

ETHICS AND ECONOMICS: AN ISLAMIC PERSPECTIVE

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This paper undertakes a comparative analysis of ethics and economics as enshrined in the worldview of Islam and that which has become the foundational building block of western intellectual orientation. The paper makes an attempt to drive home the importance of ethics as foundation of the economic theory as well as the system.

1. INTRODUCTION

All human beings living on this planet wish to ensure their well-being. This is but natural and in conformity with human nature. Accordingly, there seems to be hardly any difference of opinion among all societies around the world that the primary purpose of development is to promote human well-being. There is, however, considerable difference of opinion in the understanding of what constitutes real well-being and the strategy to be employed for realizing it. It is generally agreed that the realization of true human well-being requires the satisfaction of both material and non-material needs of the human personality. This raises the question of whether a rise in income and wealth can be sufficient to satisfy both these needs or whether something else is also needed. While a rise in income and wealth can help satisfy the basic material needs of the human personality,¹ it may not necessarily be able to satisfy all the non-material and spiritual needs. This raises the question of what these non-material and spiritual needs are that a rise in income may not necessarily be able to satisfy.

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¹ Some of the essential material needs are: food, clean water, adequate clothing, comfortable housing with proper sanitation and essential utilities, timely medical care, transport, education, and employment or self-employment opportunities.

One of the most important non-material or spiritual needs is mental peace and happiness. While the satisfaction of this need does demand 'adequate' income and wealth, it also requires the fulfillment of some other human aspirations. Among the most important of these other aspirations are justice and human brotherhood, which demand that all individuals be considered as equals and treated with dignity and respect, and that the fruits of development be shared equitably by all, irrespective of their race, colour, age, sex or nationality. Some of the other equally important and generally recognized requirements for sustained well-being are nearness to God, spiritual and moral uplift, security of life and property, individual freedom, proper upbringing of children, family and social solidarity, and minimization of crime, tensions and anomie. Historical experience indicates that the material and non-material needs are both interdependent and reinforce each other. It may not be possible to sustain even the long-term economic development of a society without ensuring the fulfillment of both these needs. This raises the question of how the non-material and spiritual needs may be satisfied if a rise in income and wealth cannot by itself satisfy them.

2. NEED FOR A PROPER WORLDVIEW

Spiritual and non-material needs may be difficult to satisfy unless the society has a proper worldview. The worldview discusses the nature of existence and tries to answer questions about how the universe came into existence, the meaning and purpose of human life, the ultimate ownership and objective of the limited resources at the disposal of human beings, and the relationship of human beings to each other and to their environment. For example, if the worldview assumes that the universe has come into existence by itself, then human beings are not accountable to anyone and are free to live as they please. Their purpose in life would then be to seek maximum pleasure, irrespective of how it affects others or their environment. The serving of self-interest and the survival of the fittest would then seem to be the most logical norms of behavior. If it is believed that human beings are pawns on the chessboard of history and their life is determined by external forces over which they have no control, they are, then, not responsible for what goes on around them and need have no qualms about the prevailing inequities.

However, if the worldview is founded on the belief that human beings and what they possess have been created by the Supreme Being and that they are accountable to Him, then they may not consider themselves either absolutely free to behave as

they please or helpless pawns on the chessboard of history, unconcerned about how their behavior affects the well-being of others and the direction in which history is moving. They would rather have the conviction that they have a mission to perform. The mission is to ensure the well-being of all. For this purpose, they must use the limited resources and treat each other and their environment in a way that would help fulfill their mission.

3. RELIGIOUS WORLDVIEWS

The difference in the worldviews would not have been significant if the religious worldviews had remained in their pristine purity and continued to dominate human societies. This is because, according to the Qur'ān, God has sent His Messengers, who were all human beings, to all societies around the world at different times in history.¹ A new Messenger came when the message of the previous Messenger was either lost or distorted. Therefore, all Revealed religions have their origin in the teachings of one or the other of God's Messengers. This is the primary reason why there is a continuity and similarity in the worldviews and value systems of all Revealed religions to the extent to which the original message did not get lost or distorted. They all emphasize belief in God and the Hereafter, and provide certain rules of behavior (moral values) for ordering human relations. The basic worldview of all Revealed religions in their pristine form is, therefore, almost the same even though there are differences in details as a result of changes in circumstances over space and time. The Qur'ān clearly states that: "Nothing has been said to you [Muhammad], which was not said to the Messengers before you" (Al-Qur'ān, 41:43). This is what adds a dimension of tolerance to the Islamic faith. The Qur'ān says: "Do not argue with the People of the Book except in the best manner unless it be those of them who have been unjust. Tell them: We believe in what has been revealed to us and what was revealed to you. Our God and your God is One and we submit ourselves before Him". (29:46-47). The Qur'ān also instructs Muslim not to revile those other than Allah to whom they pray because they will revile Allah out of ignorance and spite. This is because the beliefs and deeds of every people seem attractive to them (6:108).

¹ The Qur'ān does not mention the names of all Messengers of God. It rather mentions the names of only those who came in the Middle East. The names of others were not familiar to the people in this area and the Qur'ān is not intended to be an encyclopedia. It, however, states clearly that: "And indeed We have sent Our Messengers to every community in every period" (al-Qur'ān, 16:36). "And We sent Messengers before you, some of them We have mentioned to you, while some others We have not mentioned" (al-Qur'ān, 40:78).

4. THE ENLIGHTENMENT MOVEMENT AND ITS IMPACT

However, the Enlightenment Movement of the 17th and 18th centuries has influenced almost all societies around the world in different degrees by its secular and materialist worldview. Although initially it had the laudable objective of freeing mankind from the despotism of the Church and the state, it gradually went to the extreme and ended up declaring all the Revealed truths of religion as “simply figments of imagination, non-existent, indeed at the bottom priestly inventions designed to keep men ignorant of the ways of Reason and Nature”.¹ It denied any role for Revelation in the management of human affairs and placed great emphasis on the ability and power of reason to distinguish right from wrong and to manage all aspects of human life in a manner that would ensure human well-being. This removed the sanctity that religion assigns to moral values. These, therefore, became relative and got shoved to the private domain of individuals.

However, moral values are not concerned with only the private life of individuals. They cover all aspects of human life, including the social, the economic, the political and the international and affect everyone’s well-being. Their sphere of relevance cannot, therefore, be confined to the personal preferences of individuals. The loss of sanctity paved the way for the introduction of philosophies of social Darwinism, materialism, determinism and existentialism in economics and other social sciences and deprived society of the harmony and consistency with which the moral dimension combines all aspects of human life into an integrated whole and, thereby, ensures comprehensive well-being.

Social Darwinism injected the principle of survival of the fittest in place of human brotherhood into the spectrum of human relationships. This inadvertently provided tacit justification for the concept of ‘might is right’ in the ordering of human relations and of holding the poor and the downtrodden as totally responsible for their own poverty and misery. Materialism made wealth maximization, bodily gratification and sensual pleasures the objective of human endeavor. This served to provide the foundation for today’s consumer culture which has turned continually increasing consumption into a virtue and led to the multiplication of human wants beyond the ability of available resources to satisfy. Determinism implied that

¹ Brinton, 1967, p. 520.

human beings had little control over their own behavior. Their behavior was, instead, assumed to be determined by mechanical and automatic responses to external stimuli as in animals (Watson and Skinner), by unconscious mental states beyond the individual's conscious control (Freud), and by social and economic conflict (Marx). Determinism, thus, did not merely negate the distinctiveness and complexity of the human self, it also led, in step with social Darwinism, to the repudiation of moral responsibility for individual behavior. This unrealistic stance of determinism tilted the pendulum towards the other extreme of existentialism, which declared human beings to be absolutely free.¹ There can be no justification for having agreed values and for imposing restrictions on individual freedom to create harmony between individual and social interest not automatically brought about by market forces. Such a concept of absolute freedom cannot but lead to the concept of value neutrality, sensual pleasures, and *laissez faire*.

If these ideas had penetrated fully into the human psyche, they would have brought great misery to human societies. Fortunately, there have been protests against the Enlightenment worldview by a number of scholars like Sismondi (1773-1842), Carlyle (1795-1881), Ruskin (1819-1900), Hobson (1858-1940), Tawney (1880-1962), Schumacher (1891-1971), and Boulding (1910-93) during the entire history of conventional economics.² The Enlightenment movement could not, therefore, succeed in totally eroding the humanitarian values of the Christian worldview even though it did succeed in undermining the authority of the Church. Some scholars even emphasized the need for a new paradigm.³

Secularism succeeded, however, in driving a wedge between the moral and the material and in segregating these into two separate unrelated compartments. This had two very adverse effects on human society. First, it removed the religious and moral education from schools. In the beginning this did not have a significant damaging effect because the families and the churches continued to provide the needed moral education. However, now that the families are rapidly disintegrating and the churches have been almost deserted, moral education fails to be imparted. The moral quality of the new generation is, therefore, rapidly declining, particularly when the TV and the worldwide Web are constantly promoting consumerism along with an overdose of pornography and violence. Secondly, it

¹ Sartre, 1957, pp. 38, 439 and 615. See also Stevenson, 1974 and Manser, 1966.

² See Hausman and McPherson, 1993; Rodney Wilson, 1997.

³ See, for example, Dupfer, 1976; Balogh, 1982; Bell and Kristol, 1981.

also severed the close link between reason and revelation, which were essentially interdependent and absolutely necessary for reinforcing each other in contributing to human well-being. Without guidance from revelation, primary reliance on reason can lead to more and more ways of deceiving and exploiting people and creating weapons of mass destruction. Similarly, without an important role for reason, religious values may be misinterpreted and misused and make it difficult to realize the humanitarian goals of religion. The severing of the link between reason and revelation gave rise in economics and other social sciences a number of concepts, which were in conflict with the humanitarian goals of the religious worldview.¹

5. INDIVIDUAL REFORM, SOCIAL SOLIDARITY AND GENERAL WELL-BEING

The undeniable fact, however, is that, if human beings are the end as well as the means of development, their reform and well-being need to be given the utmost importance. It is the religious worldview, which carries the potential of enabling the reform of the human self in a way that would ensure the fulfillment of all the spiritual as well as material needs of the human personality specified above. This it does by injecting a meaning and purpose into life, providing the right direction to all human effort, and transforming individuals into better human beings through a change in their behavior, life-style, tastes, preferences, and attitude towards themselves as well as their Creator, other human beings, resources at their disposal, and the environment. This can help in promoting not only individual reform but also social solidarity and a more efficient and equitable use of resources needed for the well-being of all.

Toynbee and the Durants have, therefore, rightly concluded after their extensive study of history, that moral uplift and social solidarity are not possible without the moral sanction that religions provide. Toynbee asserts that “religions tend to quicken rather than destroy the sense of social obligation in their votaries” and that “the brotherhood of man presupposes the fatherhood of God – a truth which involves the converse proposition that, if the divine father of the human family is left out of the reckoning, there is no possibility of forging any alternative bond of purely human texture which will avail by itself to hold mankind together.”² Will

¹ For a discussion of these concepts, see Chapra 2000, pp. 19-28.

² Toynbee, Somervell's abridgement, 1958, Vol.2, p.380, and Vol.1, pp. 495-96.

and Ariel Durant have also observed forcefully in their valuable book, *The Lessons of History*, that "there is no significant example in history, before our time, of the society successfully maintaining moral life without the aid of religion."¹

6. RULES OF BEHAVIOUR AND MOTIVATING SYSTEM

This raises the question of why are moral uplift and social solidarity not possible without the aid of faith. This is because two of the foremost requisites for moral uplift are: first, the existence of values or rules of behavior which command such a wide and unconditional acceptance that they become categorical imperatives; and secondly, the observance of these rules by everyone with a sense of moral obligation. This leads us to another question of how to arrive at rules which are unconditionally accepted and observed by everyone. Is it possible to arrive at such rules by means of 'social contract' as suggested by some secular modern philosophers and political scientists? The answer may be yes only if all participants in the discussion are socially, economically and intellectually equal so that everyone has an equal weight in the formulation of the desired rules. Since such equality is not only non-existent but also almost impossible to create in the real world, the rich and powerful will tend to dominate the decision-making process and lead to the formulation of rules that serve their own vested interests. This would frustrate the universal acceptance and observance of these rules.

It is, therefore, necessary that an omniscient and benevolent outsider be assigned this task - an outsider who is impartial, who knows the strengths and weaknesses of all human beings, who treats them all as equals, who cares for the well-being of all without any discrimination, and who is capable of analyzing not only short-term but also the long-term effects of the rules given by him. Who could be more qualified to take this position than the Creator of this Universe and human beings Himself? The Creator has done this job. There is no reason to assume that the Merciful and Beneficent Creator would create human beings and leave them to grope in the dark. Bernard Williams is, therefore, right in observing that "social morality is not an invention of philosophers."²

¹ Will and Ariel Durant, 1968, p. 51.

² Williams, 1985, p. 174.

However, even when we have the values that command wide and unconditional acceptance, there arises the question of how to ensure the observance of these values by everyone. Since these values try to create a balance between self-interest and social interest, living up to these values requires a certain degree of sacrifice of self-interest on the part of all individuals. Secularism which preaches liberalism and individualism and provides sanctity to the serving of primarily self-interest, has no mechanism to motivate individuals to make this sacrifice. This raises the question of how does faith help motivate an individual to live up to these values and to fulfill all his/her social, economic and political obligations that involve a sacrifice of self-interest. Faith tries to accomplish this by giving self-interest a long-term perspective – stretching it beyond the span of this world, which is finite, to the Hereafter, which is eternal. An individual's self-interest may be served in this world by being selfish and not fulfilling his obligations towards others. His interest in the Hereafter cannot, however, be served except by fulfilling all these obligations.

It is this longer-term perspective of self-interest, along with the individual's accountability before the Supreme Being and the reward and punishment in the Hereafter, which has the potential of motivating individuals and groups to faithfully fulfill their obligations even when this tends to hurt their short-term self-interest. It would be highly irrational for a person to sacrifice his long-term eternal well-being for the sake of a relatively short-term this-worldly benefit. This dimension of self-interest has been ignored by Conventional Economics after being cast in its secularist Enlightenment worldview. It has, therefore, no mechanism to motivate individuals to sacrifice for the well-being of others. Francis Fukuyama, who in his earlier book, *The End of History* (1992), declared liberalism to be the final culmination of human achievement,¹ turned about face in his later book, *The End of Order* (1997), and declared that “without the transcendental sanctions posed by religion ... modern societies would come apart at the seams”.²

7. FAILURE TO REALIZE THE WELL-BEING OF ALL

The other objective of the Enlightenment movement was to rid mankind of state despotism. While this objective was also laudable in itself, it went to the extreme of denying the role of good governance in the realization of human well-being and gave rise to the concepts of *laissez faire* and Say's law. The concept of *laissez*

¹ Fukuyama. 1992, p. xi.

² Fukuyama, 1997, p. 8.

laissez faire stood for government non-intervention in the operation of the market. This, however, raised the question of how order and harmony would be created in the economy, and how social interest would be protected in a laissez faire environment where everyone was totally free to do whatever he wishes to serve his/her self-interest. Say's Law helped provide the needed rationale. It applied the law of Newtonian physics to economics and asserted that, just like the universe, the economy will work perfectly if left to itself. Competition would enable market forces to prevent excesses on the part of both individuals and firms and thus create 'order' in the economy and 'harmony' between self-interest and social interest. Any effort on the part of the state to intervene in the self-adjusting market could not but lead to distortion and inefficiency. Production will create its own demand and there will be no overproduction or unemployment. There was no need for imposing any moral or institutional constraints on human behavior.

The great merit of laissez faire capitalism was that it promoted private ownership of property and recognized the profit motive, and, thus, enabled individuals to benefit from their creativity and entrepreneurship. It was also democratic; by their purchases of goods and services in the market place, individuals cast votes in favor of the production of those goods and services. However, since the contention that this would promote the well-being of all individuals was based on flawed logic, the system was unable to promote the well-being of all.

The reasons for this are not difficult to find. First, since the voting strength of the rich and the poor is grossly unequal, the rich are able to swing the outcome of market forces in their favour. Secondly, since the restraining influence of the moral filter was undermined, materialism took its place. Materialism, however, promoted the consumer culture which persuaded individuals through advertising to purchase a maximum amount of goods and services. Wants, thus, become maximized. The only constraint was individual income. However, even this constraint was weakened by the conventional financial system where banks act as loan pushers and constantly promote living beyond means by both the public and the private sectors. Claims on resources, therefore, multiplied and generated not only inflationary pressures but also a rapid rise in debt and debt-serving burden.

Thirdly, the excessive rise in claims has indirectly hurt the need fulfillment of the poor. This is because the rich are able to buy whatever they wish. Since luxury

and conspicuous consumption goods and services constitute a substantial part of their spending, a large proportion of scarce resources gets diverted to the production of these goods and services, leaving inadequate resources for the production of goods and services that are needed to satisfy the basic needs of the poor. All the needs of the poor do not, thus, get satisfied and their well-being suffers. This can give rise to discontent, social tensions, crime and anomie, and hurt the well-being of not only the present generation but also that of future generations.

8. THE WELFARE STATE

Two events, however, served to wash the ground away completely from under laissez faire capitalism, particularly its principle of government non-intervention in the economy. These were the Great Depression of the 1930s and the socialist onslaught. They gave rise to the Keynesian revolution and the welfare state. The Keynesian revolution brought in an important role for the government in the economy, particularly to remove demand deficiency through deficit financing to correct the depression. This led to the end of laissez-faire capitalism, as had been forecast even by a number of non-Marxist scholars like Schumpeter and Toynbee. There were nevertheless some economists like Milton Friedman and Friedrich Hayek who continued to support it, though in a somewhat modified form. The circle of such economists, however, widened considerably in the 1980s when high doses of deficit financing around the world for not only removing unemployment during recessions but also promoting high rates of growth generated inflationary pressures along with a significant rise in debt and debt servicing burden. This has, nevertheless, not been able to undermine the role of the state in the economy and the role of 'good governance' has now become universally recognized in the form of the welfare state.

The welfare state is no doubt a welcome development in capitalist countries. It gained momentum after the Great Depression and particularly after the Second World War. Its immediate objective was to mitigate some of the most conspicuous excesses of capitalism and to serve as an acceptable alternative to socialism. Hence it attracted all sections of the population. However, since it was as secularist in its outlook as capitalism, it did not believe in the introduction of any significant change in the worldview of capitalism or the injection of a moral dimension into

the management of the economy. It relied primarily on regulation, nationalization of certain key industries, a strong labor movement, and the crucial role of the government in providing welfare services, promoting growth and ensuring full employment. It did not have any mechanism other than prices to filter out excessive claims on resources. In addition, the only motivating mechanism it has is the serving of self-interest, which may not necessarily be able to ensure social interest.

While a certain degree of regulation is indispensable to ensure competition, maintain order and standards, and safeguard the rights of others, excessive regulation can prove to be a great burden. The absence of moral dimension leads to more and more regulations. Therefore, even though regulation initially received a great deal of support in industrial countries to serve as an alternative to socialism, questions are now being raised against its long-term feasibility, and business interests have joined hands with conservative governments to push for deregulation, which is gaining momentum in many industrial countries. The movement for the nationalization of major industries has also lost momentum because of the general disenchantment with the performance of nationalized industries. The trade union movement which was considered to be a panacea for raising the incomes of labor, improving their working conditions, and providing them with a sense of economic security has now lost momentum as a result of the excesses of labor unions and relatively high rates of unemployment.

Increased welfare role of the government hence became the primary tool of the welfare state. The welfare state has, no doubt, done a valuable job in reducing inequities. It has, however, also led to an exponential growth in public spending and taxation. The ensuing high deficits in spite of high rates of taxation have created a backlash against the welfare state and the calls for rolling it back have gained momentum. In spite of high rates of government spending, rates of growth in many industrial countries have not been high enough to help realize the cherished goal of full employment. Consequently, the dream of an egalitarian society remains far from realization in spite of the great wealth of the welfare states.

9. A RISE IN SOCIAL PROBLEMS

The tragedy of the secularist philosophy of capitalism was not merely that the unhindered pursuit of self-interest by individuals did not, and could not, serve the

interest of all, but that it also led to a number of insoluble social problems. The race for wealth maximization and keeping up with the Joneses has shoved all other requisites for human well-being into the background, including family integrity, proper upbringing of children, and social solidarity. There is a decline in the individuals' ability and willingness to make credible long-term commitments to their spouses, children and parents. It is not possible to keep husband and wife together in a mutually loving relationship if both of them are not willing to sacrifice their self-interest for each other's well-being. Therefore, "long-term marriage combined with child-bearing is no longer a near-universal adult experience."¹ Consequently, almost every Western country has experienced a massive increase in divorce rates along with a rise in cohabitation rates.² This has substantially undermined the family institution, which has historically served as the foundation of human society and civilization. Divorce adversely affects the well being of those who get divorced. "On average, divorced people are worse off – and married people are better off - financially, physically, and emotionally."³ It has had a more serious effect on women. They get impoverished.⁴ The disintegration of the family cannot but ultimately lead to reduced overall well-being along with social breakdown.

High divorce rate also leads to a neglect of the proper upbringing of children and exerts a very bad influence on their moral, psychological and intellectual development.⁵ McLanahan and Sandefur find that, on average, children reared with both biological parents do substantially better than those reared in other family structures.⁶ This is because children brought up in broken families are unable to get the love and care of both parents. Daly and Wilson have concluded from their research that children were anywhere from ten to over a hundred times more likely to suffer abuse at the hands of substitute rather than natural parents.⁷ Consequently, they develop psychic problems which adversely affect their moral and intellectual development and lead to juvenile delinquency. The quality of the future generation is, thus, declining. Any society where the quality of the future generation goes

¹ Lundberg and Pollak, 2007, pp. 4 and 23.

² Fukuyama, 1997, p. 17; Buchanan, 2002, pp.25-49; Stevenson and Wolfers, 2007, pp. 27 and 37.

³ Stevenson and Wolfers, 2007, p. 49.

⁴ Ibid.

⁵ See Fukuyama, 1997.

⁶ McLanahan and Sandefur, 1994.

⁷ Daly and Wilson, 1968, p. 63.

down cannot hope to be able to sustain development and maintain its moral, intellectual, technological and military supremacy in the long-run.

In addition to the rise in family disintegration, there is also a decline in the willingness to get married. The marriage rate is currently at its lowest point in recorded history. Many families form without any intention of begetting children.¹ This, combined with excessive resort to birth control, has steeply reduced the birth rate so much so that *The London Times* went to the extent of foreboding that “Europeans are a vanishing species”² Germany’s birthrate is now below what is needed to replace the present population.³ If the present German birthrate is sustained and immigration is zero, Germany’s population will fall from 82 million to 38.5 million at the century’s end, a drop of 53 per cent.⁴ Consequently, the proportion of young people is declining and that of old people is increasing. In addition to creating problems for the pension funds of these countries, this will force them to import labour from other countries to be able to maintain their economic activity at a desired level.⁵

In short, what secularism has done is to undermine the collective sanction that religion provides to moral values and ensures their unchallenged acceptance as rules of behavior for the proper ordering of social life. The undermining of religion has, therefore, led to the weakening of the crucial role that the moral filter plays in maintaining a healthy balance between self-interest and social interest and all aspects of human society. Consequently, maximization of wealth and want satisfaction has become the primary purpose of human endeavor even though it is not possible to realize real human being primarily through this. This has led to a rise in all the symptoms of anomie, which indicates a lack of inner happiness in the life of individuals. Moral philosophers throughout history as well as a number of modern scholars have rightly questioned the identification of well-being with a rise in income and wealth.⁶ They have emphasized both the spiritual as well as the material contents of well-being.

Empirical research has also provided a negative answer to the undue emphasis on material ingredients of well-being at the cost of the spiritual. This is because,

¹ Stevenson and Wolfers, 2007, p.27.

² *London Times*, 16 January 2000.

³ Buchman, 2002, p. 14.

⁴ Buchman, 2002, p.15.

⁵ Buchanan, 2002.

⁶ Hausman and McPherson, 1993, p. 693.

even though real income has dramatically risen in several countries since World War II, the self-reported subjective well-being of their populations has not only failed to increase, it has in fact declined.¹ The reason is that happiness is positively associated with higher income only up to the level where all basic biological needs get fulfilled. Beyond that it remains more or less unchanged unless some other needs, which are considered indispensable for increasing well-being, are also satisfied. Most of these other needs are spiritual and non-material in character and need not necessarily become satisfied as a result of increase in income. Single-minded preoccupation with wealth has in fact hurt the satisfaction of these needs. If the non-material needs are not fulfilled, real well-being will not be realized and the society will ultimately start declining even in economic terms.

10. THE ISLAMIC WORLDVIEW

As a result of centuries of decline, Muslim countries are at present not in a position to serve as a model for any country. They face many of the same problems that the West faces, some more seriously and some less. This leads us to the question of whether the revival of Islam that is now taking place in Muslim societies can lead to a significant improvement in the future. It is in general the belief of Muslims that it can. In spite of the moral and material decline, Islam continues to be the only reality in the Muslim world that has the charisma to attract the masses, unite them in spite of their great diversity, and motivate them to act righteously. This is because the Islamic worldview is based on a number of concepts that strike at the roots of secularism, value-neutrality, materialism and social Darwinism. It gives primary importance to moral values, human brotherhood, socio-economic justice and family solidarity and does not rely primarily on either the state or the market for realizing its vision. It does not divide life into separate unrelated compartments but rather takes a comprehensive view and relies on the integrated roles of values and institutions, market, families, society, and the state, to ensure the realization of its vision of ensuring socio-economic justice and the well-being of all. It puts great emphasis on social change

¹ Easterlin, 2001, p. 472. See also, Easterlin, 1974 and 1995; Oswald 1997; Blanchflower and Oswald, 2000; Diener and Oishi, 2000; and Kerry, 1999.

through reform of the individual and his/her society, without which the market and the state could both perpetuate inequities.

The fundamental Islamic belief is that this universe and everything in it, including human beings, has been created by the One and the Only God. All human beings are His vicegerents. Being the vicegerents of the Creator of this Universe confers on them a great honour and dignity. It makes them all equal in this dignity and honour and does not give anyone superiority over others because of his/her race, sex, nationality, wealth, or power. They belong to the same family of God and are, thus, brothers unto each other.¹ Their sojourn in this world is temporary. Their ultimate destination is the Hereafter where they will be accountable before God. Their well-being in the Hereafter will depend on whether or not they lived in this world, and fulfilled their obligations towards others, in a way that would help ensure the well-being of all.²

One of the things that seriously affects the well-being of all is the way scarce resources are utilized. For an efficient and equitable use of these resources, the Creator and Owner of these resources has provided certain values, rules of behavior or institutions, to all people at different times in history through a chain of His Messengers (who were all human beings), including Abraham, Moses, Jesus and, the last of them, Muhammad, peace and blessings of God be on all of them. This is the reason why, as indicated earlier, there is a continuity and similarity in the value systems of all Revealed religions to the extent to which the Message has not been lost or distorted over the ages. Since all the resources provided by God are a trust, human beings are expected to use them, and to interact with each other, within the framework of the values provided by Him for the purpose of ensuring the well-being of all.

The Messengers did not, however, bring just the values. They also struggled to reform the individuals and the institutions that affect them in the light of the Divine Guidance that they have brought. Socio-economic and political reform is, therefore, the major thrust of the Islamic message. Without such reform, it may not be possible to ensure the well-being of all. To accept *what is* and not to struggle for

¹ The Prophet (pbuh) said, "Mankind is the family of God and the most beloved of them before Him is the one who is best to His family" (Narrated on the basis of al-Bayhaqi's *Shu'ah al-Īmān* by al-Tabrīzī in his *Mishkāt*, Vol. 2, p. 613: 4998.

² For greater detail on the fundamentals of Islamic worldview, see Chapra, *Challenge*, 1992, pp. 201-212.

the realization of the vision or *what ought to be* is a vote in favor of the prevailing inequities and of doing nothing to remove them. Such an attitude cannot be justifiable within the Islamic worldview. The mission of human beings is not just to abide themselves by the Islamic values, but also to struggle for the reform of their societies in accordance with these.

Such reform would, it is believed, help promote a balance between individual and social interest and help actualize the *maqasid al-Sharī'ah* (the goals of the Sharī'ah), or what may be referred to as the vision of Islam, two of the most important constituents of which are socio-economic justice and the well-being of all God's creatures (including animals, birds and insects).¹ Injustice cannot but thwart the realization of true well-being, accentuate tensions and social unrest, discourage individuals from rendering their best, and thus retard development. However, whereas conventional economics assumes the prevalence of self-interested behavior on the part of individuals, Islam does not assume the prevalence of ideal behavior. It believes that, although some people may normally act in an ideal manner, the behavior of most people may tend to be anywhere between the two extremes of selfishness and altruism and, hence, a constant effort (*jihad*) needs to be made on the part of both individuals and society for moral uplift.

Islam, however, rules out the use of force for moral uplift: "There shall be no compulsion in religion" (al-Qur'ān, 2:256), and "Say that the Truth has come from your Lord: Whoever wishes may either believe in it or reject it" (al-Qur'ān. 18:29).² It rather lays stress on a number of measures to motivate individuals to do what is right and to abstain from doing what is wrong. One of these is to create conviction in individuals through logical reasoning and friendly dialogue (al-Qur'ān, 16:125). Another measure is to create an urge in the individual himself to abide by these values. This urge is expected to come from two sources. One of these is the innate goodness of the human being himself or herself. Within the framework of Islamic worldview, people are good by nature because God has created them in His own image (al-Qur'ān, 30:30). The individual does not necessarily always act in his self-interest. He or she also acts in the interest of others and even makes sacrifices for

¹ . For a brief discussion of the *maqāṣid*, see Chapra, 2008 (forthcoming), pp. 7-9

² The Qur'ān repeats the same message in a number of other places. For example: "Are you going to compel people to believe" (al-Qur'ān, 10:99), and "You are not there to force them to believe. Exhort through the Qur'ān whoever takes heed of the Warning" (al-Qur'ān, 50:45).

them under a feeling of moral obligation. However, since the individual is also free, he may or may not preserve his innate goodness and may act in ways that are against his nature. This will hurt him and his society. Therefore, it is necessary to provide material and spiritual incentives and deterrents to motivate individuals to do their best for their own good as well as that of others and to prevent them from causing harm to others.

Market discipline is an important way of providing incentives and deterrents. However, while it promotes efficiency, it cannot by itself safeguard social interest. This is because competition, which is indispensable for ensuring efficiency, cannot be relied upon totally to safeguard social interest. There are several clandestine ways of restraining competition and using unfair means to enrich oneself. Therefore, governments have an important role to play. A part of their role is to pass and enforce regulations. But regulations may not be possible without having a perception of what is the right thing to do. It is the moral basis of society that serves as the foundation for regulation. Moreover, it may not be realistic to depend primarily on regulations because there are so many different ways of cheating and exploiting others without being caught that it may be difficult for governments to succeed unless there is an inner urge on the part of the people themselves to do what is right, to fulfill their contracts and other commitments faithfully, and not to try to undermine competition or resort to unfair means of earning.

It is, therefore, necessary to inculcate belief in the reward and punishment in the Hereafter. If a person abstains from wrongdoing and also sacrifices his/her self-interest for the sake of others, he/she will improve his/her well-being in the Hereafter. The concept of Hereafter thus gives a long-term perspective to self-interest by extending it beyond the individual's life span in this world. In the last analysis, therefore, it may not be possible to safeguard social interest effectively without the help of all institutions – proper upbringing, preserving the goodness of human nature, moral values, market discipline, effective government role, and belief in accountability in the Hereafter. The use of all these may help realize human well-being better than reliance on just market discipline or the government.

This shows that the Islamic worldview does not rule out the need for market discipline or good governance for realizing human well-being. However, it introduces three mechanisms into the market system to make it more effective in

realizing both efficiency and equity. These mechanisms are filtering, motivation, and socio-economic and political restructuring.¹

For realizing comprehensive human well-being, Islam considers it necessary to filter out all those claims on resources that jeopardize the realization of comprehensive human well-being. Socialist central planning did not prove to be an effective mechanism for this purpose and almost all socialist countries have abandoned it by now. While the market mechanism helps filter out excess claims on resources by establishing an equilibrium between demand and supply, it has not succeeded in safeguarding social interest. This is because it is possible to have several market equilibria depending on which tastes and preferences of individuals and firms interact with each other in the market place. *Any* and *every* market equilibrium may not lead to the realization of comprehensive human well-being. It is the moral filter which changes individual tastes and preferences in a way that can help weed out all those ways of earning and spending that frustrate the realization of general well-being. The moral filter acquires even greater importance if the use of coercion is to be ruled out. Thus two layers of filter, moral filter as well as the price filter, get utilized to create an equilibrium between supply and demand for resources in a way that would be more conducive to actualization of the humanitarian goals of society.

The moral filter may, however, be of little use if there is no mechanism to motivate people to faithfully observe its values. This is because, as already discussed, faithful observance of moral values demands sacrifice of self-interest on the part of individuals. The moral filter needs, therefore, to be complemented by belief in the Hereafter to ensure its effectiveness.

Since the physical, social, and political environments also influence human behaviour and the use of scarce resources, the Islamic worldview tries to complement the filter mechanism and motivating system by socio-economic and political reform which was one of the primary missions of all God's Messengers. The reform aims at making individuals, families, society and the government use the resources and cooperate with each other in such a way that general well-being gets promoted. In an environment of human brotherhood everyone is individually and collectively responsible for not just his own well-being but also that of others. All need to cooperate not only in promoting good behaviour but also curbing

¹ Chapra, 1992, pp. 213-233, and Chapra, 2000, p. 26.

‘nasty’ behaviour – behaviour that hurts others and frustrates the realization of general well-being. If there is no effective system for detecting and punishing the culprits, then anyone may be able to get away with dishonesty, bribery, and other unfair means of earning. Such practices may then become locked-in through the long-run operation of path dependence and self-reinforcing mechanisms. Everyone may then condemn the practice, but may not be able to eliminate it single-handedly by himself / herself being honest and fair. It may not, then, be possible to eliminate the undesired practices by just giving sermons and not undertaking comprehensive reform through socio-economic and political restructuring. What Islam, therefore, aims at doing is to inject a moral dimension into economics along with the positive role of good governance. This should help all the sectors of human society to play a positive role in the realization of human well-being.

11. THE SILVER LINING

It is heartening to note that the innate goodness of the human self has led to a realization in the Western world that the anti-religious stance of the Enlightenment Movement was a great mistake. Accordingly, religious belief is gradually gaining strength, making the editors of *Religion in Contemporary Europe* admit that they are seeing the beginning of the end of 200 years of hostility towards religion.¹ The role of altruism, cooperation, moral values, and a host of social, economic and political institutions in furthering human well-being is being emphasized. The development of different schools which challenge the worldview and method of conventional economics has created a silver lining in its clouds. All these schools are, however, closely related, the difference between them being primarily in their degree of emphasis.

One such School is that of Grant Economics which asserts that altruistic behaviour is not necessarily an aberration from rationality.² It argues that equating rational behaviour with only self-interested behaviour is unrealistic. According to Hahn, "economics probably made a mistake when it adopted the nomenclature of 'rational' when all it meant is correct calculations and an orderly personality."³ It is also argued that unrealistic assumptions need not necessarily yield correct theory in spite of Friedman's assertion to the contrary. It may be more appropriate to state that, if the function of economic theory is to yield reliable predictions about the

¹ Fulton and Gee, 1994.

² See, Janos Horvath, "Foreword", in Solo and Anderson, 1981, pp. ix-x.

³ Hahn and Hollis, 1979, p. 12.

future course of events, then the assumption of rational behaviour within the framework of both altruism and self-interest may probably yield more meaningful predictions. Hence, the 'Boulding optimum' has been proposed as an alternative to the Pareto optimum to bring within the scope of economic analysis a human flair assumed away in the name of value-free science.¹

A second School of thought is that of the need-based Humanistic Economics designed to "promote human welfare by recognizing and integrating the full range of basic human values."² Instead of basing itself on the old psychology of utilitarianism, which emphasized wants and wealth, it looks to humanistic psychology and emphasizes need satisfaction and human development to move towards what Abraham Maslow calls 'self-realization' or 'self-actualization'.³ Consequently, it takes into consideration all human needs, irrespective of whether they are physiological (food, clothing, shelter), psychological (safety, security, love, sense of self-worth), social (belongingness), or moral (truth, justice, meaningfulness).

A third School is that of Social Economics which involves a "reformulation of economic theory in the mould of ethical considerations".⁴ Commitment to the imperative of value neutrality, the sacred ideal of the Enlightenment scientists bequeathed by economists, is here considered as both untenable and undesirable - untenable because scientific inquiry is based on assumptions which tacitly involve value judgments; undesirable because scientific inquiry cannot avoid addressing questions of public goals and social priorities in resource allocation. Any discipline committed to value neutrality cannot succeed in evaluating policies and recommendations for public choice. Such an evaluation necessarily involves value judgments. Hence, according to Sen, "the distancing of economics from ethics has impoverished Welfare Economics and also weakened the basis of a good deal of descriptive and predictive economics." His conclusion is that economics "can be made more productive by paying greater and more explicit attention to ethical considerations that shaped human behaviour and judgment."⁵ Hausman and McPherson have also concluded in their survey article in the *Journal of Economic Literature* on 'Economics and Contemporary Moral Philosophy' that: "An economy

¹ Solo and Anderson, 1981, p. x.

² Lutz and Lux, 1979, p. ix.

³ Maslow, 1970.

⁴ Choudhury, 1986, p. 237.

⁵ Sen, 1987, pp. 78 and 79.

that is engaged actively and self-critically with the moral aspects of its subject matter cannot help but be more interesting, more illuminating and ultimately more useful than one that tries not to be."¹

A fourth School is that of Institutional Economics, which argues that human behaviour is influenced by a number of interrelated social, economic, political and religious institutions that define the way individuals are expected to behave. Organizations act as agents of change by making individuals behave in the desired manner through changes in benefits and costs. This School carries great promise because it can help explain how changes in institutions over time influence the present and the future and why some economies perform better than others do. It can also help explain cooperation and coordination and a number of other behavioral patterns in human society which neoclassical economics is unable to do by concentrating primarily on self-interest and competition. These possibilities have gradually raised the conceptual and practical importance of studying the role of institutions in human society.

The problem, however, is how to derive values which command wide acceptance and which are observed with a sense of moral obligation such that anyone who violates them gets censured. Can conventional economics help bring about such a consensus? Probably not. "Social morality," as Schadwick has aptly observed, "depends on agreed standards, upon a consensus which is received as so axiomatic that it hardly ought to be discussed", and that, "except in the case of a small number of exceptional groups of people morality never had been separated from religion in the entire history of the human race."² Utilitarianism and social contract theories do not carry the potential of providing values which everyone accepts as given and which no one challenges. Even Social Economics cannot be helpful because, in spite of its recognition of values, it is a "highly pluralistic discipline inspired and enriched by several often radically different worldviews, Schumpeterian visions, and at times even quite antagonistic social doctrines."³ Conflict of views and interests may lead to differences of opinion which may be difficult to resolve. No wonder Minsky remarked: "There is no consensus on what we ought to do."⁴

¹ Hausman and McPherson, 1993, p. 723.

² Schadwick, 1975, pp. 229 and 234.

³ Lutz, 1990, p. ix.

⁴ Minsky, 1986, p. 290.

Decline in the undue emphasis on 'self-interest' and the 'economic man' and recognition of the importance of need fulfilment, value judgments, and the fulfillment of *all* human needs is certainly a welcome development. It shows that human beings are capable of rising to the occasion, of analyzing their problems, and of knowing what is wrong. However, what is not so easy is the remedy. It does not lie in a patchwork of cosmetic changes. It rather lies in reorganization of the whole of society and the economic system in such a way that there is a transformation of the individual from the economic man to a morally conscious human being who is willing to live up to the demands of brotherhood, socio-economic justice and family solidarity. Once this happens, Islamic economics and conventional economics will become very close to each other and together lead to the solution of a number of problems that mankind is now facing.

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