CHAPTER 2

UNDERSTANDING THE SUSTAINABILITY OF ISLAMIC ECONOMICS VERSUS NEO-CLASSICAL AND KEYNESIAN MODELS

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Abstract

The enduring predicament facing contemporary schools of economics is to reform their theoretico-practical pillars in a way to strike a dynamic trade-off between efficiency and equity at the level of practice, the key precondition of achieving the sustainability of an economic system. Islamic economics has recently resurfaced as the unique model hypothesized to have an institutional structure for striking the cited trade-off. Against this backdrop, this paper aims first to theoretically investigate this hypothesis. The second aim of the paper is to investigate if Islamic economics could capacitate Muslim nations to achieve the same trade-off at the level of practice. The paper concludes first that Islamic economics merges its idiosyncratic macro and micro economic, political, behavioral, ethical, and socio-cultural institutions in a way to achieve a sustainable economic order in both the short and long run. Second, contemporary Muslims fail in their developmental effort not because Islamic economics does not provide them with necessary institutional infrastructure but because they fail in implementing its theoretical construct in a systemically complementary manner. Ultimately, the paper provides insight into the sustainability of Islamic economics at the level of theory and practice in light of the qualitative and quantitative data coming out of the previous sections.

Keywords: Keynesian economics, neo-classical economics, equity-efficiency tradeoff, sustainability, Islamic economics

ISLAMIC PERSPECTIVE FOR SUSTAINABLE FINANCIAL SYSTEM
1. Introduction

In terms of the endogenous evolution of the Muslim world and its exogenous dialectic with the West, the general conviction is that the level of politico-economic development across the Islamic world was higher than that in Western Europe in the 10th century but that the West caught up with and then dominated the Muslim world by the 17th and 18th centuries (Roberts & Westad, 2003: 333-56; 633-60).

Today, the world economy has been passing through a stage when the orthodox schools of economics and their practices have fallen into a deadlock. No one seems to know how the ongoing stagnation across the world can be overcome and how or whether a new economic order can be established on sustainable pillars. The deadlock is not similar either to the Great Depression of 1929 or to the Great Stagflation of the 1970s. Because there is no clear-cut alternative such as adopting market-led or state-led and organized or disorganized economic systems. On the one hand, the Trump administration, composed of Wall Street bankrupt leaders as dedicated conservatives, raised tariffs and exerted great pressure upon the FED to adopt a growth-driven monetary policy by reducing interest rates. The same administration lifted the re-imposed regulations on the country’s financial system during and after the Great Recession and commoditized health services, on the other. This is why Krugman notes that this is ‘a strange time’ for the science of economics.

In times of crisis, the available options are worth considering, which holds now more than ever. And Islamic economics is hypothesized to have resurfaced again in such an ambiguous setting. Underlying this hypothesis is that Islamic economics has genuine policy prescriptions to deal with the negative externalities of ongoing stagnation. Against this backdrop, dedicated Muslims take it for granted that Islam’s divinely ordained normative unchangeables would spontaneously lead them to the most conciliatory and conflict-free political regime and the most productivist system of economy. The unquestioned critiques of Islamic economics argue that it is already obsolete and there is no room for Muslims to institutionalize and sustain an economic order to substitute for the embedded capitalism.

This paper draws upon the fact that thorough clarification of these contentious theoretical-practical perceptions requires, first, (i) revealing the fallacies of modern schools of economics, second, (ii) examining the theory of Islamic economics with its main institutional stock, and third, (iii) comparing the Muslim nations’ performance with this stock. The three sections of the paper aim to achieve these tasks, respectively. The concluding section proceeds to provide insight into the sustainability of Islamic economics at the level of theory and practice in light of the qualitative and quantitative data coming out of the paper’s three sections.
2. What Makes Neo-Classical and Keynesian Economics Unsustainable?

The basic commonality of the Keynesian and Neo-classical economics that underlied systemic crises in the 1970s and the late 2000s, respectively, is that they did not have micro-macro economic, institutional, behavioral, and socio-cultural dynamics that complemented each other synchronously in establishing a sustainable system between efficiency, equality, and industrial sophistication or technological advancement. What have out of the oddsey of the capitalist order, roughly from the 15th century and specifically from WWII onwards, is that an economic system cannot be sustained (i) without striking a trade-off between efficiency and equality, (ii) without having the necessary institutional order that imposes both liberalizing and regulating constraints on economic and political actors in a way to strike this trade-off, and (iii) without having necessary behavioural dynamics that underlie the optimal conduct of this institutional order. Today’s predicament facing modern economies is how to establish an order that would sustain these three building blocks simultaneously. Economic actors like the Trump administration assumes that the enduring crisis is a crisis of practical policy adaptations regardless of the institutional and behavioral dynamics and thus the above noted practical maneuvers implemented under its rule, though inconsistent, would be enough to overcome that. But the enduring stagnation over the last decade has yet to be overwhelmed and there is no promising agenda in that regard.

![Figure 1](image.png)

Source: Federal Reserve (2020)

Figure 1. Interest and Dividend Income Received in Billion $ by Nonfinancial Corporations in the United States, 1946-2017

For example, the key problem for the sustainability of the American economy before the Great Recession of 2008-2009 was the mounting profitability of financial investments in comparison to non-financial investments. The profitability of financial investments was 127 percent higher than that of the non-financial investments in the years 2002-2006. The same
rate of profitability was only 20 percent in the 1960s (Bakır & Campbell, 2013). This trend predisposed American non-financial firms to use more and more resources to make investments in interest-bearing financial assets, as illustrated in Figure 1, which underlied, inter alia, the declining aggregate demand and deindustrialization from the early 1980s onwards. This challenge has to do not only with the sectoral alignment but also with the behavioral inclinations of American businesses. Neo-classical economics advises private firms to maximize their profits using each opportunity regardless of its consequences on wider economic sustainability.

The Housing Bubble erupted as a result of the irrational exuberance originating with excessive investment in financial assets, which pushed up prices and profitability dramatically until the point when the economic system became unable to ‘finance’ the so-called irrationality. The Bubble caused all private economic actors (households, non-financial and financial firms) not only to lose their accumulated wealth but also to accumulate an immense stock of debt, which depressed the potential growth performance of the country in the long-run (Stiglitz, 2013). The result was an unsustainable economic order between inefficiency, inequality, and deindustrialization.

Keynesian economics emerged in response to similar conditions, which underlay the Housing Bubble, in the aftermath of the Great Depression of 1929. In fact, Keynes suggests a strategy of economic policy geared towards achieving full employment not only by expansionary fiscal and monetary policy but also by directly socializing idle capital to be used for speculative purposes which was an indirect cause of the worsening inequality of income. The Keynesian era roughly from WWII to the Great Stagflation of the 1970s witnessed a better performance in the American economy and elsewhere. However, there are two points, which still exist, that led to the demise of Keynesian economics. The first was the lack of a behavioural code that would refrain policy-makers from using expansionary strategies to favor themselves during political business cycles (Contrary to neo-classical arguments, Keynes does not advise pursuing expansionary strategies after the economy reaches full employment. But this does not change the noted reality).

The second is the lack of micro economic institutions that would underlie the trade-off between efficiency, equality, and technological advancement in private markets. How can we motivate industrial capital owners, who use more and more resources to make financial investments rather than real investments, not to do so for the sake of the sustainability of an economic system? How can we refrain capital owners from paying a much lower real wage far below the productivity of labor? How can we refrain the making of necessary acts by the policy-makers who are financially supported by the so-called capital owners to institutionalize
necessary formal rules and laws in order to enable the capital owners to exploit labor rights? All these questions remained unanswered in Keynesian economics. It is true that the Keynesian era of post-WWII witnessed the establishment of a regulated and growth-driven economic order, and a relatively sustainable level in inequality of income. However, as Keynesian economics does not have the necessary behavioural and institutional codes to make that order sustainable in the long-run, its policy prescriptions turn out to be useless when the practical dynamics of a capitalist order that made the Keynesian era possible change. The fact that the Keynesian policy recipes per se have fallen short of overcoming enduring world-wide stagnation over the last decade is a significant indicator in this regard.

3. What Makes Islamic Economics Sustainable?

The key question is if Islamic economics has the above cited three complementary qualifications necessary for making an economic system sustainable, the understanding of which requires a thorough examination of its institutional construct. Figure 2 illustrates the major institutions of Islamic economics, politics, and society.

In broad strokes, it can be suggested that, as in Keynesian economics and social democratic politics, major social institutions in Islam are predicated on a strategy of demand-constrained, right-based and social welfare-contingent political and economic development. Distinguishing it from the former two is its moral philosophy, as laid out by the Qur’an, the holy book of Muslims that embraces the main principles of an Islamic social order, and the Sunnah, the Prophet Muhammad’s way of enforcing the Qur’anic principles. This distinguishing feature originates from the infusion of Islamic ethical and legal values and norms into each formal political and economic institution under the rule of Tawhid, the unity of humanity out of the unity of Allāh (the unique God for Muslims). It is this unificatory quality of the Tawhid consciousness that underlies the Islamic ‘natural social contract’.

The natural social contract that unifies Muslims as one society irrespective of their race, status, or nationality is ontologically binding not only for its power of motivation for Muslims to construct the practical means of executing its raison d’être but also for its sacredly foreordained power of theoretical regulation based upon the very principle of Tawhid. The best example is that, in Islam, a property owner possesses the functional but not absolute ownership of material welfare such as goods, money, and land. This principle asserts itself in the de facto authority of Allāh over Muslims to enforce their economic transactions under the de jure existence of Islamic norms. The same is the case for the political and economic sovereignty that pertains to Allāh in a systemic sense, and Muslims utilise its effectual
Figure 2. A Typology of Islamic Economics, Politics and Culture
manifestation rather than its absolute essence. These two principles are the key divine constraints on the economic and political discretion of capital owners and political powerholders.

In Figure 2, the cross-institutional interactions between economy, polity, society, and the market in an Islamic order under the cement of the cited social contract can be seen. The arrows indicate the impact of each unit on the others. For example, arrows at the left upper point of the upper left arch indicate the impact of polity on society. Points I, II, III, and IV illustrate the consequence(s) of the combined impact of three intersecting constituents out of the economy, society, polity, and market. ‘I’ shows, for example, the combined impact of economy, polity, and society. In the following, we elaborate on each part of the systemic equations and interactions illustrated in Figure 2.

The Islamic State, Democracy, and Political Governance

There are, inter alia, three constitutive components of an Islamic state: Islamic law (shari’ah), the Muslim community (ummah), and the Khalifah, the head of the Muslim community according to the shari’ah. In terms of the interplay between polity and society, the ultimate purpose of an Islamic state is to establish an institutional framework for the unity, harmony, and cooperation of Muslims over a certain territory. Its existence is not an end in itself but a means for the execution of a just and equal order, the Shari’âh, the forestalling of injustice and unfair practices, and the establishment of freedom and dignity among human beings (Asad, 1991: 30-3).

For the embodiment of a genuine ‘Islamic’ state, therefore, there should be “a precise body of laws which would outline, however broadly, the whole sphere of human life in all its aspects - spiritual, physical, individual, social, economic, and political” according to Islamic premises. For establishing and sustaining this order, it is a compulsory task for the Khalifah, as stipulated by the Qur’ân, to consult with the community, the shura, on their major actions (Turabi, 1983: 242). Shura is defined as “the mutual advice through mutual discussions on an equal footing” in the Qur’ânic approach (Rahman, 1986: 92-93). The fundamental principle is that all Muslims are equal in making collective decisions that interest their mutual affairs (Maududi, 1986: 39-42). Shura is a systemically constitutive institution in Islam insofar as it is stipulated that all social interactions at group levels, from the family to political decisions, should primarily be settled by consultation. On the basis of this governance-theoretic structuration, it is popular consent and free choice that underlie Islamic politics and require that Islamic governments be formed on the basis of election even though the institutional grounds and the style of electoral politics is not tantamount to a democratic regime in the fullest meaning of the word.
In Islamic politics, the conflict between the caliph, his bureaucracy, and the citizens are first referred to the judiciary for adjudication. If the dispute cannot be resolved in this way, “Muslim community or any of its members is entitled to rebel against the erring khalifah or to replace him by another (imam)” (Iqbal, 1986: 13). “Nobody should be obeyed in disobedience to God”, said Umar. it is popular consent and free choice that underlie Islamic political interaction and require that Islamic government be formed on an election basis (Asad, 1991: 36). However, its institutional grounds and the style of Islamic electoral politics is not tantamount to a democratic regime in the fullest meaning of the word. On the one hand, if the key principles of democracy are majority rule, free and fair elections and the accountability of the rulers to the ruled with the complementary role of the basic principles of individual liberty, privacy, freedom of expression and association, and freedom of voting and contesting, then Islam conforms to democratic elections (Al-Jabri, 2009). On the other hand, it is at odds with the Islamic political system in that contemporary democracy resides in the ideas of enlightenment tradition, secularism, norm-free rationalism, and the sovereignty of society as an ultimate end in itself (Enayat, 1986: 125-30; Moten, 2000).

In Islam, the sovereignty is stipulated to rest with Allâh, and democracy is for the election of rulers to enforce the practical means of establishing Allâh’s sovereignty on the earth. Put differently, the core of Islamic democracy is that all Muslims are the vicegerents of Allâh on earth and are collectively responsible for the execution of Shari’ah systemically (Esposito, 1991: 4). Democracy is thus a means for this end, not for an end in itself. The actions of voting and being voted should be carried out to serve this ultimate purpose, not necessarily to elect the best rulers to procure the highest material welfare to their voters. First and foremost, as noted above, in Islam, it is Allâh’s unity that constitutes the spiritual basis of political coherence between Muslims. Without being predicated upon this unificatory power, it is presumed that inter-human relationships can in no way give life to a peaceful and a stable coexistence, and therefore, a substantive democracy cannot be inaugurated.

The Ethics and the Basics of Islamic Economic Action

As a sub-section of Islamic social organisation, Islamic economics is rooted in the evolution of material advancement under the auspices of a normative background that furnishes market actors with the source of spiritual regulation, the (business) ethics (Beekun, 2006). Without the constraining role of this ethical background, economic progress loses its meaning. Because Islamic ethics, whose core constituent is *taqwa*, is both the prime determinant of distributive equity and economic efficiency, two main institutions underlying Islamic economic action, and the delicate productivist and egalitarian balances between them
(Naqvi, 1981: 91-94; Choudry, 1992: 138). In Islam, ethics is not linearly static but is an evolutionarily dynamic institution that calls for seamless and stable integration with the practical conduct of society. In conjunction with ethics, the value in Islamic economics is “a commodity, product, or service that is bought and sold in the market which Islam holds up as a sanctified system for the realisation of human freedom and the Godly Laws” (Choudry, 1992: 107).

Ethics makes up the normative implication of economic value and determines the long-term sustainability of Islamic optimum in economics. As in institutional and Keynesian economics, the social optimum in Islam is the co-establishment and co-sustenance of efficiency and equity. The divergence point of Islam is that this optimum should be provided with the aim of realising the maqāsid, the purposes. According to al-Ghazāli, the maqāsid exists, in essence, to promote the well-being of both Muslims and non-Muslims and consist of safeguarding the faith (din), the human self (nafs), the intellect (‘akl), posterity (nasl), and the wealth (māl) (Chapra, 2000: 116-118). At the level of macro-economy, the maqāsid become a prerequisite for the realisation of the full employment of production factors without breaking social optimum and harmony, the moral fibre of society. Under the confines of maqāsid, the baseline of the Islamic social optimum is the production and distribution of goods and services to adequately meet the needs of all individuals and the structuration of an equitable distribution of income and wealth without weakening the motivation to work, save and invest. Thus, in Islam, market unoptimum does not merely consist of classic market imperfections or failures but also embraces the decay and evanescence of normative pillars or ethical principles.

The fountain of Islamic ethics is, as in the other areas of PE, the Revelation and its practice by the Prophet Muhammad that set the stage for right and wrong, desirable and undesirable, just and unjust. The touchstone of the Qur’ān and the Sunnah in terms of economics is that Allāh has endowed and will always endow adequate resource for sustenance of a decent life. Islamic decency in economic terms requires people not to seclude themselves from the market and live for ‘a bite of food and a cloak’ but to demand, to supply and to consume respective of mutual social needs with the consciousness of cooperation and sharing. In this sense, key economic institutions such as production, trade, commerce, profits, consumption, and exchange are not denied but constrained by social utility.
Free Markets and Regulatory Constraints in an Islamic Order

Islam, in principle, can be suggested to assume a market-oriented economic circulation. However, in Islam, it is assumed that in the case of the evanescence of the above noted ethical constraints, humankind, Muslims or non-Muslims, is prone to committing injustice and behaving non-optimally. Ibn-i Khaldun (1967 [1375]: V, 14) argues that a businessman ‘must’ enter into disputes, be clever, engage in constant quarrelling, and have great persistence. These qualities are, in fact, detrimental to the spiritual consistency of a human soul and pose a challenge upon it to detract from the good qualities. Thus, human interaction upon pecuniary means would spark off injustice and aggressiveness, which results in dissension, hostility, bloodshed, and loss of life. As a result, there should be a power to restrain their conflict-ridden interactions: their ruler or the government. It is within this context that an Islamic government is equipped with the role of building up an effective network of checks and balances over market exchanges and rewards and penalties for clearing market imperfections and determining the priorities in the employment of scarce resources. The Islamic state’s regulatory role entails establishing organising institutions for inter-individual, inter-family, and inter-group actions in cultural, political, economic, or international realms. First and foremost, the Islamic state should institutionalise a universal welfare state regime to provide social services to all citizens regardless of their status and class. Specifically, it is the social regulatory body, ‘al-hisbah’, that executes the inspection function to forestall or hinder imperfect competition, speculation, damping, and hoarding. This task is an ecclesiastical duty rooted in the main Islamic principle of ‘to command to do good and forbid to do evil’ (Ibn-i Khaldun, 1967[1375]: III, 28).

This regulatory function of an Islamic state does not contain the production of social goods. It can take part in ‘mudaraba’ with private entrepreneurs but principally would not be the ultimate owner of productive enterprises apart from strategic sectors such as natural resources, oil fields, gas mines, defence, and industry (Siddiqi, 1996: 68-70). According to Ibn-i Khaldun (IV: 16), capitalists need rank and protection to be executed by political authority with its soldiers and policemen. In addition to providing this safeguard, an Islamic state is responsible for imposing constraints on private property to ward off its prospective risks from passing into social risks and thereby wasting social opportunities at the altar of creating private ones. In this context, the positive and negative rights of property owners in Islam can be suggested to utilise the advantages of their property to the fullest extent without adversely affecting the interests of the community, to pay Zakât, to spend ‘in the way of Allâh’, to abstain from taking interest and to avoid fraud in business dealings, hoarding, and monopoly. An Islamic government, in this respect, should centrally impose Zakat as a wealth
tax upon the wealthy, prohibit interest-based transactions, make regulations to inhibit market imperfections (e.g., speculation and monopoly), and institutionalise a strict auditing mechanism over market transactions.

In compliance with the national economic postulates, the main objectives of Islamic international economic conduct are to ensure justice and equity among the nations and to give priority to need fulfilment under the rules imposed by Shari’ah. Thus, economic relations between Muslim countries should be aimed at engendering an intercomplementary distribution of production factors and positive external economies from the mutual non-interest financial cooperation to the development of common research projects, particularly on technical know-how. Muslim countries, expectedly, should avert exorbitant pricing, dumping, the exploitation of urgent needs, the withholding of supplies of basic goods and services for creating an international black market and market imperfections (Siddiqi, 1996: 97-120). In the event of a unilateral violation of fair competition, on the condition of reciprocity, Islamic nations do have the right to make retaliating regulations to protect their own rights.

Islam predicates, in principle, the free conduct of economic transactions and free flow of exchange rates under supply and demand conditions unless there is a need for intervention. The state’s intervention should aim only to protect and promote the public interest, maslaha. In practice, it could not be locked in a pure floating or fixed regime for an Islamic country that gives a persistent balance of payment deficits because in the case of fixed regime, it would not adapt economic transactions to change export-import prices and manage the swiftly changing production costs and price arrangements. In the second case, the floating exchange regime, its financial vulnerability necessitates a prudent protection policy against the arbitrage-seeking incursions of speculative finance. Therefore, in some practical cases, the state should have an interventionist position, the preferable policy choices of which are restrictions on trade through tariffs, quotas, etc.; restrictions on speculative financial flows or on portfolio and foreign direct investments; the protection of home (infant) industries on the condition of not feeding competitive imperfections; restrictions on the movement of labour, and pre-emptive measures on ‘brain drain’ and immigration policies. In other words, in Islamic economics, a state could and, in fact, should take necessary measures concerning each constituent of international commercial and financial relations. Under ordinary circumstances, however, except speculative or imperfect transactions, all productive portfolio, capital, or direct investment is promoted, ranging from foreign equity participation, leasing arrangements, borrowing and lending abroad, multinational banking, the free convertibility of currency, foreign aid, technology transfer, and economic and customs unions (Siddiqi, 1992).
Micro and Macroeconomic Finance in Islam between Production and Distribution

In parallel with its constrained role of direct intervention in productive activities, in macroeconomic policy, an Islamic government is expected to abide by a balanced, even surplus, budget and to utilise its reserves to, e.g., maintain exchange rate stability and pay off loans and defence financing (Chapra, 1986: 190-91; Haq, 1996: 167-70). Other complementary objectives of Islamic fiscal policy are to bring surplus welfare into economic circulation, to prevent it from becoming a source of speculation and an ensuing economic recession, and to create a balanced distribution of income. The main strategies are placing fiscal austerity as the driving force of public finance, putting sound fiscal rules for capital expenditures, prioritising the disbursement of liabilities in expenditure plans, and institutionalising a sound tax system that could not be substituted by inflation or by borrowing and should be the principle source of public expenditures. In addition, the state is responsible for stimulating a private sector-led market economy by establishing the rule of law and securing property rights, for conducting infrastructural projects through profit-and-loss sharing methodology to be run under the user-pay-principle, and for enhancing the savings of the household, small business runners, farmers etc.

In the area of deficit financing, various viewpoints exist in Islamic economics. The Prophet Muhammad, during his reign, in principle, borrowed on an interest-free basis in both cash and in kind for public purposes, such as repaying maturing loans, fulfilling the basic needs of needy people, and strengthening the defensive power. Thanks to the substantial balance in public finances in his aftermath, the first four caliphs did not resort to deficit financing. In view of this practice, some Muslim scholars, such as Abu Yala al-Farra (990-1066) and Al-Mawardi (974-1058), prudently argue that deficit financing should be a last resort considering that governments may fail to pay off loans or impose extra taxation. Instead, contemporary Muslim scholars, by the way of ijtihad, put forward that asset-based debt is permissible to finance public expenditure based on leasing and partnership. Alternatives are the zero rate debt, profit and loss sharing arrangements, and monetary finance (Islahi, 2005 cited in Iqbal & Lewis, 2009: 190-195).

Mannan (1983: 333), argues that there is no harm in deficit financing in Islam. His ground is twofold. First, in an Islamic state, the borrowed funds are bound to be expended for the stimulation of a productive economy, investment infrastructure, and social expenditures. Thus, these funds will be reoriented into the real economy with a multiplier effect. Second, in an Islamic system, the lenders, mostly the banking system, cannot create a speculative financial system based on reselling governmental bonds with an interest burden on the stock.
market. Mannan (1983: 317-23) further claims that even interest-bearer borrowing would be initiated for development purposes on the condition of being expended under the systemic principles of Islamic interest-free budgeting. In fact, according to him, in view of the current situation of Muslim countries, deficit financing is a must in the praxis for amassing the capital stock requisite for politico-economic development, even though the Islamic banking system is currently on a quick path of development.

In regard to the micro financial regime, instead of a mediating speculative finance, the primary function of Islamic banking is stipulated to collect the savings of households at profit-and-loss sharing accounts and then to transmit them to industrial or commercial entrepreneurs by the institution of ‘mudaraba’ in parallel with an Islamic development model. In doing so, Islamic banks must audit the verifiability and feasibility of the projects to be financed. Therefore, the system revolves around the financing experience of the bank and the investment experience of entrepreneurs. Another major function of these banks is to provide consumption loans to households on the principle of ‘murabaha’. These loans are necessary because households might not be self-sufficient and may need food, shelter, and clothing for their bare subsistence. Underlying murabaha is financing an economic transaction rather than giving a cash loan, which aims to enhance the utilisation of loans for productive activities and prevent the utilisation of these loans for speculative purposes (Ayub, 2007: 213-33).

As a corollary of the real investment-focused financial system of Islamic economics, there is derived a venture capital institution of investment financing between capital-suppliers and entrepreneurs, the mudarabah. Industrial, commercial, and agricultural enterprises can be established and operated under this mode of financing. The income resulting from these enterprises can be shared in varying proportion among capitalists and entrepreneurs after deducting all the legitimate expenses of enterprises during the relevant period. Under an economic structure where speculative initiatives are inhibited, mudarabah becomes a structural source of finance for productive projects, an automatic stabiliser and a redistributive mechanism by providing fundless entrepreneurs with the equal opportunity to invest. In other words, it is a mode of production and a source of resource allocation and income distribution in product and labour markets, respectively (Ebu Suud, 1988).

In Islam, another policy parameter for a fairer distribution of income is progressive taxation, whose main principle, as suggested by Abu Yusuf, is to collect from the wealthy and to spend on the poor. The taxes should be levied in proportion to the income of the taxpayer. The upper limit of progressive taxation on surplus welfare is not to set back the productive power of taxpayers (Maudoodi, 1963: 699). The Qur’ān (9: 61) says: “The Zakât [i.e., taxes
coming from Muslims] is intended nothing otherwise than for the Muslim poor [fuqarâ], the poor among the resident aliens [masâkin] […] for aiding those heavily indebted, in the Path of God, and for the wayfarer”. The Prophet Muhammad articulates that “It [Zakât] is to be taken from the rich among them and given to the poor” (Al-Bukhâri, 9/93/469; the volume, book, and the number of hadith, respectively). With this background, in terms of public expenditure, various principles of taxation can be suggested, including the benefit principle, as Abu Yusuf put forward, for the public provision of private and quasi-public goods; for redistribution, the Zakat; for the provision of pure public goods (general budget), and the ability-to-pay rule (proportionate or progressive) (Iqbal and Lewis, 2009: 119-120). The redistributive aspect of Islamic taxation lies in the Qur’ânic principles that “the poor have a right in the wealth of the rich […] in order that it [wealth] may not merely make a circuit between the wealthy among you” (70: 25; 59: 7).

The principal tax in Islam is Zakat, the wealth tax. It is levied on the accumulated wealth and incomes (including liquid ones) of individual Muslim adults and businesses in general at a rate of two and a half per cent and is collected based on the incomes above the minimum exemptible level, the nisâb. The underlying reason for Zakat on business incomes is that they are used basically in two ways under an Islamically-organised economic system: by the reinvestment of retained incomes and dividend allocation among the shareholders. The former is not zakated; only the net profit shares are zakated to pave the way for the full employment of productive assets by putting the surplus value into reinvestment as a structural source of Islamic venture capital or into the general budget as a source of redistribution. In Islamic economics, there are three parties that share the economic wealth produced at a certain period of time: workers, entrepreneurs and capital-suppliers, and the community. Zakat is the share of the last. In this sense, for its redistributinal aspect, Zakat can be suggested to be a social savings or transfer for transaction purposes that socialises idle resources (Haq, 1996: 178-98).

A strategic intercomplementarity exists between Zakat, mudaraba, and the abolition of interest. Zakat is a demand-stimulus and an income-multiplier institution that, in the absence of interest-based financial transactions, socialises idle financial resources and thwarts the non-optimal accumulation of wealth in the hands of the rich. The rate and composition of classical zakatable items substantiate this perspective. Its rate, albeit changing according to various Muslim jurists, is twenty per cent for mineral production and treasure troves, five to ten per cent for agricultural products, and two and a half per cent for livestock, trade, industry, cash, gold, silver, jewellery, rents, and wages. Systemically relevant is the existence of a
consensus, *ijma*, on the levying of Zakat on “only liquid wealth [cash, bank deposits, pension assets, etc.], ornaments, and precious metals (that is stores of non-productive capital). Owner-occupied housing, clothes, and consumer durables, *etc.* are exempted” (Iqbal and Lewis, 2009: 102). It is principally utilised to finance the social welfare and social security expenditures and schemes that include poor houses, centres for free medical treatment, educational facilities, and cash and in-kind relief to the needy. In its moral dimension, Zakat aims to optimise and restrain the greed and avarice of the rich and to compel them to carry out their social responsibility under a formal binding but not a voluntary constraint. It is both a micro and a macro variable that stabilises consumption, production, employment and labour force participation (Choudry, 1992: 48-57). Zakat’s bindingness is such that a state and a person can in no way be entitled ‘Islamic’ or ‘Muslim’, respectively, without effectively enforcing or paying off Zakat.

*Riba*, interest, refers to all types of excesses or pre-fixed prices over borrowed capital, whether it is called usury interest or the earning of the capital. It is inhibited with the most severe punishments for both spiritual and technical reasons. The spiritual ground is that Muslims who make interest-bearing transactions do transgress the social justice-first manifesto of the Islamic paradigm, thereby breaking down the constitutive thread of inter-Muslim solidarity, *the taqwa* (Naqwi, 1981: 109-120). The main technical reason is that in Islamic economics, there would in no way be a productive return on ‘idle savings’. Interest on bank deposits brings, for example, fixed interest that is not contingent on any risk or loss whatsoever because it is the entrepreneurs as the risk-bearing economic actors but not the savers hoarding money for speculative purposes who are the catalyst of economic growth and development. Interest turns into a burden over the consumers because it is reflected upon the product prices and reduces the marginal propensity to invest. Mannan (1983: 160-61) remarks that Keynes, rightfully, held the view that it is the level of income rather than the rate of interest that ensures an inter-reinforcing linkage between savings and employment and thereby rejected the equal dependency of savings and investment. Furthermore, savings for transactional and prudential purposes depend not on interest but on investment and employment.

In Islamic economics, it is assumed that by diminishing the marginal efficiency of investment and aggregate demands, the interest extinguishes social opportunities and becomes a direct ‘social transfer’ from the assetless to the capital owners. In another respect, the interest melts down and suppresses the productive transformation of an institutional structure and entrepreneurial skills of the labour force, employees or employers, due to the
prevention of the socialisation of idle money from being circulated into real investment, thereby persistently promoting underemployment and forestalling full employment (Chapra, 2006). As far as the political implications of this vicious circle is concerned, the distribution of socio-political welfare becomes increasingly more unequal, and consequently, the structural inequality of income turns into the enzyme of ‘class formation’ across nations. Capital owners infuse into each channel of power networks by establishing intimate financial and patronage channels with local or central political authorities. This substantial power enables them to reciprocate political authorities with tax evasion, hoarding, black marketing, smuggling, and adulterating products including the necessities of life (Mannan, 1983: 157-68). The institutional network passes through power, patronage, and prestige channels. Because the lower strata is far from these channels, their progression would be expected to be far laggard. In Islam, it is a basic principle that superiority is measured merely by ‘*taqwa*’, the theoretical and practical fidelity of Muslims to Quranic principles, but not by wealth and power. Because interest is the prime institution with the potential to turn this balance upside down, it is eradicated systemically in the Islamic lifeworld.

*Social versus Economic: The Islamic Strategy of Development*

From a critical standpoint, Ahmad (1979) argues that the Muslim world consists of economically underdeveloped, albeit resource-rich, countries that underutilise their human and capital stocks and govern them inefficiently and unequally, resulting in the embedding of poverty, stagnation, backwardness, and imbalanced sectoral and regional development. Economic development in Islamic countries, to him, has become the primary target of governmental action, at the altar of which everything else has been sacrificed, e.g., Islamic values, cultural patterns, social and ethical norms, and traditional customs. The development plans of Muslim countries have been modelled utilising the prototypes of Western theory and practices under the auspices of international diplomacy, economic pressurisation, intellectual infiltration and the guidance of international organisations. A strategy of Islamic development could in no way be imitated from western models in terms of the systemic coherence of its material and immaterial institutional interactions, ranging from the motivation of increasing the marginal propensity to invest to the allocation of wealth among the factors of production. In terms of macro institutions, according to Ahmad, an Islamic development strategy should be predicated on fine-tuning the co-existent evolution of the moral, spiritual, and material aspects of socio-economic and political resources. This entails adapting a value-oriented goal pursuance in the long run. He emphasises that “the moral and the material, the economic and the social, the spiritual and the physical are inseparable” (Ahmad, 1979: 13).
Welfare in Islam is inter-complementarily both an earthly and an extra-celestial phenomenon. In Islamic economics, in this regard, development is the development of, primarily, man and then his/her physical and socio-cultural environment. This brings the social implications of political steering and economic efficiency to the forefront in the short and long run from industrial incentives to the deployment of human resources. The aggregative development models regarding the maximisation of the material growth rate as the sole index of growth are renounced in Islamic economics, even though Muslim economists put a particular emphasis on prioritising a technological know-how-centred strategy of development for Muslim countries to take a powerful place in the international division of labour and to do away with persistent balance of payment deficits.

Principally, the equitable distribution of income is assumed to be the main structural performance of Islamic developmentalism. The main policy choices for this purpose are (i) land reforms and rural development to eradicate the exploitation of tenant-farmers and rural labourers by landlords and money-lenders by means of setting a ceiling on the maximum size of landholdings, allocating arable lands to landless peasants, and distributing the surplus equitably among landless peasants, (ii) the subsidising of the foundation of small and micro enterprises in urban areas to stimulate entrepreneurs that do not have sufficient capital to make investments, thereby creating an equal social opportunity to have access to economic and political power, and (iii) the efficient implementation of Zakâh and the Islamic inheritance tax. In congruence with the symbiotic evolution of qualitative and quantitative variables in an Islamic development model, a structural alleviation of the unequal distribution of income is likely to be executed only thorough a fully-fledged economic restructuring ranging from private consumption and government finances to capital formation and production. Among them, for example, an essential one is the change in consumer preferences from luxury to necessities (including comforts) to increase the ratio of investable funds and forestall the balance of payment imbalances (Luxury refers to the ‘all those goods and services which make no real difference in a person’s well-being and are demanded primarily for their snob appeal [Chapra, 1993: 85-115]).

The most optimal strategy for this purpose is the embodiment or activation of a moral filter as a constraint on luxuries, ostentatious ceremonies, unrealistic dowries, and the display of status symbols. Another fundamental restructuring is the reformation of public finances deployed for development purposes. Despite not carrying out a structural transformation of the necessary infrastructure for qualified education, efficient health and social security systems, housing, public transport systems, etc., the unsystemic and unplanned expenditure
by public authorities leads up to persistent fiscal deficits, the balance of payment imbalances, and financial vulnerabilities with slow and unsteady growth rates. Moreover, the pursuance of power and prestige by conspicuous consumption brings on a corrupted institutional network in the public sector, an inefficient taxation strategy based on narrow tax bases, and an inevitable rise in indirect taxes.

Four broad principles of public spending should be adapted for sustainable and productive Islamic development: (i) Its ultimate purpose should be to procure the well-being of entire public, (ii) The elimination of hardships must be prioritised over the provision of comfort, (iii) The well-being and interest of the majority should be set over those of the minority, and (iv) The beneficent should incur the cost of the benefit he/she utilises. Considering these principles, the execution of a balanced development between material and spiritual components requires a systemic planning as a middle road between planning by direction and planning by inducement. The guidance of the public sector and its dynamic cooperation with the private sector would be operationalised under a multilateral *shuratic* institutionalisation at the level of enterprise, sector or macro-economy. In Islam, in contemporary terms, thus, a spiritually-conditioned economic and industrial democracy is not a preference but a compulsory structural nexus for the effective, equal, and sustainable allocation of factors of production and income in industrial, commercial, or agricultural sectors. This is because the functionalisation of a ‘moral filter’, the unique cement of material and spiritual components of Islamic developmentalism, calls for the cooperation, co-sharing, and co-participation between the actors of development process. In this sense, beyond the above-noted *formal* regulatory role of an Islamic state in the organisation of private economic action, the moral filter, in essence, aims to strike an *informal trade-off* between constraints and the liberties of excess claims through inducing a mutual auditing not only between the market actors but also between market players, political actors and the labourers on the basis of social priorities. The backbone of this auditing is the minimisation of the conspicuous consumption of political power and capital owners. Islam’s precondition of the ‘modest lifestyle’ entails foreclosing the extravagance or the inefficient consumption of human or capital resources for ostentation or prestige purposes. As a result, the moral filter by mutual auditing is expected to moderate and humanise the interlinkages between wealth and power by prioritising the social benefit over the individual one. The key principle of Islamic developmentalism between individualism and collectivism, in this respect, is ‘serving social interest equals to serving self-interest’. This principle does not prevent individuals from serving their self-interest but stimulate them to act socially responsibly by giving self-interest a spiritual, long-term perspective as a result
of extending its span beyond this life (Chapra, 1993: 60-1). Furthermore, the co-existential evolution of self and social interests is thought to be the major source of necessary funds for sustainable development. Underlying is the incremental accumulation of private savings through the prohibition of luxury consumption on imports, extravagance, sumptuous ceremonials, and the increase of public savings through progressive taxation, a method that directly cultivates extra resources accruing from the high income.

In terms of the power basis of economic development, it is presumed that de jure, the collective responsibility of Muslims to Allâh in implementing and sustaining a fair development process can be carried out through establishing formal institutions for mutual auditing, such as industrial and economic councils that will induce them to carry out its de facto requirements. Choudry (1992: 259-61), for example, proposes a shura-oriented information management between micro and macro actors, which would help to do away with market and bureaucratic imperfections. A ‘grand shura’ such as an economic and social council, to him, would coordinate the flow of politico-economic processes, set priorities for allocating social resources, and steer the intersectional consequences of economic units. Otherwise, market competition does not have any power to compel its actors to comply with the rules of fair competition under capitalist political economies where the distribution of economic and political power could not be or in fact is not claimed to be fair by its very proponents.

The Islamic Social Welfare: Equality of Opportunity or Outcomes?

Through the discussion until now, it has become obvious that Islam predicates its economic order on social equity-first institutionalisation, as is stipulated by the Qur’ân straightforwardly. In fact, the prioritisation of social welfare is a strategic means of social cohesion and harmony proactively and sustainably based on the institutionalisation of a universal social security system, decent work and decent conditions of living, the freedom of profession, the right to organise and strike, and the right to industrial and economic democracy. In Islam, however, surplus value is not prohibited. It is defined as the earnings of a factor in excess of the minimum amount sufficient for that factor to maintain its existence and function. In the Qur’ân, it is the meritocracy-based differentiation due to multiplicity of human motives and sentiments in acquiring intellectual capacity, physical strength, habits of thinking, willingness and doing that should constitute the material status or income of Muslims (Mannan, 1983: 58-59).

However, again in the Qur’ân, it is frequently underlined that human beings are prone to using their material power to suppress others individually or collectively. This results in the
inapplicability in the equality of opportunity per se. As a buffer mechanism, a state is hence expected to create and keep the resources in the public budget afloat for prospective social policy purposes, such as developing poverty alleviation programmes and meeting the basic needs of all citizens. Fiscal policy, as noted above, primarily aims to redistribute national income in such a way as to give precedence to the needy. In addition, an Islamic state should, if necessary, allocate additional resources from the general budget to finance the social expenditures that Zakat funds fall short of meeting (Ahmad, 1991: 52). Monetary policy, too, should be geared towards the functionalisation of an optimum allocation of wealth through establishing price stability as a precondition for the prevention of income loss of the waged and the salaried, the elimination of speculative transactions, the promotion of full employment and sustainable development, the regulation of the banking system in such a way as to enhance the equality of opportunity to have access to investment capital and credit.

In parallel, Mannan (1983: 358-9) suggests that an Islamic state should devise a universal social security scheme that covers the entire lifetime of its citizens, as in the case of England, on the condition that the social security funds not be managed in interest-bearing financial transactions or undertakings. Instead, they should be channelled into mudarabah or be invested in Islamic banks or other credit institutions. Although he suggests that insurance against death might be left to the private sector, he emphasises that the insurance of old age, unemployment, sickness, and injury should be organised and financed by the state nationally. In Islam, in addition to the state, civil society organisations are encouraged to undertake the civic responsibility of social justice. The widespread institutionalised form of this responsibility is the waqf, an endowment established in the way of setting aside certain assets, such as land and buildings, to fulfil various social services under a legal deed (Dallal, 2004). The informal institutions for this purpose are infâq (voluntary spending), ihsân (benevolence), sadaqah (charity), and it'am (feeding). The protection and feeding of the needy, such as orphans and the destitute, are firmly reiterated the in Qur’ân to the extent that the avoidance or misapplication of it has been accentuated to be equal to the denial of the religion itself (Ahmad, 1991: 42) because it is believed that poverty is such a calamity that it can drive a person to disbelief, as Prophet Muhammad put it.

In a nutshell, Islamic economics can be suggested to be structured upon the creation of a workable mutuality between efficiency and equality through the functionalising of a positive-sum complementarity among the factors of production under a free-market environment conditioned by the state’s organising intervention. And the basic cement of these interconnected objectives is an normatively-contingent rationality to be embedded by
shura-based ethical intercomplementarity among the actions of individual and organised political and economic actors.


This sub-section aims to examine the institutional stock of the high-income Gulf States. The Gulf states have been the mecca of an Islamic way of life due to not only its widespread everyday practice by the public but also its identificational impact, albeit manipulative, over the political authorities and the codification of law systems across the region since the dawn of Islam in the 7th and 8th centuries. In addition, these countries are the only high-income countries whose population consists overwhelmingly of Muslims, apart from Brunai, in the World Bank’s classification, which is of significance in understanding the collective action of capital-rich Muslims during a period of path-dependent change.

Figure 3 illustrates the main institutional interactions among economy, politics, market, and society in the Gulf countries. In this sub-section, instead of delving into the context-specific nature of each institution shown in Figure 3, I concentrate on the overall systemic impact of their interactional implications. Table 1 documents the basic national and international macroeconomic and social indicators in these countries. Where data are scarce, I give the average of one or two decades under the headings of average 1980s and 1990s, 1990s or 2000s.

Despite munitias in the architecture of legislative and executive bodies in the Gulf states, the prevalent praxis is that the ruling Emir, Sultan or King governs the country with a consultative or advisory council or a council of ministers that he can appoint, suspend, dissolve, or change. In the case of national assemblies or bicameral legislatures, as in Bahrain, Kuwait, and Oman, the ruler is predisposed to contain the council, whose members are appointed by himself, and to manipulate the electoral law to prevent the oppositional groups from acquiring a majority in the selected councils. This situation is why turnout rates revolve around, in most cases, not more than fifty percent. The lack of vigorous judiciary or subversive civic movements to structurally constrain these autocratic discretions consolidates the systemic power of political monopolies (Delury & Kaple, 2006).

In fact, in the region, a noticeable number of civic associations exist, albeit with small membership, acting in the areas that concern, for example, charity and the promotion of individual religious consciousness (Niblock, 2006). However, they are inhibited from voicing political or human rights issues. Thus, under ordinary circumstances, the opposing ethnic, sectarian, civic or political groups, if any, are not the de facto alternative for the ruling
Figure 3. A Typology of Economics, Politics, Culture in the Gulf States
families but are spontaneous voicers of urgent socio-economic demands on sharing economic surplus, such as the Shia minority in Saudi Arabia or rival tribes in Qatar. An underlying factor is that these diverse civic or political groupings fall short of cultivating the power to shift the route of economic rents that the ruling political monopolies obtain from the oil and gas revenues to fuel and ossify their rule via the strategy of ‘corporatizing welfarism’, namely to change the systemic conduct of these countries’ political economy – PE, as shown in Figure 3.

As a result, as the World Bank’s overall governance index in Table 1 demonstrates that in the period of 1996-2010, the Gulf states ranked far below not only the high-income countries but also the world average in terms of six criteria: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and the control of corruption. (The index ranges between minus and plus 2.5, from weak to strong.)

**Table 1. Economic and social welfare indicators in the Gulf Countries**

<table>
<thead>
<tr>
<th>National Economic Aggregates</th>
<th>Overall Governance Index (Avg)</th>
<th>Real GDP Growth (Annual change)</th>
<th>GDP Per Capita (Annual change)</th>
<th>Industry Value Added as of GDP</th>
<th>Service Sectors Value Added as of GDP</th>
<th>Agriculture Value Added as of GDP</th>
<th>Central Government Debit as of GDP</th>
<th>General Governance Balance</th>
<th>Consumer Price Index (Yearly avg)</th>
<th>Real Interest Rates</th>
</tr>
</thead>
</table>

<table>
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<tr>
<th>International Economic Aggregates</th>
<th>Real Effective Exchange Rate</th>
<th>Current Account Balance (GDP)</th>
<th>Trade Surplus or Deficit (in % of GDP)</th>
<th>Exports in total export (in % of GDP)</th>
<th>R &amp; D Expenditure (as a % of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahrain</td>
<td>80-99</td>
<td>2000s</td>
<td>2000s</td>
<td>1990s</td>
<td>2000s</td>
</tr>
<tr>
<td>Kuwait</td>
<td>80-99</td>
<td>2000s</td>
<td>2000s</td>
<td>1990s</td>
<td>2000s</td>
</tr>
<tr>
<td>Oman</td>
<td>80-99</td>
<td>2000s</td>
<td>2000s</td>
<td>1990s</td>
<td>2000s</td>
</tr>
<tr>
<td>Qatar</td>
<td>80-99</td>
<td>2000s</td>
<td>2000s</td>
<td>1990s</td>
<td>2000s</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>80-99</td>
<td>2000s</td>
<td>2000s</td>
<td>1990s</td>
<td>2000s</td>
</tr>
<tr>
<td>UAE</td>
<td>80-99</td>
<td>2000s</td>
<td>2000s</td>
<td>1990s</td>
<td>2000s</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Social Welfare Indicators</th>
<th>Population Growth</th>
<th>Labor force participation rate</th>
<th>Unemployment</th>
<th>Youth unemployment</th>
<th>Tax revenue of GDP</th>
<th>Indirect/ direct taxes</th>
<th>Subsidies and transfers</th>
<th>Gini Index</th>
<th>Poverty headcount ratio</th>
<th>Human Poverty Index***</th>
<th>HDI Rank***</th>
</tr>
</thead>
</table>

Sources: World Bank, World Development Indicators, *2014*; **Central government gross debt, IMF, ‘Regional Economic Outlook, East and North Africa’ (Washington, DC, 2005); ***Single mean applied tariffs is the unweighted average of effectively applied rates for all products subject to tariffs calculated for all in 2014; UNDP, Arab Development Report (Caire, 2011).
The model of PE in the Gulf states, as observed in Figure 3, was structured upon congealing a potential social uprising through corporatist welfarism and through direct or controlling repression by military force. In these states, governmental salaries are high, crowding out the private sector’s employment capacity. Corporatist welfarism refers to the provision of generous social benefits and subsidies including housing health, education, electricity, water, and fuel to the public to buy more ‘submissive time’, thereby perpetuating the vested structure of rentier states. Indiscriminate subsidies are also easily bestowed on productive industry and agriculture in the form of capital, electricity, water and fuel. Although the ratio of these subsidies is not high in international comparison, there are additional implicit subsidies, such as the free or below-cost provision of government services (utilities, transportation, sector-specific inputs) and low petroleum prices and subsidized long-term loans. The total amount of explicit and implicit subsidies makes up a high proportion, causing resource misallocation, particularly by distributing these subsidies through informal patronage channels (Askari, 2006: 130-2).

The mainstay of corporatizing welfarism is the extremely low rates of direct or indirect taxation in all of these countries, except Qatar, along with moderate inflation. However, such passive welfare provision does not yield a stable human development process. As shown in Table 1, the Human Development Index for the region decelerated during the period of 1990-2010 compared with 1970-2010. This performance is noticeably lower considering their high-income position. Thus, although the Human Poverty Index for the region declined in the 2000s compared with the 1990s, it is still higher than the average of other developing countries with similar levels of income per capita. Another facet of the unequal stability in the socio-economic policies of the political monopolies is the permanence of a tri-tiered labor market structure. Despite the existence of comparatively decent working conditions in the public sector, the lack of protective private sector employment law or its ineffective implementation results in labor abuse and bad compensation (Noland & Pack, 2007: 94-9). At the bottom fall foreign workers, who form an overwhelming majority of the qualified labor force stock in the region and have been in most cases omitted from the coverage of the labor law. As observed in Table 1, in this respect, while civil servants and private sector workers with regular contracts in small enterprises are covered under a social security regime, non-citizen workers are denied this right in all Gulf countries (no available information for Qatar and UAE).

The budget surpluses, which are in some cases phenomenal, and the comparatively moderate level of government indebtedness with low real interest rates are the basic macro components that empower the governments in the region to perpetuate corporatist welfarism. The consequence
is ‘positive-sum leisure’ or ‘interlocked interests’ among polity, market, and society through which the corrupted ruling strata buys submission and obliterates the risk of the formation of massive middle classes as potential catalysts for conflictual and interrogative action; private entrepreneurs enjoy the opportunity of non-risky investment and capital accumulation; and society, to a certain extent, utilizes generous social benefits. The positive-sum leisure inescapably introduces the evolutionary embedding of ‘low-road’ compromise under cumbersome regulation and transaction costs. The rising growth rates in the Gulf countries over the last decade fell back upon rising capital accumulation with a low gross average return out of oil revenues rather than increasing total factor productivity, which incurred significant declines in the 1980s and 1990s (Amin et al., 2012: 38-40). As the Arab Development Report notes, “in synthesis, oil revenues have supported a service-led pattern of economic development at the expense of the productive sectors, which renders the region the least industrialized among developing regions, including Sub-Saharan Africa” (UNDP, 2011: 33).

The share of fuel exports in export earnings is quite high for all countries in the region. Taken together with the ongoing high rate of subsidies, the patronage-based regulation of economic action stimulates an uncreative corrosion for private entrepreneurs to maintain the production of low value-added (petroleum related) primary products, such as rubber and plastic products, along with food and chemical goods, thereby discouraging them from venturing into diversifying the manufacturing export base, despite ad hoc initiatives by re-exports or developing energy-intensive industries and iron and steel products (Askari, 2006: 153). This mode of action is further consolidated for private entrepreneurs by the negative stimulus of overvalued exchange rates (the Dutch disease), the phenomenal current account and budgetary surpluses due to the incoming petrol or gas revenues that increase the price of non-tradeables such as housing and services compared with the price of tradeables because the latter cannot, in most cases, be imported (Askari, 2006: 17). In fact, the political monopolies are supportive of private sector development and international trade (to the extent that such development and trade would not threaten their rule). With this mindset, although quite high compared with high-income countries in the region, the tariff rates were noticeably reduced in the last decade (see the Table) and are now at moderate levels compared with the average of developing countries. Though contributing to the rise in the FDI inflows to the region at moderate levels, this liberalization has also been accompanied by generous incentives and ad hoc exemptions without efficiency-based discrimination. As an indicator of this dichotomous practice in the region, research and development expenditures are at marginal levels compared to the international averages.
In political terms, the basic pattern of path-making and the sustaining strategy of the Gulf monopolies has been theoretical pragmatism, in the sense of discursive emphasis but tantalizing abstention in implementing the basics of Islamic PE in the public sphere. With this functional segmentation, rather than being accepted as a model of PE, Islam has been employed by the ruling leisure classes in the case countries as a normative change-blocking cement among polity, economy and society to cool and suppress the accumulated social tension. It can in this respect be suggested that the political economy of the Gulf countries is now far from being identified with an Islamic regime. In addition to the lack of an ethics-based intercomplementarity among economic, political, social, and market institutions, the corporatizing welfarism and positive-sum leisure as a point of voluntary or involuntary compromise among the actors of these four units obliterated the emergence of an Islamic social optimum. The depolitization of civic, political, or economic associations rules out the effectuation of a governance (shura) regime among the state, market, and civic forces, thereby stabilizing the unquestionable rule of the political despots. With the embedding of rent-seeking action in a public sector-weighted economic structure, instead of operationalizing a creative construction around high-road complementarity, private actors perpetuate low-road complementarity both to capitalize easy subsidies, patronage rights, and market protection, and to avoid taking the risk of failure in competitive sectors. Instead of regulating a rights-based and redistributive social policy regime, the provision of compromise-buying subsidies incapacitates human resources, depresses labor productivity, and cunningly forecloses upward social mobility. With this background, the systemic gaps between the ‘ideals’ of Islamic PE and the praxis of the case countries originate in the aforementioned segmentedly shallow normativity and congealing rationale embedded in authoritarianly constructed political monopolies, In systemic terms, this gap is sufficient to eviscerate the core constituent of an Islamic PE, the intercomplementarity between formal and informal institutions as the basic cement of the ‘Islamic social contract’.

5. Conclusion: Theoretical Sustainability with or without Practical Sustainability?

The paper concludes that Islamic economics along with its political and socio-cultural dynamics has solid pillars that could well make it sustainable in both the short-run and long-run. The key point here is the fact that Islamic economics merges behavioral, micro-macro economic, financial, social welfare, and developmental institutions in a way to strike a sustainable trade-off between efficiency, equity, and technological advancement. However, the Muslim countries, as illustrated with reference to the Gulf countries, fail in functionalizing this trade-off but operationalize a positive-sum leisure instead, which has been a path-dependence over a couple of centuries.
In the modern world system, Muslims should be in the position to utilise Islamic theoretical axioms as a motivating source of eradicating the imperfections of their institutional stocks (Parvez, 2000: 229-54). Although they have the potential to do so at national and transnational levels under the unifying force of the principle of Tâwhid, they must first carve out the methods of countermaneuvering the vested institutions of transnational capitalism in the area of economic competition, political cohesion and human development. This is what they could not achieve over, at least, the last two centuries. In this sense, the co-existence of material and spiritual tenets of Islamic PE did not survive in the aftermath of the early Islamic history when this balance had been upheld by the rulers and the ruled (Chapra, 2000: 62-63). Particularly, in two areas, the Muslims’ social organisation has not generated effective outcomes: the political governance and technical know-how.

In the first area, the later Muslim rulers belittled the mainstay of Islamic administration, the shura (consultation). In the second area, the Muslim communities, not necessarily Muslim scholars who contributed to the scientific stock notably, could not infuse into the distinction between normative and rational implications of science-making at the level of theory and praxis. The divinely ordained life-style of Islamic order and the worldly rational aspect of science-production led them to remain aloof, preferentially, from massively engaging in pure rationality. This is the case not only in technical innovation but in the conflation and co-evolution of Muslim economic, political, and cultural institutions with rational entrepreneurial creativity. This fact, for example, is the most essential reason why the Ottoman Empire, despite having a sustained political and cultural organisation, could not maintain its ascendancy in the face of the Western challenge (Safi, 2000: 35-39).

In this respect, as Bennabi (1976: 8-21) noted, during the post-World War II period, the Muslim world failed to come up with workable solutions to their idiosyncratic developmental challenges in light of the basic axioms of Islamic economics. Instead, Muslim scholars intend to intersperse liberal premises into Islamic economics, Muslim development planners choose to directly transpose the development models of the Western countries, and therefore, Muslim countries’ economies drift under the pressure of capitalist hegemony. With the lack of an appropriate ‘social equation’, the necessary precondition of creating a workable mass culture of industrialisation, this theory-praxis mismatch makes it impossible for Muslim countries to initiate a structural take-off that would open up new horizons of a productively efficient and distributionally equal economic order (Bennabi, 1976: 123-31). As a result, as he (2003) concludes, the inability of Muslim countries to strike a trade-off between the spiritual and the material ideas not only freezes but also regresses their civilisational development in capitalist times.
The quintessence of this demerit in the praxis of Muslim societies is the assumption that Muslims’ civilisation superiority arises essentially from its members’ normative fidelity to Qur’ānic principles, whereas non-Islamic societies are jahili (the unenlightened) because they do not believe in Islam. Unfortunately this false perception disables the Muslim nations to explore the fact that, in the theory of Islam, nonetheless, the same normative fidelity is expected to stimulate its actors not only to abide by the Islamic ecclesiastical principles but also to institutionalise rational means of technical progress in industry, science, innovation, education, and social reform. Furthermore, this is not a matter of choice but an inevitability (Safi, 2000: 52-3).

As a result, it can be suggested that what will mark the 21st century for Muslims is the dialectics between the theory of Islamic economics and the ability of Muslim nations to implement it in compliance with its theory. There are two preconditions for its thorough implementation. The first is the Muslims’ success in merging spiritual ideals with worldly science-making, the unique way for them to get out of their subordinate position in the international division of labor. Without doing so, it would be simply impossible for them to establish and sustain an Islamic economic order on solid pillars. The second is to manage the development of contemporary institutions that could both mediate the adaptation of Islamic economic model without deranging its systemic coherence and pave the way for the dynamic renewal of its theoretical validity. The recent ascendance of Islamic economics can be sustainable only on these two bases in the long-run. Otherwise, the emphasis of its theoretical merits cannot be expected to eliminate the capitalist exploitation of the Muslims’ resources.

References


