

# Islamic Perspectives on Economic Development

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Islam is both a religion and a way of life. Whereas Allah *Sub'hanahu wa Ta'aala* prescribed a set of acts of personal worship, He also gave a code of conduct for interaction among human beings. This code consists of permissible forms of transactions *vis-à-vis* the non-permissible. According to the Islamic faith, one is as much accountable in this respect as he is in matters of personal obedience to his Creator. That Islam offers some guidelines for development is, therefore, understandable. However, what does Islam have to offer in the area of economic development—the concept as well as the strategy? There is room for some argument here. This paper focuses on this subject.

The existing thought on the subject developed in the background of a huge body of literature for both planned and mixed economies—the latter modelled on the capitalist pattern. It is, therefore, not surprising that the departure from the mainstream thinking took the form of emphasis on the moral and ethical dimensions of economic development [Ahmad (1980); Chapra (1993); Sadeq (1987)]. In other words, “economic growth along with development on the moral and social planes” defined the Islamic position on this subject.

This paper offers a restatement of the Islamic position while, at the same time, staying clear of downloading “Islamic values” into the mainstream thinking. In Section 1, the existing views of conventional and Islamic economists about economic development are noted. In Section 2, the Islamic concept of economic development is re-stated with direct reference to the Qur'an and the Sunnah (sayings and practice of the Prophet *SallAllahu 'alaihay wasallam*). In Section 3, the argument of the previous section is reviewed along with the critical subjects of role of government and financing of development. In Section 4, some policy implications are noted, with Section 5 providing the concluding observations.

## 1. SOME EXISTING VIEWS ABOUT ECONOMIC DEVELOPMENT

This is a dynamic world. Every economy faces either growth or decline in the level of economic activity. The case for economic growth hardly needs any argument.

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But how much emphasis might be placed on it? In this regard, it is pertinent to mention that the Shari'ah does not endorse "blind" pursuit of economic targets by an individual. In principle, what is true for an individual also applies to groups of individuals and their collective entities, including the state.

Notwithstanding the aforementioned Islamic position on economic growth as a policy objective at the state level, there can be no qualms about monitoring the health of an economy over time. This is what "economic development" is all about. Of course, there can be argument about what constitutes "economic development" from the Islamic point of view. This issue may be gainfully explored by first taking note of some representative views in mainstream economics and Islamic economics, as follows.

### **1.1. The Concept of Economic Development in Mainstream Economics**

Adisesiah [(1991), pp. 4–8] notes that development is a value judgement both qualitatively and quantitatively. In terms of quality, it is, for example, improvement of something over time; in terms of quantity, it means 'more' in an arithmetic, linear, or monotonic sense. But where do the values expressed in "development" come from? One option exercised in the not-too-distant past was to subscribe to the values of those countries which were recognised as developed. The borrowed values led to the now defunct modernisation theory of development, whereby developed countries served as role models—economically as well as institutionally—for their less-developed counterparts. Another possibility existing all along has been to look to philosophy in order to define what could be called as good life for all and, hence, development. Philosophy's credentials for yielding a consensus on critical issues are open to argument.

With the above prelude, Adisesiah proposes that development be defined with reference to the indigenous values—the values 'which are all around us'. This leads him to conclude that "Development is removal of poverty, unemployment, inequality, illiteracy, and ill-health, and one of ensuring participation in government... incorporating, in the final result, the technological safeguards for human development and conserving of the biosphere that has been developed. This holistic approach is embodied in the concept of sustainable development."<sup>1</sup>

It is pertinent to note that the above view emerged after more than four decades of experimentation with economic growth, basic needs, etc. The existing Islamic position may now be explored as follows.

### **1.2. Islamic Economists and the Concept of Economic Development**

According to Ahmad [(1980), pp. 178–181; (1994), pp. 19–26], the philo-

<sup>1</sup>The idea of basic needs is explicated in Adisesiah's policy agenda.

sophical foundations of the Islamic approach to development are (1) *Tawhid* (God's unity and sovereignty), (2) *Rububiyyah* (divine arrangement for nourishment, sustenance, and directing things towards their perfection), (3) *Khilafah* (man's role as God's vicegerent on earth), and (4) *Tazkiyyah* (purification plus growth) in all his relationships. He contends that "the Islamic concept of development is to be derived from its concept of *tazkiyyah* as it addresses itself to the problem of human development in all its dimensions and is concerned with growth and expansion towards perfection through purification of attitudes and relationships." The essential elements of the Islamic concept of development in his view are as follows.

- (a) It has a comprehensive character in the sense that it includes moral, spiritual, and material aspects.
- (b) The focus of development is man: development means development of man and his physical and socio-cultural environment.
- (c) Optimal utilisation of resources and physical environment, their equitable use and distribution, and promotion of all human relationships on the basis of Right and Justice.

He also holds that economic development is a multi-dimensional activity, and that it involves quantitative as well as qualitative changes. Both these points are not explicated by Ahmad.

Chapra [(1993), pp. 5-7] lists *Tawhid*, *Khilafah*, and '*Adalah* (justice) as the three fundamental elements of the Islamic world-view. He maintains that the immense commitment of Islam to brotherhood (deduced from the concept of *Khilafah*) and justice makes *falah* (true well-being) of all human beings the principal goal of Islam. He places great emphasis of moral development as a condition for economic development. Nonetheless, in his view, Islamically-admissible development or 'development with justice' would be considered to have been realised if the dictates of *Khilafah* and '*Adalah* are satisfied through the need fulfilment of all, equitable distribution of income and wealth, full employment, and environmental protection'.

Both the above descriptions have some elements of truth in them. Some departure from the mainstream thinking is also discernible. However, one may submit that there is room for fresh thinking on this vital subject within the framework of the Qur'an and the Sunnah. This point is argued as follows.

## 2. THE ISLAMIC CONCEPT OF ECONOMIC DEVELOPMENT—A RESTATEMENT

In order to bracket the Islamic concept of economic development, it is necessary to keep two things in mind: (1) this life is a test (*alMulk*: 2), and (2) Islam does hold a unique view of society. The former necessitates that the criteria for test

be laid down and necessary means for that purpose provided by Allah *Sub'hanahu wa Ta'aala*. The means are *fundamental economic rights*—not just *basic needs* [Tahir (1995)]. As representative of Shari'ah, these are obligations of the state, which must be honoured at all stages of economic development. The Islamic view of a society and its implications for defining economic development are as follows.

Allah *Sub'hanahu*'s prefers to see the believers like a well-knit and rock-solid body (*as Saff*: 2). Though the said Ayah was originally revealed in the context of *jihad*, there is no reason to restrict its meaning to *jihadi* situations alone. This position is also supported by the following well-known 'Hadith in which the Prophet (*SallAllaho 'alaih wasallam*) compared the believers with a building.

AbuMusa Ash'ari reported from the Prophet (*SallAllaho 'alaih wasallam*) that the relation of believers with one another should be like the components of a solid building, which (i.e., the components) are source of strength for one another. According to AbuMusa, the Prophet (*SallAllaho 'alaih wasallam*) then firmly clasped the fingers of both hands to explicate the point.

[*Bukhari, Kitab alMuzalim*—in my translation.]

The essential messages for the concept of development can now be traced as follows. For the sake of simplicity, one may keep in view a chair—a physical construct like a building.

The chair has a purpose: sitting. Physically, it consists of a head-rest linked to a seat and four legs. Imagine that initially the chair is on the floor (the position at time  $t = 0$ ), and next it moves to a higher plane (the position at  $t = 1$ ). The following four points should be obvious to a keen observer.

*First*, when the structure of the chair moves from a lower to a higher level, all parts move in the same direction. *Second*, the relative positions of various parts remain the same. *Third*, the bonds between various parts stay unimpaired. *Fourth*, the original purpose of the chair remains intact. A *fifth* point, which complements the first two points, also comes to notice if the example is re-read with "building" in place of "chair": the weaker parts get repaired in the process of development.<sup>2</sup> These five points highlight, in order of significance, the following elements of the Islamic concept of economic development.

A corollary of the *fourth point* is that the community should not deviate from its original purpose in the process of economic development. The *third point* suggests that the social fabric of the society should not weaken. The *first point* implies that all micro units in the society grow in material terms. The *fifth point* also implies that the weaker segments of the society—such as orphans, the elderly, and women—are not neglected. The *second point* about "relative positions of all members in the economy

<sup>2</sup>The credit for this point goes to Mr Yasin, a graduate student at the IIIE.

remaining intact" needs to be interpreted carefully with due allowance for the elastic nature of social relations.

Suppose the society has three classes: the poor, the middle-class, and the rich. *Prima facie*, the second point in the chair example suggests that all three groups must grow in the same proportion. But if all three grow along with the poor growing the fastest, so that the degree of inequality reduces, what would be wrong with it? Islamically this would be all right because Allah *Sub'hanahu* has also endorsed a decrease in the concentration of wealth as a policy objective (*al'Hashar: 7*).<sup>3</sup> Therefore, if it so happens that in the process of economic growth either the distributions of income and wealth remain the same or improve in favour of the poor, such economic growth may be said to have Islamic endorsement.

Another element of economic development traceable to the Qur'an, though not covered by the above example, is that the community must have a credible deterrent against external threats. (*alAnfaal: 7*.)

Putting together the various points in this section, one can now define the Islamic concept of economic development as follows. Economic development would be taking place if and only if the following five conditions are satisfied along with an increase in the level of economic activity:

1. No one is left with his fundamental economic rights unfulfilled.
2. The economy's moral, social, and institutional fabric does not weaken.
3. Economic growth is accompanied by either a constant distribution of income or a reduction in economic inequalities in favour of the poorest (most).
4. The society does not deviate from its original Divine mandate.
5. The society maintains a credible deterrent against external aggression, keeping pace with the ever-changing times.

The above criteria are not directly in line with the mainstream thinking. Moreover, it also raises some issues of a practical significance about the role of government and financing matters. Next, we look at these issues.

### 3. SOME CRITICAL ISSUES

#### 3.1. A Review of the Proposed Concept of Economic Development

The conclusions drawn above represent a move away from generalities to specifics in order to assess the Islamicity, or otherwise, of economic development in a country. The above criteria represent a break from the existing thinking in the following respects.

<sup>3</sup>The case of the rich growing more rapidly would mean an increase in the concentration of economic well-being. The case of the middle-class growing at a greater speed too would mean widening of the gaps between the haves and the have-nots. Both cases are not welcome by the same token.

“Moral development” is not directly emphasised as a part of the development criteria. What needs to be stressed is the Shari’ah framework for everybody. The problem of moral degeneration can be avoided by the application of the Islamic penal code.

Environmental protection and sustainable development are also not emphasised. The Islamic concept of *ḍamaan* (compensatory damages), a part of the Islamic framework, is expected to lead to internalisation of negative externalities in the decision-making process of economic agents. Similarly, the idea of inter-generational ‘*adl* or justice [Naqvi (1980), p. 121] is not considered crucial because, strictly speaking, ‘*adl* applies when both parties are legal persons who can have enforceable claims against each other. Thus, care for the interests of future generations has to come from voluntary choice of the present generation in the interest of its life-hereafter. But this is not a must.

Reduction in unemployment is not listed as an element of the Islamic concept of economic development for several reasons. For example, traditionally, “unemployment” is seen in the context of salaried jobs. This obscures self-employment, which is as important or even better than salaried employment in the Islamic mode of thinking. Furthermore, employment is a means, not an end in itself. As argued elsewhere [Tahir (1995a)], the responsibility of the state *vis-à-vis* the citizen is fulfilment of his fundamental economics rights—not necessarily the provision of a job with all its consequent obligations. Finally, market conditions fluctuate from time to time. If sometime the market cannot absorb all those who are seeking work, it does not automatically translate into action at the government level. The issue of financing needs to be resolved first.

There is also no mention of self-reliance [Ahmad (1994), pp. 35–41] at the economy level. It may be respectfully noted that the Prophet (*ṢallAllaho ‘alaihay wasallam*) borrowed on Islamically permitted terms from non-Muslims—“foreigners” in a technical sense. The important thing is the elimination of *riba* or interest, which will reduce the problem of fresh indebtedness to foreigners to manageable limits. This will be so for two reasons: (1) the lenders will find it unattractive to go for pure loaning, and (2) the borrowers will be restricted to either participatory-financing or actual trading operations. However, the issue of self-reliance can be put back on the development agenda if there are signs of the repetition of the subcontinent’s experience with the East India Company.

### 3.2. The Government and Economic Development

The government is primarily *Julil Amr* (the representative of Shari’ah) in an Islamic milieu. In this capacity, its foremost responsibility is to provide a framework conducive to the fulfilment of everyone’s personal obligations in respect of this life as a test. This includes (1) development of proper institutional framework, (2)

promotion of awareness about one's rights and responsibilities, (3) establishment of justice in mutual dealings of the citizenry, and (4) fulfilment of fundamental economic rights—all these, apart from communicating the Word of Allah to the mankind. However, in the modern age of democracy, as the elected representatives of people, the government may also be called upon to undertake economic activities.<sup>4</sup> Some general rules in this regard are as follows.

First, in matters of collective responsibility of the people, such as the fulfilment of fundamental economic rights, the public may be called upon to contribute according to ability. This follows from the Qur'anic principle that Allah *Sub'hanahu* does not burden anyone beyond his capacity (*alBaqarah*: 286).

Second, justice necessitates that the government maintains a neutral stance in economic matters in the following sense: if benefits of something are going to be limited to a select group, the same should bear the costs of its provision. This, in turn, implies that the financial burden of local public goods should not be placed upon those who do not fall in the beneficiaries' category.

Third, being a representative of the people, it is only logical that the government does not directly compete against its own subjects. Put differently, the government should not enter into the provision of those goods which are private in nature and those for which externalities can be internalised.

Notwithstanding the above principles, there may be instances in which huge capital outlays may require the government to take the initiative on behalf of the people. For example, The Kala Bagh Dam. In such cases, the precedence set by Zulqarnayn ('*Alaihay assalam*) implies that the government may play the needed role in a managerial capacity without generating long-term commitments for itself [Tahir and Atiquzzafar (1995)]. This principle applies to both the implementation of projects and their financing.

### 3.3 Financing Economic Development

Financing of economic development is likely to represent some fresh challenges, especially so at the government level, in view of the prohibition of *riba* in Islam. Absence of *riba* would imply an end to the all-too-familiar dichotomy between the mobilisation of funds by financial intermediaries from the savers, on the one hand, and profitable applications of the funds by investors, on the other. Practically the funds will flow (a) parallel to sale/purchase transactions on credit, (b) under participatory financing arrangements or (c) in leasing contexts. The doors will be closed on the financing of existing debt with newly floated debt. On the positive side,

<sup>4</sup>This point was always implicit during the days of Khulafa-e-Rashedin (the rightly-guided Caliphs). For example, with the availability of resources, Sayyidena 'Omar is well-known to have taken many initiatives for institution-building, providing infrastructure, and patronising economic initiatives [Nu'maani (1943)].

tying of funds directly to economic transactions will put an end to speculative investments, and lead to greater financial and fiscal health of the economy.

As argued elsewhere Tahir [(1994a, 1995a)], the Islamic financial system will have enough flexibility to meet any existing or conceivable need. There may be some transaction costs due to a new approach to project management, especially in the case of large-scale projects with long gestation periods [Tahir (1994a), pp. 291–4]. However, those costs pale in comparison with the social costs of periodic financial scandals in interest-based economies—such as the finance companies and financial cooperatives scams in Pakistan during the last two decades.

#### 4. POLICY AGENDA

It is logical to initiate policy action with reference to the point ‘weaker parts get repaired in the process of development’ (Section 2). This calls for attention to the building of institutions that are consistent with the Islamic ethos, and which are sadly neglected in most of the Muslim countries. Such key institutions are as follows.

1. Participatory form of government (*ashShura*: 38)—a government which is representative and accountable—in order to enable the people shape their personal lives according to their conscience.
2. Institution of ‘*Adl*—both the law and its enforcement mechanism.
3. State-level guarantee of the fundamental economic rights along with development of the institutions of *zakah* and *waqf* (the Islamic institution of trust).
4. *Riba*-free financial system.
5. Reformed markets with Shari‘ah-consistent forms of contracts, transactions, and exchanges in goods, labour, and capital markets.<sup>5</sup>

The above action is also indispensable to providing every individual a fair chance to act according to the criteria of success laid down in the Qur‘an and the Sunnah. This point puts the task of institution-building above the pursuit of collective goals.

At the collective level, the inclusion of effective deterrent in the national agenda is understandable because of its pure public good character. However, there are some other less obvious cases too. First, the Divine mandate of an Islamic society is enjoining what is right and forbidding what is wrong (Aale‘Imran: 110). This requires that people be clear about their rights and responsibilities as well as right versus wrong in general, and have the strength to take the necessary stand. This, in turn, translates into an emphasis on education (with character-building) at the national level, with the state providing the necessary leadership. As the guardian of the community in a cosmopolitan world, it may also be the state’s responsibility to ensure due emphasis on higher education and research.

<sup>5</sup>See Tahir (1994, 1994b) for some likely reforms in labour and capital markets.



Notwithstanding the importance of the collective goals, the state's primary status is that of the monitor of the health and performance of economy in the light of the development criteria listed in Section 2. As argued in Section 3.2, except in the cases of pure public goods like an effective deterrent and the fulfilment of the fundamental economic rights, one should look forward to the state's playing an adjudicative role in economic matters. This applies to both the goals and the means. Thus, it may be fair to claim that the goal of economic development ought to be pursued through private participation, that is, through reliance on the market mechanism. The Islamic scheme may be called guided-market approach to development. The role of planning is likely to be reduced to identifying the priorities for the society and the best means to achieve the designated goals—whether providing incentives to the private sector or playing a temporary managerial role at the government level.

## 5. CONCLUDING OBSERVATIONS

In the end, one may like to know the possibilities for quantitative treatment of the five conditions for economic development proposed in Section 2. We propose to give here only some hints. While the notions of fundamental economic rights, distribution, and a credible deterrent are quantifiable, only an indirect approach may be possible in the remaining cases—moral, social, and institutional fabric of the society and its divine mandate. Nevertheless, many problems may be avoided by choosing policies which are favourable or neutral in their effects in respect of the objectives.

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# Comments

Economic development has been defined by modern economists as the process of societal transformation in which social and economic conditions of human societies and communities change over time. Development economics is the study of this change.

In the later part of the twentieth century, the dominant (neo-classical) paradigm of economic development has evolved through different stages, reflecting different shifts in theory and policy measures, for industrialising the agrarian economies of developing societies. When the initial emphasis of this paradigm was on the efficient allocation of the given resources, the problem of development was theoretically based on the demand and supply (market) equilibrium. Later, the emphasis shifted to resource creation and mobilisation, capital formation, etc., through state intervention and planning. The economic problems of the developing countries, however, remained intractable.

After the collapse of Keynesian fiscalism, caused by active state intervention, inefficiency, and corruption of the governments, the initial paradigm, of demand-and-supply-based market equilibrium has now been resurrected. The current notion that the efficient allocation of given resources and their optimum utilisation is possible only through 'liberalisation' of markets, is now reigning supreme.

In their basic approach to study all these economic theories, strategies, and policies of economic development relating to this analytical paradigm, economists separate issues of religious faith from economic problems since both belong to different domains. Islamic economists, however, fuse religion and economics together. The author does not clearly state in what respects the Islamic concept of economic development differs from the current neo-classical paradigm of economic development as it appears in the economic theories of macro and micro models, and in their different shifts of emphasis from time to time. Every society has its own structure of religious traditions and values.

Without entering into the broad controversies relating to the role of religion in a modern economy or to the nature and interpretations of Islamic concepts and categories like *riba*, *Zakat*, etc., my comments on this paper will be confined only to the contents of the paper.

This paper is a good attempt and marks an important improvement on the stereotyped approach of other Islamic economists, since it discusses the problem not with a metaphysical stance, but directly relating to the concrete problems of a given economy.

The paper is divided into four sections: (1) Islamic world-view of economic growth, (2) Islamic concept of economic development, (3) the role of state and finance, and (4) the policy agenda.

In the first section, some guidelines as premises of the Islamic concept of development are analysed.

In the second section, the author develops his important idea that, unlike the concept of basic needs developed by the mainstream economics, Islamic concept of economic development is based on two important elements: (1) this life is a test and (2) fundamental economic rights are obligations of the state. This implies that a developing society must grow as a whole, taking care of the weak elements and classes of this society, and also strengthening the national defence against foreign threats.

Studies of Islamic economists generally lack empirical evidence. If the author had applied his class analysis as a category to the concrete problem of income distribution in the Pakistani economy (both in the agricultural and industrial/urban sectors), this would have enhanced the usefulness of his paper.

In the third section, the author rightly observes that a government is responsible for providing a viable social and legal framework for (1) proper social institutions conducive to development, (2) the promotion of awareness about individual rights and duties, (3) the establishment of justice, and (4) the fulfilment of fundamental economic rights.

In the fourth section, the author enumerates five important principles of policy as the agenda.

In conclusion, he says that the goal of economic development ought to be pursued through the market mechanism, with incentives provided through the role of government.

The author's attempt is commendable insofar as it deviates from the common approach of other Islamic economists. He has tried to address the problem of economic development (in the Islamic perspective) in the framework of categories developed by the mainstream economics.

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