

RE-INTRODUCING ISLAMIC CAPITALISM  
OUTLINES

BY

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Paper to be presented at the G20 Medeniyetler Zirvesi, Istanbul, Nov. 16<sup>th</sup>-18<sup>th</sup>, 2015

## RE-INTRODUCING ISLAMIC CAPITALISM

Introduction:

Look at any international comparison, and you will be informed that the average per capita income of Muslim countries amounts to about 4,200 to \$4,500 at PPP.

Compared to all the developed (high income) countries, the per capita income of the Muslim world amounts to 11pc of the former's level.

In plain English,

With the exception of oil exporting countries Islamic World is poor.

But this was not always so.

From the 7th century, when Islam was revealed,

Until the middle of the 13th,

Islamic World was flourishing.

The economic system which so enriched Muslims

Can be deduced from the Qur'an and the ahadith.

These sources reveal that

Merchants were highly respected,

property rights and free trade were granted utmost importance,

principles of market economy and market wage rate were applied,

interference in the markets were considered

as transgression and sinful.

All of these indicate that the economic system as envisaged in the classical sources of Islam was a capitalist system.

Leftist Muslims dislike this argument.

They have a simplistic argument:

Capitalism is bad, Islam is wonderful, so

Islamic capitalism is an oximoron.

When these people refer to capitalism,

They mean the ruthless western capitalism during the industrial revolution.

But there are many capitalisms.

Today we have democratic capitalism (as in the West) and authoritarian capitalism (as in China and Singapore).

In history, we have Islamic capitalism (7th century to the 13th),

Catholic capitalism of Northern Italy and Flanders (11th-13th centuries)

Protestant capitalism that emerged from the 16th century on.

By the way, I am sure you are noticing that

I am rejecting Max Weber's Protestant Ethic and the Spirit of Capitalism.

Indeed, Protestantism was not the only religion or doctrine

that promoted capitalism.<sup>1</sup>

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<sup>1</sup> That there were many types of capitalism classified according to chronology and function is now generally recognized. The salient characteristics of all capitalist economies were the use of market for allocation and distribution of goods and factors of production. Hartwell, R. M. and Stanley L. Engerman, "Capitalism", in J. Mokyr (Ed.), *The Oxford Encyclopaedia of Economic History*, vol. I, (Oxford: Oxford University Press, 2003), 319. For an excellent account of a non-western, Chinese capitalism, see; David Faure. *China and Capitalism, A History of Business Enterprise in Modern China* (Hong Kong: Hong Kong University Press, 2006), 48. On the Islamic disapproval of market interference see; Abbas Mirakhor and Zamir

This Islamic capitalism was an ethical, commercial and Pre-industrial capitalism.

It was a risk sharing system and was based upon risk sharing between the Capitalist and the entrepreneur.

Moreover, it antedated all forms of Western capitalisms of the Post-Roman period.

Consequently, its most important institutions, such as, interest prohibition, business partnerships, waqfs (foundations) and maritime law, were borrowed by the West.

This meant that

There was a remarkable convergence between the two capitalisms of the medieval period.

But in time three events triggered a diversion:

Dilution of the interest prohibition in the West,

The French enlightenment causing the Catholic church to loose its power and prestige and the spread of enlightenment over continental Europe with Napoleon.

Such cataclismic events did not take place in the Islamic World.

So, we would expect that Islam would be

characterized by continuity.

But this was not the case.

While Islam could keep its basic characteristics and

its economic perspective was not diluted,

Islamic states gradually moved from

Islamic ethical capitalism towards proto-quasi socialist systems.

Possible cause/hypothesis:

the 11th-13th century pincer attacks by the crusades and the Mongols.

So, two reverse movements:

- a) While the West moved from ethical capitalism to profit maximizing, Dickensian, ruthless, interest based capitalism.
- b) Islamic World moved from the ethical risk sharing capitalism to proto-quasi socialism.

Gradually, Profit maximizing western capitalism began to finance western imperialism.

No counter force in the Islamic World.

Ottoman proto-quasi socialism was no match for western profit maximizing capitalism.

The rest is history

So, what should the Islamic World do?

Civilizational survival is at stake !

If I may change the famous statement of Otto Von Clausewitz somewhat,

I would argue that

The defensive weapon must match the offensive weapon.

If, western capitalism was

the main force behind western imperialism, then Islamic World should re-introduce its own ethical, risk sharing capitalism.

After the 1960s, when Muslim countries re-gained their independence from the colonial Powers, they wanted

- a) to achieve sustained economic development and
- b) to do this in conformity with the basic teachings of Islam.

They tried to do this by

focusing on Islamic finance.

But, this is putting the cart before the horses.

Because no financial system functions in a vacuum, all financial systems function within broad economic and socio-political framework.

And, yet,

such frameworks cannot operate without certain pre-conditions.

Without these pre-conditions, finance, by itself, cannot evolve and eventually ends up imitating the dominant system.

This is, indeed, what happened.

Today, Islamic finance is a high cost imitation of Western finance.

What then are these pre-conditions ?

These are two types.

- 1) Those that exist within the Islamic culture and traditions.

These need to be identified and, when necessary, modernized.

2) those that must be imported from other cultures.

The following exist within:

Freedom of thought, freedom of worship, property rights, rule of law, human rights.

As for those that need to be borrowed,  
they must be borrowed s.t. certain criteria.

These criteria,  
as well as the questions of what to import and  
how to import can be answered  
by the Al-Ghazali and al-Shatibi optimum.<sup>2</sup>

To say in a nutshell,  
any institution that moves the society towards the  
Al-Ghazali and al-Shatibi optimum,  
can and must be imported, and  
any one that moves the society away from this optimum,  
must not be imported.

In short,

We have a practical criterion to guide us

What to import and what not to import.

But a formal explanation can only be made in another paper.

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<sup>2</sup> Murat Çizakça, *Islamic Capitalism and Finance, Origins, Evolution and the Future* (Cheltenham: E. Elgar, 2011), ch. 16.

