as in Sen’s thesis of “development as freedom,” Giri’s emphasis on self-development or even in Mahbub al-Haq’s derivation of a human development index—there is no connection to an overarching spiritual framework for guiding human action and for setting the permissible limits and boundaries to such action. Although many scholars have recently resurrected the moral writings of Adam Smith and their integral role in the formulation of his economic theories, Askari and Mirakhor point out that Smith’s moral views were rooted in a strong belief in the Divine and cannot be properly understood except when viewed through the prism of a man of faith.

The great achievement of Askari and Mirakhor’s work is that they have brought back the great spiritual traditions of Islam right into the heart of the debate on economic development. And this is a sea change from the sterile debates on the nature of interest in Islamically acceptable transactions, or the convoluted, apologetic attempts to find a place for Islamic teachings in the framework of prevailing theories of development. These have dominated the discipline of Islamic economics for too long and have contributed in no small measure to its very restricted audience and its inability to seriously affect the course of economic development.

Mirakhor’s and Askari’s work is truly path-breaking and deserves to be recognized as such. By establishing what they call the “Metaframework” and the “Archetypal Model” as an integral component of an alternative perspective on the idea of economic development, they have affirmed the

primacy of the moral vision that must form the basis of humankind's economic relations and transactions. In this respect, they have built on key Quranic terms and ideas and developed them into directions that could form the basis for a new theory of economic development in Islam. Their arguments are original, well reasoned, and convincing as well as being authentic to the traditions of Islam. They construct the model of a human being whose economic actions are guided by both inspiration and the pursuit of virtues, and not only self-interest. And these actions take place in a framework where both the Divine and the normative human archetype are ever present. Notions of *walayahh* (cherishing concern), *khilafa* (vice-regency), *karama* (dignity), *tazkiyya* (purification or making whole), *iman* (faith-in-action), *taqwa* (God-awareness)—all Quranic terms with a deep font of meaning—establish the moral identity of the spiritually charged human being and govern his or her actions. They are related to the Divine sanction by which humanity organizes its affairs and manages the earth as its custodian, as well as the way in which individuals expand their self-awareness through mindful acts of worship and correctly transacting with others.

Islam's moral universe shares a great deal with the other great spiritual traditions of mankind, and Mirakhor and Askari continually stress the interconnectivity of these, drawing on the many instances where both Christianity and Judaism reach the same or similar positions as Islam. The balance between the inner drive of individuals for self-awareness and fulfillment in the Divine Oneness (or *tawhid*), and the needs of a community that organizes itself to best serve these goals is the desirable end state for humanity. Economic development that is fair, dynamic, and harmonious becomes the natural concomitant to this balanced state of affairs.

Askari and Mirakhor continue by examining the institutional and broad policy implications of their case, what they call the rules-basis of comprehensive development in Islam. They anchor their argument on a decisive verse in the Quran, which confirms humankind's ability to attain a felicitous state of inner and outer plenitude if people cultivate an ethic of faith-in-action and the commitment that that would imply in terms of the pursuit of the virtues, not least the ideals of a Just Society.

Mirakhor and Askari raise a host of challenging issues and questions that can be the basis for a serious reexamination of the ideals of economic development in light of the world view of Islam. The directions to which they have pointed can be pursued by any number of scholars and researchers, both Muslim and non-Muslim, to elaborate further on such relationships. It would be possible then to formulate a theory of human beings that privilege humanity as moral actors working in the framework of a

divinely ordered world and pursuing the ideals and virtues that elevate humankind.

It has been a great privilege for me to have been afforded the opportunity to write the foreword to this book of riveting importance.

ALI A. ALLAWI
Cambridge, MA
December 2009

Preface

Muslims have recently begun to search for a genuine Islamic paradigm to guide them in developing their societies. Their ardent search is no more than a few decades old, and it is still in its nascent stage. This book is a modest effort in support of this pursuit.

There is a large cognitive deficit between the holistic vision of the Quran for human and societal development and the results achieved by Muslim societies of today. We try to draw out the Quranic vision, which we refer to as the “Metaframework.” The experience of the earliest society organized by the Prophet, the most perfect human receptor of the vision embedded in the Metaframework and the one human being who best understood the objectives of the Quran for mankind, we identify as the “Archetypal Model.” Whereas the Metaframework applies to the whole of humanity in the abstract and at all times and in all places, the Archetypal Model is an operationalized blueprint that takes into account the actual conditions and experiential mode of specific societies. Every path of development followed anywhere and called Islamic must contain the essence of the Archetypal Model. Together, the Metaframework and the Archetypal Model represent the Islamic paradigm.

In another sense, this book is a modest effort to understand one verse of the Quran in which the Creator specifies the necessary and sufficient conditions for the holistic development of human societies. In verse 96 of Chapter 7 of the Quran, we are told that a human society will be on “automatic pilot” on the path to full development, at the level of both its individual members as well as their collectivity, if the members of that society are rule-compliant and are in constant awareness of the ever-presence of their Cherisher Lord Creator. Today’s development theories consider operative rules in societies as the institutional structure underpinning the path of economic and social progress. We endeavor to flesh out these rules from the Quran and from the sayings and doings of the Prophet as he implemented them in the society he organized in Medina, and to understand how complying with these rules paves the path to development. Before

doing so, however, we begin by placing the Islamic paradigm of development within the historical context of Western development thinking.

Although the literature on economic development has a rich history spanning more than three centuries, the early discussions were narrowly focused on the development of the market-oriented economies of the West. Attention to less-developed economies has been largely a post-World War II phenomenon. In the early post-WWII period, economists defined economic development as a combination of rapid economic growth and structural transformation. Countries that had low levels of per capita income needed to grow faster to catch up with the developed, or industrial, countries of the West. To achieve this, they would benefit from a transformation of their economies from an agrarian to an industrial base, where the level of productivity and its growth were significantly higher.

Given that narrow definition of economic development, most early post-WWII theories of economic development focused on how rapid growth and structural transformation could be achieved. It was not until the late 1970s and early 1980s that economists, inspired by the pioneering contributions of Mahbub ul Haq and Amartya Sen, began to question the popular definition of economic development and the path for its achievement. They argued that development was much more than an increasing level of per capita income and a simple structural transformation. For the first time, human development, including education, healthcare, poverty eradication, a more even income distribution, environmental quality, and freedom, was seen as an integral component of the economic development process.

The metamorphosis of economic development theories incorporating human development has also been reflected in the topics covered in the World Bank's annual flagship publication, *The World Development Report* (first published in 1978, with its history recorded by Shahid Yusuf in 2009), and by the United Nation's initiation of a *Human Development Index* in 1990. Although economic growth is still a necessary condition for economic development, it is no longer deemed sufficient. In other words, although man needs bread to live, he does not live by bread alone! Following the footsteps of Mahboub ul Haq and Amartya Sen, some authors have introduced additional components of human well-being, such as the need for sharing with the less advantaged and of belonging to a group, and the avoidance of opulent living. Others have added the importance of sustainability and natural resource management to benefit current generations in less-developed countries and to support future generations.

Thus, through the passage of time, economists have come to see the process of economic development as much more than the quest for increasing economic prosperity. While economic growth merely signifies more

output, our understanding of what determines growth has also gone through a transformation. The Solow-Swan neoclassical model of economic growth attributed economic growth to inputs of capital, labor, and technical change (embodied in capital). Paul Romer and others enhanced the Solow approach by giving technology an endogenous role, incorporating the importance of education and human capital in the growth process. At the same time, the role of institutions in the growth process and especially those of the rule of law, of rule-compliance and trust, based on the work of Douglas North and others, became increasingly recognized.

While the definition of economic development and the policies for its achievement have gone through a metamorphosis in the West, the concepts of economic and human development in Islam are not time dependent, because Muslims believe that the Quran is the divine word of God. Islam is an immutable rules-based system with a prescribed method for humans and society to achieve material and nonmaterial progress and development grounded in rule-compliance and effective institutions.

In this book, we briefly survey the evolution of the Western concept of development before exploring the path to development in Islam. The Western concept of development provides the context and benchmark for comparing and assessing Islam's concept of development. The Western approach, now recognizing the wider dimensions of human development and the role of institutions and rules, has moved over time toward the vision and the path of development envisaged in Islam, emphasizing human solidarity, belonging, well-being, sharing, concern for others, basic human entitlements, and modest living. The focus in this book is on the Quran's view of development and the conditions necessary for individual and collective human progress. In Islam, development is composed of three interrelated and interdependent dimensions: individual human self-development, the physical-material development of the earth, and the development of human society as a whole. The most important of all these is the first without which the other two would not progress as envisioned.

More often than not, it is the lack of sufficient knowledge of the principles and institutional requirements of Islam that has created a gulf between the ideal vision and actual practice. While the Quran presents clear rules of behavior (institutions) for a balanced, holistic development of the individual and of the collectivity, these have been poorly understood and practiced. Centuries spent in the search for and articulation of the developmental vision of the Quran for humans led to the emergence of societal forms that in practice were antithetical to the vision articulated by the Quran and operationalized by the Prophet. A reversal has begun over the past few decades, initiating ardent efforts to understand the institutional requirements of an authentic Islamic vision for human development.

It is hoped that this book will make a modest contribution to this continuing effort and to an understanding that all claims, or pretensions, to Islamicity on the part of any society must be validated by the existence and effective operations of the institutional structures (rules of behavior) mandated by the Quran and operationalized by the Prophet. A reading of this book should confirm that in today's Muslim societies the most important core elements of an Islamic institutional structure are, by and large, notable for their absence.

Acknowledgments

We acknowledge the enormous contributions of Professor Iris Samawi Hamid for his earlier draft of chapter 3. We thank Dr. Parviz Morewedge and Global Scholarly Publications for allowing us to borrow freely from an earlier publication. We are grateful to Anwar Aridi for compiling the glossary and compiling the endnotes. We thank Kristin Devine for her copyediting, indexing and for cleaning up the manuscript. The manuscript has been enhanced by our editor, Farideh Koochi-Kamali and her associates at Palgrave Macmillan, Robyn Curtis and Heather Faulls, and by our copy editor, Rohini Krishnan. We are indebted to our wives for their encouragement, understanding, and support. We remain responsible for any remaining shortcomings.