

Is Morality-Based Islamic Economics an Answer to the Global Financial Crisis?

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1. Introduction

The title of the paper deals with an important issue: Is moral Islamic economics an answer to the global financial crisis? When we look at the literature, we do not have too much to say to answer this question. It is first very rare to have a negative answer. Muslim economists would not answer this question in the negative and those who think that way will not publish their views. Positive answers can be found but once again they are often partisan answers based on the *a priori* belief that Islam is the solution for everything⁽¹⁾. If Islam is a solution, then logically Islamic finance is the solution for the financial crisis; charity is the solution for poverty, Islamic ethics concerning the environment is an answer to the climatic change and so on. Such a partisan point of view is hardly acceptable for the non-Muslim world.

Trying to go further, one can notice that Islamic thought (we note here that the Islamic knowledge, theories and controversies are very rich) was not really heard outside the closed circle of Islamic issues⁽²⁾. It is true that Islamic finance crossed the border of Muslims' preoccupations especially concerning the global financial crisis (Chapra, 2008) but my position or my intuition is that the Heritage of Islam could be much more than that and it can immensely contribute to the present debate on the global crisis. The question is then, why moral Islamic economics does not participate much more in the debates about sustainable development, though a few old studies were made? (Ahmad, A. and Hashim, M.H.A. and Al Hachim, G., 1997; Denny, F.M., 1988)

(1) A recent work of the King Abdulaziz University, (Islamic Economic Research Center, 2009) succeed in having a balanced and a scientific approach on that issue.

(2) In this study for example, no mention is made of the Islamic microfinance even though it gives answers to the issues developed in the paper. (Roy Mersland, Bert D'Espallier, and Magne Supphellen, n.d.) 2012, unpublished.

Our presentation will be organized in three sections: after this short introduction, we sum up some elements of the current crisis relevant for Islamic thought (Section 2). Then we mention some elements that show how the history of Islamic thought was embedded in the history of Muslim countries (Section 3). After that we try to present a discussion about some hypotheses regarding the relative silence of Islamic thought with respect to the challenges of the global crisis (Section 4)

2. The Crisis of Globalized Capitalism

It is not necessary to emphasize too much on the current crisis of globalized capitalism. It is well-documented and vastly discussed. The crisis is all around us. We have heard of sub-prime leases, credit-crunch, default credit swaps, real estate bubble and so on. For us, as Europeans, the crisis of Euro is of main importance and is the main subject discussed in the media as well as in the recent economic literature. The issue of such crises is not new in the history of capitalism. We can say that these are typical characteristic of capitalism. Without going back to old history, we remember the Wall Street crash in 1929. Closer to us in history are the Wall street crash in 1987; the Asian crisis in 1997; the dot.com crash in 2000 and so on. Capitalism functions with periods of booms and busts and with erratic cycles. Crises are also a crucial period for economic history to create new paradigms. It was the case for Keynesian economics and also for the institutional economics in the late 1990s.

However, the current crisis seems much more serious than the others. It is said to be worse than the crisis of 1929. It appears as the biggest crisis in the history of capitalism. The crisis is not only on economic grounds but also a more global civilization crisis. The idea of 'continuous progress seems to have reached the limit. It is clear that to keep on the track Western civilization has followed so far, is not sustainable or even possible. But we do not yet have any alternative and we do not seem to be concerned because of the world swing, i.e., the fact that the BRIC⁽³⁾, the emergent countries, may overcome the old developed and Westernized countries.

It is then important to focus on some of the elements of the crisis that are strongly relevant for Islamic thought.

(3) BRIC refers to the Group of countries comprising, Brazil, Russia, India and China.

Debt is the nightmare of the 21st century

In 2011, the debt of the US reached 360% of the US GDP. It was only 250% in 1929! Current US debt represents 13400 trillion dollars. In 2011, new debts reached 1300 trillion, and the growth was of 280 trillion. It means that more and more debts are necessary for less and less growth. It is difficult to assess the potential debt of the credit default swaps, but some analysts evaluate it around thousands of trillions of dollars. Debt is, of course, a historical condition for the development of capitalism but the current financialised capitalism can survive only by being fuelled by new larger and larger debts. That applies to public debt as well as private debt. The main concern in Europe is now to manage the public debt in Greece, Italy, Spain and even France.

The second feature of the current capitalism is greed

Capitalism started with an ideology and a set of values that support efforts, saving, industry, and development as M. Weber demonstrated (Weber, 2001). But this utilitarian attitude moved to greedy non-ethical behaviors strongly denounced by K. Marx in his description of the workers conditions in England at the beginning of the 19th century. For many traders and hedge funds organizations, the only purpose is to make money whatever the consequences for human beings may be. During the subprime crisis, many bankers and traders resigned from the big banks like JP Morgan or Golden Sachs denounced the inner ideology of the banks. Several bank agents act against the interest of their own clients. For example, they were selling subprime and speculated at the same time leading to the fall of the financial papers. On the other hand, the recent failure of the Doha meeting on Climatic Change shows the reluctance of the main developed countries to achieve a sound economic program. Greed, acquisitiveness, has become an accepted value, a recommended behavior and at the same time, a powerlessness wall that closes our hopes for a better future.

The dual economy

Another characteristic is the hypertrophy of the financial sphere. The economy of the 20th century was based on the development of the real economy: goods, housing, land, and factories. But the 21st century appears as a new economy that consists of tradable papers that are

subject to erratic and violent rises and falls. This new economy is also based on the development of derivatives markets that are estimated to be worth 500 trillion. That means 12 times more than the entire real world economy. The financial sphere now dominates the real economy instead of being subordinate to it. Big banks are more powerful than many states.

Speculation

This new economy opens huge opportunities for speculation. Of course, speculation is an old phenomenon and has existed for a very long time. It was strongly criticized by Islamic thought and all traditional thought. Speculation in the 20th century could be justified as a way to give a counterpart to many real operations and cover risks. But in the last period, speculation became one of the main occupations of the financial sphere. The new means of communications and the globalization of the financial markets and the deregulation make possible the creation of new financial instruments and the diffusion of mathematical models. This fostered mimetic behaviors and instability of the system as a whole.

The different elements we have mentioned above are related to the economic crisis, which started at the end of 2007. But this crisis has now become a global one which can be described as a crisis of civilization. For economists, many dogmas were strongly contradicted: the efficiency of the open financial markets, the positive impact of open financial markets on growth. But more generally this crisis also means a tragic lack of perspectives for the future. Growth seems to be the only solution to escape debt. But it is clear also that growth is synonymous to the destruction of natural resources. We must face climatic change, peak oil prices, destruction of the planet. Stephan Hessel and Edgar Morin said: “our societies must now choose: metamorphosis or death” (Hessel & Morin, 2011).

In whatever way the incumbent crisis can be overcome, it cannot avoid the need for a massive change in the world economic system. Financial globalized capitalism is not sustainable. Everybody feels or understands that a major turn or a reform effort must be started. But at the same time, no alternative models are available. We must do something, but we do not know what. We do not even know who could do something.

Capitalism cannot also address major challenges as poverty, access to water, hunger. A child is starving every 6 seconds, many of them in the arms of their mothers or fathers. How can we accept that? One-sixth of mankind is suffering from hunger. Millions of people have doubts when they drink water. It is sometimes said that we live in the same global village. We do not think in the history as a whole that a village let die one-sixth of their community with a complete lack of concern. The present situation leads to a deep pessimism with the demolition of ethical values and moral obligations. Capitalism seems to be a divinity against which the power of the society cannot do anything and in which everybody is enmeshed. Our portrayal of the current state of capitalism gives little attention to a solution. It stresses the necessity for a change and indicates the possibilities of the role Islamic thought as another major civilizational message that could play a role.

3. From Islamic Thought to Islamic Economics

The question is: how Islam could address the crisis? How the long history of Islamic thought could participate in the general debate, which must be launched to operate the “great transformation” we need (Polanyi, 2005). But before reaching that point, we will sum up some elements of the long history of Islamic thought to remind how rich this history is.

The history of Islamic thought is ocean-wide. It has produced many interpretations, many theories, debates, and controversies. Islamic thought is very rich and was able to address the problems met by Islamic societies. We want to emphasize one point in particular. Islamic thought always mirrored the challenges Islamic societies were facing. Islamic thought has been clearly connected to the contemporary problems and Muslims intellectuals dealt with them. This point is important because it shapes the possibilities for present-day Islamic thought to address the ‘Crisis of Capitalism’. Let us go back first to different phases of the Islamic thought’s history.

The first phase

In the first phase during the 19th century, the crucial question was: how to reform traditional Islamic societies to compete or resist the Western cultural and material domination? As noticed in Abdel Rahman al Jabarti, who was describing the invasion by Napoleon of Egypt, the West was not

a dominant power by the technology only but also by a vision of the World (Al-Jabarti, A.R., 1975). It means a set of fundamental assessments, which underpin the capitalism. Many Muslim intellectuals understood that reforms would be needed to change the general vision or ways to apprehend the reality. Old vocabulary which insists on “otherness” of the West (for example *Al-ifranj*, *kāfir*), could no longer serve to understand the concurrent situation of the society. New conceptions and new vocabulary were necessary. For example, the very term *Ummah*, which refers to the “community of Muslims,” was not relevant describing either the emerging nations (Egyptian, Syrian,) or the very concept of society. Islamic thought had to describe “societies” functioning in its inner logic. Changing a society needs to view it as a social device and to understand its logic. So many questions arose. For example, one of the questions was: how to change property structure in order to foster efficiency? How to introduce private property especially in rural societies in order to improve the production but at the same time respecting the rulings of Sharī‘ah and the idea that land is a resource given by God as a trust? Another important problem was concerning the educational system. It was clear that the innovative transformations needed new skills and competences. But education had to be also a bulwark against all the dangers of the rationales behind the capitalist transformation. This would counteract the disintegrative tendencies of modernity.

It is interesting to see that both property and educational issues contributed towards the construction of the individual as a central category of thinking and also in practice. It means that Jabarty’s thought was elaborating on one of the main characteristics of modernity, i.e., individualism.

If some intellectuals were very attached to the tradition and mainly worried by the compliance of new rules with the Sharī‘ah, many others considered that the development of Muslim countries and the material well-being of Muslims would be the main criterion for reforming the society. It is the case for example of Jamal Ed-dine al-Afghani (1838-1897). In some cases, the benefit of the Muslim community as a whole was considered as much important as the strict respect of the rulings of Sharī‘ah. So the first phase of Islamic thought during the 19th century was mainly devoted to create a new set of concepts and even a new

vocabulary to adapt the traditional Islamic society and to challenge the intrusion of the West.

The second Phase

The second phase, starting from the end of the 19th Century took place in the emancipation process of the Arab world. The question was: how to imagine an alternative and portray an Islamic society in the wave of decolonization? An attempt was made not only to imagine but to implement an Islamic society in practice; independent from the Western powers.

The first fear during that period focused on the disintegration of moral values embedded in the development of capitalism and the pressure for accumulation and commodification. Sayyid Qutb wrote, for example, after visiting the United States:

“Americans are like machines swirling around madly, aimlessly into the unknown...That they produce a lot, there is no doubt. But to what aim is this mad rush? For the mere aim of gaining and production. The human has no place if their life is neglected... Their life is an everlasting windmill, which grinds all in its way: men, things, place and time....”⁽⁴⁾

This quotation indicates that the idealistic Islamic society would then present a set of characteristics very different from materialistic-oriented capitalism. Values as social solidarity, cooperation, redistribution, attention to the poor had to restrain from the excess of a set of values shaped by individual interest and lack of concern for the community.

Of course, the State appeared as the main institution, which could at the same time undertake deep changes in the organization (property, education), resist with military means, destroy the old social order based on traditional authorities and finally organize a welfare state. The State appeared to be able to shape a society, which conforms to Islamic values,

(4) Sayyid Qutb, *Humanity Needs Us*, (English, tr. M. Hafez, Al-Muslimūn 3/2 (December 1953, pp. 3-4, quoted in Tripp C., *Islam and the Moral Economy, The Challenge of Capitalism*, Cambridge University Press, 2006, p. 230. The present article has a debt toward the very detailed work of Charles Tripp who presented the evolution of Muslim Thought.

and respond to peoples' demands. That is why endeavors to define Islamic socialism articulated with the welfare state were so intertwined.

The solution advocated by many writers was to establish "true Islamic socialism" based on brotherhood and collaboration modelled on the example of the Prophet Muhammad. Contrary to the Western socialism, solidarity in an Islamic state would be based on the acceptance for all individuals of their position in the society. Solidarity means that everyone has a place in the society but must follow the orders of God. Islamic socialism is far from egalitarian thought of the Western socialism and must be understood in the framework of a conservative society. It could then appear as a "third way": "which strikes a perfect balance between the claims of the individual and the community - moderating the extremes of capitalism and communism, respectively"⁽⁵⁾.

For Mohammed Abdu, Islamic socialism would prevent from the excesses of both capitalism and Western socialism. Islamic socialism tries to affirm Islamic values of sharing and redistribution but avoid at the same time the secular models implemented in the communist countries. Islamic socialism appeared as a third way, but it turned to become more of an Arab socialism that was clearly secular and more and more reluctant to use the Islamic rhetoric except for cosmetic reasons.

The Third Phase: Islamic Economics

By the early 1970s, it was obvious that the kind of Welfare state promised by centralized states based on nationalist ideology was disappointing. It did not reach a level of development that would bridge the gap with Western countries. State control of the economy led to a fall in productivity, unemployment and inability to raise the technological level. On the contrary, conflicts and defeats in wars with Israel demonstrated how weak the Arab countries were. But from an Islamic point of view, the project of Islamic socialism turned to a nationalist socialism and authoritarian populism. The price Islamic values had to pay to accept secular-oriented states was much too high.

(5) (Tripp, 2006), p. 98.

That is why a new body of ideas appeared in 1950s; the notion of “Islamic economics”. It was the device to develop an alternative order, founded on Islamic principles, which would not depend on a socialist state, but rather on individual entrepreneurship. The aim was to insist both on Islamic ethics and at the same time on efficiency and material progress. The figure of the “Islamic businessman” emerged as a model of success: a person that could at the same time be successful in his material life, doing business and also be successful in his spiritual life. One may also consider that material success was a sign of divine blessing. This has been remarkably illustrated by Patrick Heanni in his description of new Islamic preachers as Amr Khaled in Egypt (Haenni, 2005).

But this focus on individual entrepreneurship relies on the importance of accepting the rules of Sharī‘ah. That is why a large effort of interpretation of the traditional laws on trade, finance, property, and interest occurred at that time. The problem was how to prevent growing economic transactions from the unleashing force of human nature that would lead to acquisitiveness. That is why the main topic became the Sharī‘ah-compliance. The new deal was: making money and doing business is acceptable only if rules are observed that guaranty that the lawfulness or the legality of the transactions is respected.

It means that “Islamic economy” to reconcile with what was previously antithetic: what was not acceptable until the 1950s for Islamic intellectuals was the fact that material private interests were the driving force of human behavior. This ideology that began with Adam Smith was revolutionary at his time and was strongly criticized even in Europe. It was the same for the Islamic thought for a long time. That is why Islamic economics represents a turning point. It makes compatible what was not compatible previously. This must be linked with the rising revenues allowed by the increase in oil prices in 1970s. First of all, it balanced the power between some of the Arab countries and the West. But it also thronged the need for an organized banking system, which will be able to manage the petrodollars. That is why the Islamic finance became a predominant issue in the Islamic economics.

4. Islamic Thought: The Spirit of the Time

It would be a mistake to think that the history of Islamic thought was disconnected from the course of the history as a whole. Islamic intellectuals always tried to address the problems of their time.

To sum up, in the first period, the problem was to resist the dominance of the Western-modelled traditional economies. All reforms tried at first to implement Western technologies without importing the ideology behind those. To resist and to compete was the point. In the second phase, as we noticed, the problem was to imagine a new future in the new countries liberated from the Western domination. It was clear that welfare state was the main answer as only a strong state could solve the problems of the transformation of the society mainly through reforms in the property system and also the establishing of a new educational system. This period of time coincided with the rise of Keynesian thought that appeared after 1929. Everywhere in the world, capitalism was under the supervision of strong states that controlled the economy. Islamic socialism was connected with the spirit of the time. The period of the emergence of Islamic thought is also connected with the neo-liberal's rise in the 1980s. It began with the assessment that the State cannot be the solution. Freeing private sector from regulation, limiting tax pressure, was in the same mood as the new Islamic interest for private entrepreneurs. The huge interest in finance is also related to the development of finance after the 1980s.

These short explanations are enough to demonstrate how Islamic thought is related to the general course of the ideas and the global dynamics of the World economy. Islamic thought is very modern in that sense and has always been the mirror of the time.

How Islamic thought can participate in the global debates on the "Great Transformation?"

One may think that Islam has not much to say on the "Crisis of Capitalism" because the corpus underpinning the Islamic thought: the Qur'ān and the Sunnah were established long before the development of capitalism. Islamic economy would be then adapted to pre-capitalist societies. *Zakāh* may be useful to undeveloped societies and prohibition of *ribā* may be convenient only for a traditional economy based mainly

on trade. One can think that Islamic thought is not relevant for developed capitalism and modern societies. The history of Islamic economics proves the contrary. From Islam's internal point of view, Islam is said to be the last revelation, the last religion. An understanding of the present crisis must then be connected with the Islamic eschatology. We do not want to insist, but the Modern world was described in AḤadīth relative to the end of the time. And we may find in these AḤadīth the very characteristic of the present time: greediness, exclusive interest for material life, poverty, abundance of money and so on

From another point of view, we can notice that the Capital became a kind of divinity. As Karl Marx demonstrated, the capital creates many illusions: commodities seem to have inner property to exchange; and this was denounced by Marx as the "fetishism of the commodity"; profit appears as a property of the capital to create value. It is the form under which hides the surplus value. To resume capitalism creates the illusion that the capital can generate capital. "Money can generate money." But, Marx says, it is an illusion that hides an extortion of the surplus value from the working laborers by the capitalists. But even without going so far, the money that generates money was also strongly condemned by Aristotle when he stressed the difference between "economy" and "chrematistic".⁽⁶⁾

This illusion now is a very common topic. For everybody, it seems very natural that 'money is a capital' and that it can create money. Everybody is invited to make its money yield a profit. It is expected that an amount of money should naturally generate money. It looks like a kind of magic power. It is a divinity that seems to have by itself the power to create something. We can add that the capital, as previously Gold, is something that is worshipped. From an Islamic point of view, it is a kind of idol, a golden Calf. As can be said in Arabic, it is a *tāghūt* (idol), and *ilāh* (god).

From this perspective, it is easy to understand why the prohibition of interest and the risk-sharing is so important in Islam. The one who perceives interest does not take any risk; means that he does not accept any uncertainty for the future. As this uncertainty depends on God's will, the interest taker behaves as if he wanted to escape from the will of God.

(6) Aristote, *Politique*, I, 9, p. 59.

But obeying God and submitting to His will is the very essence of Islam. The one who takes interest is as if he is taking it to the symbolic place of God and refuses to accept divine Will. It is a kind of hidden *shirk* (i.e., to worship anything except Allah) and it is considered as the greatest sin. If capital is a divinity, if the interest taker associates himself to God by escaping His will, it is very understandable that the prohibition of interest remains a strong pillar of Islamic economy. It is pertinent to note here that the first pillar of Islam is the *shahādah*, (the testimony that there is no god except Allah).

Before to conclude let us try to answer the question: how Islamic thought could play a role in the debates around the big Transformation, we need? Following what we have said, we think that we have entered a new period of time that can be labelled “post-industrial capitalism”. This new period is difficult to figure out, or to define because we are in a transitional period. Many authors try to design new paradigms. For example; rent-capitalism, or cognitive-capitalism, post-fordist capitalism. Other authors insist on the need for an alternative model. It seems obvious that the free market or the Welfare State cannot avoid sustainable development issues. The new challenges can only be addressed by international governance including a large set of organizations from individuals to International organizations: civil societies, NGOs, enterprises, foundations, political parties, administrative local or global organizations, forums, i.e., new multi-level governance that must be created.

About the problem of sustainable development, climatic change, ethical finance etc., many initiatives, forums, NGO’s have been launched. There are thousand of discussions on new initiatives. For example, in France there was an initiative for a so-called “positive economy” launched by Planet Finance, the NGO of Jacques Attali in September 2012. This movement emphasizes social and environmental responsibilities. The slogan is: “an economy where profit is a mean and not the end”. That indeed is an Islamic slogan. But the people participating in this Forum do not know that this precisely corresponds with an Islamic approach towards the economy. Most of the new forums on global governance, climatic change or needs for new ethics in capitalism, think that Christianity or Jewish tradition have something to say about these topics. But they hardly consider that Islam is also relevant.

5. Conclusion

We have shown in the first section that the ‘Global Crisis of Capitalism’ is very much related to important topics of the traditional Islamic thought. In the second section we made obvious that the different phases of the Islamic thought were always a mirror of the spirit of the time, and closely linked with contemporary challenges Islamic societies were facing at those times. That is the case for the last period of time when “Islamic economics” focused mainly on banks, banking systems and finance. Why Islamic thought does not participate enough in the global discussions on an alternative model became clear.

Three reasons can explain this situation. First of all: “Islamic economics” as developed in the last fifty years is closely linked with the rise of the neo-liberal brand of capitalism in the 1980s, based on huge oil revenue. But that time is over. We are entering a new post neo-liberal phase whose problems are sustainable development and social responsibility based on new forms of governance. A new Islamic thought should emerge around the concept of “Islamic governance”. Second, the huge recent development of Islamic economics focused on Shari‘ah-compliance. It means how to comply capitalism with Islam but without contesting the fundamental assumptions that undermine capitalism. The problem now is not to adapt Islam to capitalism. The problem is to transform capitalism and find an alternative system and Islamic thought has a lot to say on that issue. Finally, Islamic economics focused mainly on Islamic societies and Islamic problems. It was interesting when the World economy was split in different regions. But the Islamic world is now integrated into the World system. Islam might have something to say to the World as a whole.

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