

# **Islamic Economics and the Economics of Other Religions**

# WHAT IS THE TRADITIONAL ECONOMY?

- The essence of traditional economies is that they are embedded within larger social and cultural frameworks
- Market and command economies:
  - production and distribution decisions are made largely on economic grounds, with sociocultural factors subordinated to the economic ones
- In traditional economies people decide according to past practices that have coevolved slowly with the religious and family structures of their societies
- Such economies are often characterized by **familistic groupism that extends beyond family** groups. This was the original economic system as the human species evolved.

# WHAT IS THE TRADITIONAL ECONOMY?

- **Old Traditional Economy**, characterized by primitive technologies:
  - **Household**: the focus is on family groups and sharing among them
  - **Reciprocal**: exchange relations between groups take a ritualistic form of gift giving that is reciprocated
  - **Redistributive**: a Big Man or another central authority redistributes goods

# WHAT IS THE TRADITIONAL ECONOMY?

- **Old Traditional economies:**
  - a crucial part of the sociocultural matrix within which economic decision making is embedded is the traditional religion that dominates the society.
- **New Traditional Economy:**
  - **there is an effort to re-embed economic decision** making within such a religiously derived sociocultural matrix, but with modern technology instead.

# **THE APPEAL OF THE NEW TRADITIONAL ECONOMY**

- The New Traditional Economy seeks to be the best of all possible worlds, combining old with new, individual with collective, ethical with practical.
- It is supposed to be the true Third Way between capitalism and socialism, drawing upon the virtues of each while eliminating the sins of each
- Use of technology to spread the virtues of religion in search of socioeconomic order

# RELIGIONS AND ECONOMICS:

- Economic conduct of major world religions:
  - Buddhism
  - Confucianism
  - Hinduism
  - Judaism
  - Christianity
  - Islam

# RELIGIONS AND ECONOMICS:

## Buddhist Economics

- In a famous essay, E. F. Schumacher extols the virtues of **Buddhist economics, arguing** that the goal of humanity should be **spiritual liberation** and that Buddhist economics offers a means to this end.
- He invokes a vision of a balanced attitude toward work, directed at **achieving a level of consumption that is satisfying but not saturating.**
- Schumacher exalts the harmony of humanity and nature:
  - **Trees should be worshipped**
  - **Nonrenewable resources should not be wasted**
  - **Local production should be favored** over long-distance trade in order to reduce wasteful transportation activities and to encourage self-sufficiency.

# RELIGIONS AND ECONOMICS:

## Buddhist Economics Revisited

- Buddhist Economics (Schumacher, 1973)
  - Right Livelihood (A concept of the Noble Eightfold Path)
  - Material Wealth versus Liberation
  - Consumption versus Human Well-Being
  - Production from local resources for local needs
  - Simplicity and non-violence
  - Careful use of non-renewable resources
  - Work to purify character but not to multiply wants



# RELIGIONS AND ECONOMICS:

## Buddhist Economics

- Is there such a thing as Buddhist economics?
  - In China and Japan the religion has played a relatively passive role
  - As a dominant ideology, Buddhism has been confined to South and Southeast Asian countries
  - Nations where Buddhism has flourished are Sri Lanka, Myanmar, Thailand, Laos, and Cambodia
  - **Buddhist socialism in Burma**
  - Schumacher emphasizes detachment from materialism and a de-emphasis on mindless economic growth.
  - Burma has had a very low economic growth rate since its independence, but the Burmese leadership no longer views this as a good thing

# RELIGIONS AND ECONOMICS:

## Confucian Economics

- Arguably Confucianism should not be included in this discussion, as it is more a philosophy and a cultural influence than a religion
- Its current influence does not take the form of religious leaders advocating some fundamentalist adherence to holy scriptures or priestly hierarchies
- Confucius was a scholar/adviser of the sixth century B.C.E. to political leaders, and he wrote his ideas in the *Analects*, with many later discussions and additions by other Confucian scholars

# RELIGIONS AND ECONOMICS:

## Confucian Economics

- Its five central concepts are:
  - benevolence
  - *righteousness*
  - *propriety*
  - wisdom
  - *Faithfulness*
- Benevolence implies a hierarchy in which benevolent elites (the emperor in China and his scholarly Mandarin bureaucrats) rule those who, in return, are loyally obedient to those elites as long as they truly practice benevolence.

# **RELIGIONS AND ECONOMICS:**

## **Confucian Economics**

- This idea extends to the family, where the son obeys the father and the wife obeys the husband. Thus there is strong emphasis upon order, hierarchy, education, and benevolence, all argued to be crucial elements of Confucian societies and their economies.
- Confucian attitudes toward market forces have been mixed

# RELIGIONS AND ECONOMICS:

## Hindu Economics

- Hinduism is the predominant religion of India, the world's second most populous nation.
- Central to the Hindu socioeconomic worldview is the caste system, the archetype of an old traditional economic system.
- The caste system, justified by the karmic doctrine of reincarnation, persists in the **jajmani system of fairly self-sufficient groups of local villages trading** with each other through the well-defined division of labor provided by the hereditary caste system

# RELIGIONS AND ECONOMICS:

## Hindu Economics

- In past centuries various outside rulers, such as Muslim Moguls and Christian British, tried to penetrate and break this system.
- But it survived, partly as a result of the Hindu village tradition of paying a share of its output to the current ruler without question
- The foundation of **Hindu economics was laid down by the father of Indian independence, Mohandas (Mahatma) Gandhi**, in his 1909 book *Hind Swaraj*. *Swaraj means selfrule* and *self-sufficiency*, both nationally and at the village level

# RELIGIONS AND ECONOMICS:

## Hindu Economics

- Gandhi was essentially an Old Traditionalist in his economic views:
  - strongly opposing modern industrialization, railroads, and urbanization.
  - He idealized homespun cloth and made the village spinning wheel the symbol of his movement, calling indigenous technology *swadeshi*.
- Gandhi also opposed excessive consumption, paralleling the views of the Buddhists.

# RELIGIONS AND ECONOMICS:

## Hindu Economics

- Gandhian economics (Kumarappa, 1951)
  - Truth, non-violence and non-possession
  - Rejects the concept of maximization of self-interest
  - Parasitic economy versus service economy
    - E.g. tiger and monkey/bees
  - Primary needs versus luxury goods
    - E.g. cultivation of food grains or tobacco



# RELIGIONS AND ECONOMICS:

## Hindu Economics

- In his 1965 book *Integral Humanism*, Deendayal Upadhyaya transformed this Gandhian inheritance into a New Traditional view for the Hindu nationalist political movement.
- Upadhyaya largely reiterates Gandhi's views, although with less emphasis on uplifting the Untouchables and more emphasis on adapting to modern technology.
- He advocates *swadeshi* but interprets it in the sense of **appropriate technology as described by development** economists.

# RELIGIONS AND ECONOMICS:

## Judaic Economics

- The Torah contains a long list of specific rules and injunctions regarding economic behavior.
- Many are consistent with markets and private property.
- However, many of these strictures are irrelevant in the modern world, such as rules about the selling or treatment of slaves.
- Some have drawn the attention of certain Orthodox Jews as perhaps being appropriate for Israeli society.
- Among these are the use of tithes for redistributing income and the prohibition of charging interest among Jews, although this rule is not applied to non-Jews.

# RELIGIONS AND ECONOMICS:

## Judaic Economics

- The concept of the **Jubilee Year** is a dramatic **example of a religious idea influencing** current economic behavior
  - **Prohibition against working on the Sabbath**, a rule that has generated the most heated specific demands by fundamentalist groups in Israel, such as forbidding flights on the Sabbath by the national airline, El Al
  - The generalized version of the Sabbath argues for **the fallowing of land every seventh year**

# RELIGIONS AND ECONOMICS:

## Judaic Economics

- After seven groups of seven years (49) will come a jubilee year:
  - property will be remitted to its original owner,
  - recently acquired slaves will be freed,
  - the poor sojourner will be cared for, and so forth
- Modern Israel emphasizes building a functioning economy within a hostile environment

# RELIGIONS AND ECONOMICS:

## Judaic Economics

- Some of the most distinctive institutions of the Israeli economy have not come from religious sources, notably the **kibbutz, which was inspired by secular European utopian** socialism, although the most successful kibbutzes today appear to be those that were founded by religiously oriented Orthodox Jews.
- Indeed, the Israeli economy exhibits a **fairly high level of state ownership** reflecting the socialist nature of the founding Labor Party, despite **more recent movements toward privatization and free markets**, which have also undermined many of the kibbutzes.
- Although the fundamentalist movements are very strong in Israel, economic proposals that are perceived to be counter to national survival are strongly resisted

# RELIGIONS AND ECONOMICS:

## Christian Economics

- In the Roman Catholic Church an important figure in developing economic doctrines was St. Thomas Aquinas, who in the thirteenth century reconciled Aristotelian philosophy with Christian theology.
- Among Aristotle's ideas that he imported into Catholicism were the **idea of the just price and an abhorrence of charging interest**

# RELIGIONS AND ECONOMICS:

## Christian Economics

- This linkage between feudalism and Roman Catholicism led to a lack of enthusiasm for modern capitalism.
- However, despite the presence of certain Marxist-oriented *liberation theologians among Latin American Catholic clergy, the Church has generally been antisocialist*, especially under Pope John Paul II of Poland.
- He supports market capitalist economics more than any previous Pope, but is still critical of its excessive materialism and lack of compassion for the poor
- In Italy and Germany the Catholic Church–based political parties have been the Christian Democrats

# RELIGIONS AND ECONOMICS:

## Christian Economics

- In contrast, Christian Protestantism has been more closely linked to market capitalism both socially and ideologically
- The **Protestant ethic is the spirit** of capitalism.
- Given the differing views among both fundamentalist and mainstream Protestants as well as Roman Catholics, the true nature of Christian economics remains unclear



# RELIGIONS AND ECONOMICS:

## Islamic Economics

- Islam was founded by the Prophet Muhammed (570–632 C.E.), a successful merchant in the west-central Arabian city of Mecca
- The city contained a shrine known as the *Ka'bah* that was the destination of annual pilgrimages by many Arabian tribes
- Two clans: Hashemite and Quraysh (dominant)
  - Quraysh clan controlled the earnings from shrine
  - Muhammed belong to Hashemite clan

# RELIGIONS AND ECONOMICS:

## Islamic Economics

- Around 610 the Prophet Muhammed began to receive revelations from Allah through the angel Gabriel.
- These revelation constitute the body of Quran
- He also made many pronouncements separate from the *Qur'an* that are collectively known as the *Hadith*.
- These two sources are the foundation of the Islamic law code, the *Shari'a*.
- A fundamental point is an absolute and uncompromising monotheism.
  - There is no god but Allah, who is all powerful and utterly transcendent. The central concept of Islam is submission to the will of Allah; the word *Islam* means exactly that

# RELIGIONS AND ECONOMICS:

## Islamic Economics

- In 622 the *Hijra occurred—the migration of the Prophet Muhammed and his followers* to Medina, an agricultural city north of Mecca, to which he was invited by conflicting tribes desiring a mediator
- Thus the Prophet Muhammed became a political leader as well as a religious prophet.
- The *Qur'anic suras of this time establish rules for marriage, inheritance, and many other issues that arise in the functioning of a society*

# RELIGIONS AND ECONOMICS:

## Islamic Economics

- After the Prophet Muhammed's death in 632, the inner circle of his companions selected a **successor to him known as a caliph, who would lead the *umma* but would *not be a* prophet.**
- Struggles over the caliphate would eventually divide Islam
- By 644 the caliphs had successfully conquered Syria, Palestine, Egypt, Iraq, Iran, and portions of Central Asia.
- Over the next 75 years North Africa and Spain would be conquered, ending 100 years after the Prophet Muhammed's death with a thrust into central France, which was thwarted

# RELIGIONS AND ECONOMICS:

## Islamic Economics

- Over this suddenly vast empire the caliphs imposed a reasonably benevolent rule, leaving intact local political and social structures.
- Believers in monotheism—Jews, Christians, and Zoroastrians—were allowed to practice their religion as long as they paid a special tax
- The fourth caliph was the Prophet Muhammed's son-in-law, Ali, whose caliphate was contested by Mu'awiya of the Quraysh clan.
- Ali's supporters came to be known as *Shi'is*, while Mu'awiya's supporters came to be known as *Sunnis*

# RELIGIONS AND ECONOMICS:

## Islamic Economics

- In 680 Mu'awiya's son, Yazid I, defeated and killed Ali's son, Husayn, and his Shi'i followers at the battle of Karbala in Iraq, a martyrdom annually mourned by Shi'is on its anniversary
- This formed the main split within Islam. Yazid's victory signaled the general dominance of Sunnis, who constitute about 85 percent of the world's Muslims. Shi'is are dominant in Iran.
- They are a majority and a plurality, respectively, in Iraq and Lebanon, but Sunnis have dominated both countries politically, socially, and economically.
- Small Shi'i sects dominated politically in Yemen and Syria. East of Iran, Shi'is are frequently of the urban middle class, but generally they are a small minority.

# RELIGIONS AND ECONOMICS:

## Islamic Economics

- **The Rise and Fall of Islamic Civilization**
- The apogee of Islamic civilization came during the Abbasid caliphate, based in Baghdad after 750.
- A high point was the rule of Harun al-Rashid (786–809). Baghdad was the world's largest city outside of China, and China was Baghdad's only rival in science and the arts.
- Muslim scholars studied the ancient Greek philosophers, who were banned in Christian Europe, and expanded upon their knowledge with such intellectual achievements as the development of algebra and Arabic numerals

# RELIGIONS AND ECONOMICS:

## Islamic Economics

- After the death of Harun al-Rashid the caliphate began a long decline, breaking up into many small successor states by the mid-900s
- Despite this fracturing, the period 900–1700 actually saw the greatest expansion of Islam in terms of converts.
  - In some areas local populations adopted the long-established religion of the rulers, as in the Middle East.
  - In other regions, conquest by Muslim successor states forcefully converted the populace, as in Central and South Asia.
  - Finally, in many areas the conversion was led by merchants and missionaries, as in sub-Saharan Africa, Malaysia, and Indonesia.
- After 1700 the global expansion of Islam slowed as it encountered the expanding power of industrializing Christian Europe



# RELIGIONS AND ECONOMICS:

## Islamic Economics

- **THE PRINCIPLES OF ISLAMIC ECONOMICS:**  
**Fundamental Concepts**
- Three ideas underpin the Islamic economic system as a whole:
  - ***Tawhid, or divine unity***: the idea that all economic activity must be in accord with divine commands
  - ***Khilafah, or viceregency***: the idea that humans are the partners of Allah in managing the world and its resources
  - ***Adalah, or justice***: which implies concern for the welfare of others and cooperation as the basic principle of economic organization

# RELIGIONS AND ECONOMICS:

## Islamic Economics

- **Zakat, or Almsgiving**
  - In its original formulation it is a 2.5 percent tax on most forms of wealth, above a minimum necessity level, although higher rates, called the *tithe* (*'ushr*), are due for agricultural produce. The tithe seems more like an income tax than a wealth tax
- **Hard Work and Fair Dealing**
  - Sellers should use fair weights and measures.
  - One should work hard at one's chosen profession, presuming it is an honorable one, and enjoy the fruits of one's labors. Rightly acquired wealth is approved of in this system.
  - However, one should be modest in the enjoyment of wealth. Furthermore, one should pay one's workers a just wage, and one should charge just prices for one's output.
  - One should be efficient and not wasteful ("Allah does not love people who waste what they have." *Qur'an* 6: 141)

# RELIGIONS AND ECONOMICS:

## Islamic Economics

- **Proper Consumption:** Pork, nonritually slaughtered animals, and alcoholic beverages are not to be consumed. Prostitution and gambling are forbidden
- **Gharar, or the Avoidance of Chance:** One is not to make contracts when the outcome cannot be predicted.
- Thus, speculation, forward markets, and lotteries are all forbidden. Debates surrounding insurance, sharecropping, land rent

# RELIGIONS AND ECONOMICS:

## Islamic Economics

- **Qirad, or Profit Sharing:**
  - A deep issue for Islamic economics that remains unresolved is the line between disapproved of chance taking (*gharar*) and *approved-of risk sharing through profit sharing, known as qirad*
  - A universally accepted one that has received much attention from current Islamic economists is called **mudarabah.**
  - **This is an Islamic form of venture capitalism** in that there is a financial backer, which might be an Islamic bank, and an entrepreneur-manager. The first provides an agreed-upon sum of metallic money or possibly goods

# RELIGIONS AND ECONOMICS:

## Islamic Economics

- **Riba, or the Forbidding of Interest**
  - The core demand of Islamic economists is that interest be forbidden
  - It is forbidden both on money loaned over time and within barter transactions, where only goods are to be traded for each other at a supposedly equal rate
  - It can be argued that interest payments violate the fundamental Islamic requirements of brotherhood and justice because often interest is oppression and exploitation by the rich of the poor

# RELIGIONS AND ECONOMICS:

## Islamic Economics

- The rich should take care of the needy, but interest income flows from the poor to the rich.
- Furthermore, this tends to make the interest-receiving rich idle and unproductive, a parasite class.
- Similar arguments played roles in discussions by Greek philosophers like Aristotle
- It can also be argued that the redistribution of income leads to economic stagnation.
- In this scenario, consumption is reduced because of the lower average propensity to consume of the rich, who invest the income in expanded production, which leads to a surplus, as the market has diminished

# RELIGIONS AND ECONOMICS:

## Islamic Economics

- Focusing on profit sharing rather than interest shifts the focus to the entrepreneur and thus stimulates genuine economic growth while removing a source of cyclical fluctuation.
- Furthermore, forbidding interest eliminates the *Hayekian monetary trade cycle of excessive* investment responses to interest rate changes, leads to a closer link between savings and investment, and reduces destabilizing speculation.
- In this view, forbidding interest reduces inflation because there will be less overexpansion of credit and fewer people trying to live beyond their means.
- Cost pressures are reduced because producers can make profits at lower price levels, with the result that anticipated inflation will not affect investment.
- Finally, it may be efficient to forbid debt if there are sufficiently high costs associated with default and liquidation.

# **RELIGIONS AND ECONOMICS:**

## **Islamic Economics**

- The most serious criticism of these arguments has been that forbidding interest will lead to insufficient savings and hence insufficient real capital investment and economic growth.
- Some have responded that zero interest rates mean that future generations will not have their preferences discounted and that there will be a greater orientation to the future.
- Another problem with forbidding interest is how to allocate capital if there is no price for it.



# RELIGIONS AND ECONOMICS:

## Islamic Economics

- **The Practice of Islamic Banking**
- If proper Islamic banks are not allowed to charge interest, how can they make money?
- The answer is to finance and support the various allowed *qirad*, or *profit-sharing*, arrangements such as *mudarabah* described above.
- *Such an approach effectively makes Islamic banks the equivalent of non-Islamic mutual funds.*
- Someone depositing money in an Islamic bank de facto becomes part owner of the various enterprises to which the bank has lent money

# RELIGIONS AND ECONOMICS:

## Islamic Economics

- In most Islamic banks, probably the most widely used such arrangement is **murabaha**.
- **This** involves the financier purchasing goods for the producer and then selling them to him at an agreed-upon inflated price, which is to be paid back to the financier at an agreed-upon later date.
- This is viewed as legitimate by most Islamic economists because the financier bears risk during the period in which he owns the goods.
- But this period can be reduced to an infinitesimal time span and most practicing Islamic banks do keep such periods very short, thereby sharply reducing their own risk.
- Islamic banks increasingly want to do this, as they face frustration in getting their partners to report properly to them on net profits, and such arrangements can largely resolve this principal-agent problem.

# RELIGIONS AND ECONOMICS:

## Islamic Economics

- The first successful such institution was a savings bank founded in 1963 in the Egyptian town of Mit Ghamr.
- It was shut down by the government in 1968 during a socialist binge, but a full-service Islamic bank was opened in 1972 as the Nasser Social Bank.
- In 1975 a full service Islamic bank was opened in Dubai.
- At the same time the oldest son of then King Faisal of Saudi Arabia, Mohammed, founded the Islamic Development Bank (IDB), based in Jeddah, Saudi Arabia.
- This has been a major spearhead of the international movement toward Islamic banking and has been involved in much international trade and development lending.
- Islamic banks are now operating in over 60 countries, including the United States. Iran, Pakistan, and Sudan allow only Islamic banks, although in the first two of these countries

# **The United States of America: The Market Capitalist Leader**

# The United States of America: The Market Capitalist Leader

*We hold these truths to be self-evident:*

*that all men are created equal; that they are endowed by their Creator with certain inalienable rights; that among these are life, liberty, and the pursuit of happiness; that to secure these rights, governments are instituted among men, deriving their just powers from the consent of the governed; that whenever any form of government becomes destructive of these ends, it is the right of the people to alter or abolish it, and to institute new government, laying its foundation on such principles, and organizing its powers in such form as to them shall seem most likely to effect their safety and happiness.—Thomas Jefferson, The Declaration of Independence, 1776*

# The United States of America: The Market Capitalist Leader

*Their taste for physical gratifications must be regarded as the original source of that secret disquietude which the actions of the Americans betray and of that inconstancy of which they daily afford fresh examples. He who has set his heart exclusively upon the pursuit of worldly welfare is always in a hurry, for he has but a limited time at his disposal to reach, to grasp, and to enjoy it.*

—Alexis de Tocqueville, *Democracy in America*, Vol. II, 1840, p. 137

*The business of America is business.*

—Calvin Coolidge, U.S. President, 1923–1929

# **INTRODUCTION:**

## **THE WORLD'S LEADING ECONOMY**

- The United States of America has had the world's largest aggregate economy for more than a century and continues to lead the world at the beginning of the twenty-first century.
- Ranking third in population, the United States has been marked by a vigorous market capitalist system unencumbered by a history of feudalism and blessed with rich land and generally abundant resources.
- Largely open to immigration, it has a highly diverse and internally mobile population with generally high educational levels and skills and entrepreneurial traditions.
- A leading center of innovation since the mid-nineteenth century, it is the current technological leader of the world economy.

# **INTRODUCTION:**

## **THE WORLD'S LEADING ECONOMY**

- Even though the United States is a New World society with a relatively short history of continuous cultural development, it has the oldest continuously existing constitution of any nation on earth, written in 1787 and in effect two years later.
- This constitution established the eventually large area of the United States as a unified free trading area with well established private property and individual rights and a functioning democratic political system, although in its earlier years these individual political rights were not fully extended to all members of the population.
- The establishment of an independent judiciary as a third branch of government, balancing the executive and the legislative, supported the functioning of the system of contracts and property that allowed the market capitalist economy to function flexibly and thrive dynamically



# **INTRODUCTION:**

## **THE WORLD'S LEADING ECONOMY**

- Nevertheless, the history of the American economy and society has not been without difficulties and blemishes. Its greatest crisis and conflict was over the slavery system that divided the industrial North from the cotton-growing South.
- This culminated in the Civil War of 1861–1865, in which more Americans died than in all its other wars put together.
- Fought mostly in the South, where sometimes a bitter memory of it still lingers, the Civil War resulted in the end of slavery after the North's victory ensured the continuation of the union of the states.
- But the emancipation of the slaves did not lead to the economic or political uplift of the African American population, as an oppressive segregationist system was put in place after the immediate postwar Reconstruction period

# **INTRODUCTION:**

## **THE WORLD'S LEADING ECONOMY**

- The westward expansion of the United States was accompanied by the conquest and suppression of the Native Indian population, much of which was confined to reservations usually located on poor land; this ethnic group is still the poorest in the country.
- More generally, a high level of income inequality and of poverty relative to other advanced market capitalist economies characterizes the United States

# INTRODUCTION:

## THE WORLD'S LEADING ECONOMY

- Besides leading in technology with the emergence of the **American system of interchangeable** parts and standardization during the early 1800s, the United States has innovated in both economic institutional structures and organizational forms.
- Institutions provide the broad framework, such as the legal system, within which the organizations that manage the economy can develop and evolve.
- The United States was the fountainhead of the key organization of the modern world economy, the industrial corporation, whose standard form, the managerial, line and staff hierarchy, initially emerged in the railroads that would span the continent in the latter part of the nineteenth century.