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Islam Versus Economics

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ABSTRACT

The paper shows that fundamental Islamic principles regarding organisation of economic affairs are directly and strongly in conflict with teachings of conventional economic theories.

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1. INTRODUCTION

The most fundamental difference between Islamic and secular economic teachings is caused by diametrically opposed views on purpose of creation of man and the universe. Islam teaches us that the universe was created as a testing ground for human beings. Those who succeed will receive an eternal reward while those who fail will be severely punished. According to secular thought, the universe was created by a cosmic accident, and man came into existence through a random and purposeless process of evolution. Furthermore, life will finish with death, when we will turn to dust. It is no surprise then that secular economists think that all humans should maximise pleasure during this life.

According to Islamic teachings, although the nature of the test we face is complex and multi-dimensional, at the most fundamental level we are tested to see whether we can look through the appearances and recognise and love God. All meaningful human activity, economic or otherwise, is directed towards the Day of Judgment. Any other kind of activity is either meaningless or harmful in distracting us from our purpose. In particular, the purpose of economic activity is also to earn the pleasure of Allah.

One cannot decide on what is the best way to organise economic affairs, or any human affairs, without first specifying the purpose of human life. This is why Western attempts to describe optimal social structures are deceptive—they implicitly specify a purpose, but this purpose is both concealed, and also in conflict with Islamic views.

2. THE METHODOLOGY OF ISLAMIC ECONOMICS

Western economic theory is based on the idea that economics should be a science. The scientist is a neutral and detached observer who studies economic events to deduce law like patterns purely for the sake of acquisition of knowledge. This stance is explicitly prohibited by Islamic teachings. If we see injustice (economic or otherwise), then we are required to struggle to remove it, or to speak out against it. In the last instance, when we are completely powerless, we must feel the pain of it in our hearts—less than this is not compatible with Eeman, or belief in God. This means that we are not allowed by

Note: A slightly edited and revised version of this draft is due to be published in *Oxford University Handbook on Islam and the Economy*, edited by Kabir Hassan and Mervyn Lewis (2013). An earlier longer version of a draft of this paper, with title *Islamic Approaches to Fundamental Economic Problems*, is available from <http://ssrn.com/abstract=221198>.

Islamic teachings to remain detached and neutral as Western scientific methodology requires. For example, the Quran condemns the unbelievers (107:3) who do not urge the feeding of the poor. Note that just feeding the poor is not sufficient, one must actively campaign for this purpose.

Muslims who have attempted to fit Islamic teachings into the narrow framework of Western methodology have puzzled over the issue of whether Islamic economics is positive or normative. As argued in Zaman (2010, 2013), it is neither. On the other hand, the claim that Western economics is positive is also false. As elaborated in Zaman (2011), Western economic theory is built on normative foundations which are not made explicit.

Islamic economics, on the other hand, is transformative—we as Muslims must attempt to change the world in the directions indicated by the Quran (Q29:69). This has important implications for the process by which we teach economics. In an Islamic context, we must actively engage our students in projects designed to relieve poverty and accomplish other economic goals ordained by Allah, for only this struggle will generate learning.

What are the goals for which to struggle? How we should struggle to achieve these goals? Both of these questions are addressed in detail in Islamic teachings. Those who do not know the purpose of human life on Earth cannot possibly have the right goals. Economists have chosen the wrong goals to strive for and therefore are suggesting policies which are harmful for human welfare on the planet. The Quran teaches us what the right goals are and how to strive for them.

3. THE HUMAN FACTOR

The Quran informs us that man has the potential to be the best of creation, but also the worst.

Q95:4 'We have indeed created man in the best of moulds,'

Q95:5 'Then do We abase him (to be) the lowest of the low,'

Our goal in life is to realise the potential for excellence which is within us. In Islamic terms, development refers to this spiritual development. Internal change is a pre-requisite for external change. Islamic teachings are concerned mainly with this internal change. Allah requires us to struggle with the world with the intention of achieving spiritual progress. In particular, wealth is a means towards achieving spiritual progress;¹

Q92:18 'he that spends his possessions [on others] so that he might grow in purity'

¹There are several traditions of the Prophet which make explicit the idea that engaging with the world is a superior route to spiritual progress over worship, meditation, or retirement from the world. It is narrated in Sahih Muslim and Bukhari that according to Abu Huraira R.A., the Prophet S.A.W. said that the one who strives to help a widow or a needy person, earns reward like one who goes for Jihad, or one who stays up all night in worship and fasts all day.

4. ECONOMISTS' REVERSE PRIORITIES

Weber (1930, Chapter 2) writes that the spirit of capitalism is the pursuit of wealth as an end in itself, to the point of being absolutely irrational. Islam condemns the pursuit of wealth for its own sake—it is permissible only when the wealth is to be spent for the sake of Allah, as a means of purification of the soul (Q9:34). Thus wealth can be a means of human development. Because wealth is taken as the final objective, economists reverse these priorities. Human beings are considered as a means of producing goods—mathematically, this is expressed in the production function, where human beings are an input into the production of wealth. That this is a wrong approach has recently become clear to many economists, but the clarity of the Quran on what is the right approach is not available in the Western literature. We discuss below four lines of thinking which led (some) economists to (reluctantly) change their focus from the accumulation of wealth onto the human beings who produce this wealth:

Accounting—According to the standard economic models, it is investment in capital which leads to growth. However, studying the data on growth led to the conclusion that there was a large residual—a portion of growth not accounted for by investments in capital. The search for other causes of growth led to the human factor and investment in human capital. This insight does not go far enough. It continues to evaluate human beings only in terms of their ability to produce wealth, which is a complete reversal of priorities from Islamic ones.

Human Resources—Recognition of the importance of human beings in the process of wealth creation has led to the emergence of the field of Human Resource Management, and a World Bank study (2006) showed that resources embodied within human beings are worth more than the natural resources. Wealthy nations are wealthy because their populations are more skilled. Yet, it is a travesty to consider human beings as a means of production of wealth. Islam considers that every human being is infinitely precious (Q5:32), a lesson not within the ambit of these Western calculations.

Empirical Experience—Conventional economic policies which focus on development of industries and institutions, at the expense of human lives, have been applied all over the world with disappointing results. In the process of applying these economic policies in Pakistan, Mahbubul Haq [cited in Bari (2011)] recognised the need to sacrifice human lives to the priorities of economic growth. He wrote that economic growth is a brutal, sordid process... making the labourer produce more than he is allowed to consume for his immediate needs, and to reinvest the surplus thus obtained. However, he was horrified by the outcome of these economic policies, which led to the concentration of wealth in the hands of the 22 families, and an increase in misery of millions. He concluded , after many decades of development, we

are rediscovering the obvious—that people are both the means and the end of economic development, an insight still not understood by economists and policy makers.

Theoretical Developments: In the preface to his book *Development as Freedom*, Amartya Sen writes that we live in a world of unprecedented opulence. Yet, this tremendous increase in wealth co-exists with tremendous amounts of deprivation, destitution and oppression. He argues that it is essential to take into account the agency of human beings, to resolve these problems of the co-existence of wealth and deprivation (scarcity). Later in the book, he argues that development is really about the development of capabilities within human beings. This is perhaps about as far as one can go from a secular platform. How should human beings be developed? This is a question which the Quran can answer.

5. HUMAN DEVELOPMENT

The Quranic teachings on the complex and dual nature of human beings are not within the compass of modern Western thinkers, and not even grasped by many Muslims who write on these and related issues. Every human being has within him simultaneously, the capabilities for tremendous good, as well as tremendous evil. Understanding this duality has a dramatic impact on design of suitable economic policies. It also resolves many important and consequential debates which have raged through the centuries in secular Western philosophy.

5.1. Are Humans Good or Evil

Western philosophers disputed this issue because the design of a secular political system depends on the answer to this question. Hobbes thought that man was fundamentally evil, and therefore argued that a strong and powerful government was required to curb and control these evil tendencies. Rousseau thought that man was fundamentally good and therefore advocated anarchy or no government at all. Locke took a middle path, suggesting that a minimal amount of governmental control would suffice to control the evil tendencies of man. The idea which eventually emerged as dominant was the Invisible Hand paradox attributed to Adam Smith:² even though man is basically selfish, society would benefit by allowing all men to act selfishly. This has been the dominant belief among twentieth century economists until recently.

Recent research has shown that generous and trusting behaviour among humans is very common. For example, in a one-shot prisoner's dilemma game among anonymous strangers, cooperation is observed far more often than predicted by economic theories. Ledyard (1995) explores this anomaly in a

²Kennedy (2009) has argued that this is wrong; Smith did not intend what modern economists have attributed to him.

section entitled 'Are humans selfish or cooperative?' Islam offers us the insight that this is not a correct question to ask. Every human being has potential for both kinds of behaviour. Base desires are built into every soul. Our test consists of seeing whether we can rise up above them. Recognition of this dual nature of all human beings has far reaching implications, some of which are explored below.

5.2. Failure of the Scientific Method

Human beings are free to choose the path to their Lord. This creates a fundamental unpredictability in human behaviour and past behaviour does not predict the future, because humans are always free to choose the good (or the bad). As a result the scientific method, which works very well for inanimate particles, fails as a methodology for studying human behaviour in many dimensions; see Zaman (2013) for a detailed argument. First, the goal of observing and describing human behaviour objectively, is misguided. The question of whether human beings are selfish or generous is not correctly posed. Every human has the capacity for both. We can try to find what environments will evoke generous responses, and what environment will elicit selfish behaviour. The Quran is full of exhortations to be generous. Describing, praising and encouraging good behaviour is one way of eliciting good behaviour. Second, the attempt to describe human behaviour actually ends up prescribing it. Economists describe rational behaviour as selfish, and argue that this type of behaviour leads to socially optimal outcomes. Those who study economics end up acting along these lines; many studies shows that economists are more selfish—see Kirchgässner (2005). Third, the fact that humans are free to choose whether they will be generous or selfish requires us to re-think our goals in studying economics. There are no universal laws governing human behaviour in the economic realm, nor is it subject to description by any mathematical law. More ambitiously, we must describe what ideal human behaviour is, and how we can encourage and promote it. This is precisely what the Quran does.

5.3. Ideal Human Behaviour

Allah ﷻ provided us with a living model for ideal human behaviour:

Q33:21 'Ye have indeed in the Messenger of Allah a beautiful pattern (of conduct) for any one whose hope is in Allah and the Final Day, and who engages much in the Praise of Allah.'

While there are many dimensions to this excellence, one key aspect related to economics is compassion and sympathy for all human beings. The Prophet has been sent as a mercy for all (Q21.107). His heart was full of sorrow for those refused to accept the guidance from God, thereby causing harm to themselves and to others (Q18.6) and he had compassion, concern and mercy

(Q9.128). The Prophet's generosity is also well known. He never turned away anyone who sought his help.³

6. FUNDAMENTALS OF THE ISLAMIC SOCIETY

Having spelled out some basic elements of the Islamic worldview, we are in a position to discuss the Islamic approach to economic affairs. In this dimension of our life, as in all others, the goal is to strive for excellence in conduct. Everyone's heart is a battleground between base desires and the good and noble. Life is about winning these battles within ourselves. The Quran provides guidance. It is emphatically not consequentialist. Actions are not judged according to the observed outcomes or consequences. Victory or loss is an internal matter, to be judged by the impact of the struggle on the heart. Because the consequentialism built into economic theory is implicitly absorbed by all students, including Muslims, it is important to re-emphasise that this is directly opposed to Islamic teachings.

A common objection to the approach to Islamic Economics being espoused here is that it is idealistic. Based on Zaman (2012b), a brief response can be summarised as follows. Contrary to the self-projected image that social science is positive, in fact social science is all idealistic—an ideal society is described and then methods to move toward that ideal are discussed. Capitalism describes perfect competition, free markets, no externalities, monopolies or other market imperfections, perfect information, as an ideal state and theorises about how we can improve real market to move towards this ideal state. In communism, an ideal state is one in which workers are the owners of means of production in a classless and cooperative society based on taking care of the needs of all members, along with strategies on how to get there. The Quran and *Hadith* describe ideal characteristics of people and encourage them to live up to these ideals, while recognising human failings. Any science which deals with human beings involves value judgments, and Islam makes them explicit, instead of hiding them within the framework of the discussion. Zaman (2012a) shows that the fundamental concept of scarcity, which is the foundation of neoclassical economics, is a normative concept.

6.1. Islamic Attitudes Towards Wealth

Seventeenth century attitudes towards wealth in Europe were based on the Biblical statements of the type that: the love of money is the root of all evil and it is harder for a rich man to get into paradise than for a camel to pass through the eye of a needle. Twentieth century attitudes are solidly based on the famous dictum that lack of money is the root of all evil. History of European

³After observing how much he gave out of the wealth that accrued to the Muslims after the conquest of Mecca, 'afvan bin mayyah remarked that the prophet was as generous as the rain.

economic thought requires an understanding of how this transition took place, which has been discussed in detail by Tawney (1926). The Islamic approach to wealth is a delicate and subtle balance which combines elements of truth from both sides of the polar opposite views described above.

6.1.1. *The Dual Nature of Wealth*

According to a *Hadith*, the ideal amount of wealth is one that is just sufficient for our needs. Both wealth and poverty are trials from Allah (Q89:15-16). One way to fail in this trial is for one to believe that they have been given wealth because they deserve it. This was the error of Qarun.⁴ It is also the error committed by the Calvinists, who thought that wealth was a sign of the pleasure of God. Max Weber has suggested that it is this Calvinist belief that led to the rise of capitalism. Because of this theological belief Calvinists pursued wealth, and spread the idea of the pursuit of wealth.

Success in the trial by wealth occurs if we spend the wealth in manners ordained by Allah. In particular, those who have more than their needs are asked to spend it on others. For those who are obedient to God, wealth can be a blessing. For those who are disobedient, wealth can increase their rebellion towards God. In this case, wealth becomes a punishment from God (Q9.85). This is very different from the economists' views that wealth is an unmixed blessing—the more you have the better off you are.

6.1.2. *Overcoming the Love of Wealth*

The Quran teaches us not only the goals of our struggles, but also the strategies which should be used to achieve success in our struggles. On the one hand, the love of worldly possessions and wealth is built into the hearts of human beings:

Q3:14 'ALLURING unto man is the enjoyment of worldly desires through women, and children, and heaped-up treasures of gold and silver, and horses of high mark, and cattle, and lands. All this may be enjoyed in the life of this world - but the most beautiful of all goals is with God.'

At the same time, we are required to overcome these temptations and replace them with the love of God. This is actually part of the test. If we had no desire, and if the evil did not attract us, then we would be like angels, and would face no difficulty in doing good deeds. The reason that man is potentially superior to angels is precisely because our worldly desires place obstacles in our path towards God. In order to help us in our struggle towards God, the Quran offers us many strategies which we can use.

⁴ His great fortune and insolent behaviour that led to ruin are recorded in the Quran Q28: 76-82 and Q29:39.

One strategy to achieve this goal is to spend or give away things that we love:

Q3:92 'Ye will not attain unto piety until ye spend of that which ye love. And whatsoever ye spend, Allah is aware thereof.'

Note this is the opposite of the idea of utility maximisation. Instead of consuming that which we love, if we give it away, that will weaken the love of material goods, and create the love of Allah in our hearts. Eventually, when the love of Allah comes to dominate the love of material possessions, it will lead us to feed others for the sake of Allah. Such behaviour contrasts with the promotion of greed as a key to the accumulation of wealth.

In order to overcome our love of wealth, which prevents us from giving, the Quran teaches us that everything we have has been given to us by Allah, and therefore we should do good with it, just as Allah has been bountiful and generous towards us.

Q28:77 '... do good [unto others] as God has done good unto thee;'

6.1.3. Spending Excess Wealth on Others

An extremely important ingredient of the message of Islam is to spend wealth in excess of our needs on others. Spending on legitimate needs is encouraged, even spending on adornments and decorations which make our life pleasant. But Islam asks to spend the excess which remains on others. This is far different from the attitudes towards wealth which are developed in capitalist economies and which are implicit in economic theories, encouraging the irrational pursuit of wealth for its own sake. Many have more than enough wealth for their lifetime, yet they continue to pursue wealth. This is primarily because they do not know the purpose of life. Islam permits pursuit of wealth only when the intention is to spend it for the sake of Allah (Q9:34).

Qaroon claimed he had earned his wealth by his own wisdom, and therefore he had the right to do with it as he pleased: Q28:78 Answered he:

his wealth has been given to me only by virtue of the knowledge that is in me! Similarly, current theories of private property hold that the owner has an absolute right, and can do as he pleases with his property. This idea that man can do whatever he wants with his property is forcefully rejected by Quranic teachings. Islam makes clear that all of the resources on the planet have been given to us as a trust from God (Q33.72). These resources do not belong to us in an absolute sense. Rather they have been entrusted to us. We can utilise them for our benefit, but we must also take care to preserve them and pass them on. Further, the Quran states that the poor have a right to the wealth of the rich:

Q70:24 'And in whose wealth there is a right acknowledged'

Q70:25 'For the beggar and the destitute;'

Finally, the Quran tells us that we should not be afraid that we will become poor if we spend on others.

Q2:268 'Satan threatens you with the prospect of poverty and bids you to be niggardly, whereas God promises you His forgiveness and bounty; and God is infinite, all-knowing.'

The Prophet Mohammad peace be upon him said, the generous man is near Allah, near Paradise, near men and far from Hell, but the miserly man is far from Allah, far from Paradise, far from men and near Hell. Indeed, an ignorant man who is generous is dearer to Allah than a worshipper who is miserly. *irmidhi*

While this emphasis receives no mention in economic textbooks, developing generosity and compassion for the poor is a crucial element in the Islamic approach to economic affairs.

6.2. The Distinction between Needs and Wants

One of the founding pillars of methodology of modern economic theory is the idea of Consumer Sovereignty. This embodies two separate assumptions: (i) People know what is best for them, and they make choices in accordance with this knowledge; and (ii) The economist need not differentiate between needs and wants; his task is to fulfill all demands, regardless of their origins. Both of these ideas are directly and explicitly contradicted by the Quran. Regarding the idea that people know what is best for them, the Quran states that:

Q2:216 it may well be that you hate a thing while it is good for you, and it may well be that you love a thing while it is bad for you: and God knows, whereas you do not know.

Based on the assumption that people always know what is best for them, economists fail to differentiate between needs and wants. For example, Samuelson and Nordhaus (1989, p. 26) state that economists must reckon with consumer wants and needs whether they are genuine or contrived. Stigler and Becker (1977) make the normative claim that Tastes are the unchallengeable axioms of a man's behaviour: In contrast to these postulates, fundamental to modern economic theory, the Quran tells us that needs should be fulfilled, but warns against fulfilling idle desires. The idea of consumer sovereignty, is equivalent to making our desires our God. This is an article of faith for economists, but is strongly rejected in the Quran as follows:

Q45:23 'HAST THOU ever considered [the kind of man] who makes his own desires his deity, and whom God has [thereupon] let go astray, knowing [that his mind is closed to all guidance], and whose hearing and heart He has sealed, and upon whose sight He has placed a veil? Who, then, could guide him after God [has abandoned him]? Will you not, then, bethink yourselves?'

6.2.1. *Wants Can Never Be Fulfilled*

In defining economics to be the fulfillment of all needs and wants, regardless of how they originate, economists set themselves an impossible task. Wants are insatiable, and increase with increasing wealth. A *Hadith* informs us that:

Al-Bukhari: Volume 8, Book 76, Number 447: *Narrated Anas bin Malik: Allah's Apostle said, 'If Adam's son had a valley full of gold, he would like to have two valleys, for nothing fills his mouth except dust (of the grave). And Allah forgives him who repents to Him.'*

By contrast, consider this quotation from Keynes.

When the accumulation of wealth is no longer of high social importance, there will be great changes in the code of morals. We have exalted some of the most distasteful of human qualities into the position of the highest virtues. The love of money as a possession is a somewhat disgusting morbidity ... But beware! The time for all this is not yet. For at least another hundred years we must pretend to ourselves and to everyone that fair is foul and foul is fair; for foul is useful and fair is not. Avarice and usury and precaution must be our gods for a little longer still. For only they can lead us out of the tunnel of economic necessity into daylight [Keynes (1930) cited in Skidelsky (2001)].

According to Nelson (2001), this passage states several important beliefs widely shared by economists. Contrary to the view that sufficient wealth would lead to contentment, the Quran informs us that the opposite is true. The more you have, the more you desire (S102.1). This means that the solution to scarcity by provision of more goods cannot work. The problem of scarcity cannot be solved since all wants of men can never be fulfilled, and Islam teaches us not to pursue idle desires.

6.2.2. *Moderation in Consumption*

One of the keys to solving the economic problems of man is moderation in consumption. Because economists take fulfillment of all needs and wants as their task, and teach utility maximisation—that is unlimited consumption—is desirable for all humans, the concept of moderation does not fall within the scope of modern economic theory. The Quran urges moderation not only in consumption, but also in spending for the sake of Allah (Q17:29). It also differentiates between human needs and idle desires, and encourages fulfillment of one, and suppression of the other. Islam, it should be noted, does not ask for asceticism. We can eat and drink freely, and wear beautiful clothing, provided that we do not go to excess and do not waste (Q7.31).

These teachings, currently not found in any economic textbook, are desperately needed today. As the gap between the poor and rich has widened,

extremely luxurious and wasteful lifestyles have come into existence, and are being promoted as desirable. The methodology and strategy of the Quran is to persuade—there is no compulsion in religion. Therefore the Quran and teaching of Islam seek to encourage people to moderate their desires (for maximisation of worldly pleasures). One way is to explain that seeking to fulfill these desires will not lead to happiness. The pursuit of worldly pleasures is an illusion (Q57:20).

6.3. Simple lifestyles

Maximising utility translates to the pursuit of luxurious lifestyles as the object of life. This is in stark contrast to the simplicity in lifestyle which is the ideal of Islam. The lifestyle of the Prophet S.A.W., who is the perfect model for us all, was simple in the extreme. He rarely had a second pair of clothing, apart from the one he wore, which was patched in many places. He did not eat his full two times in a row, and months would pass without a fire in his kitchen. This simplicity was maintained throughout his life, even though he received huge gifts on many occasions, which he distributed to the poor and the needy. His example was followed by Abu-Bakr and Umar, who are unparalleled in their combination of worldly rule with extreme simplicity of lifestyle.

6.3.1. Warnings Against Luxury

The Quran warns us not to be deceived by the apparent luxury of the unbelievers. Because the treasures of this world are meaningless, another verse states that Allah *taala* would provide all the luxuries to the unbelievers, but for the fact that it would be too severe a test for the believers:

Q43:33 'And were it not that (all) men might become of one (evil) way of life, We would provide, for everyone that blasphemes against ((Allah)) Most Gracious, silver roofs for their houses and (silver) stair-ways on which to go up, 43:34 And (silver) doors to their houses, and thrones (of silver) on which they could recline, 43:35 And also adornments of gold. But all this were nothing but conveniences of the present life: The Hereafter, in the sight of thy Lord is for the Righteous.'

When evaluated with respect to the worldly goals of happiness and contentment, the pursuit of luxury is harmful, and seeking simplicity in lifestyle is beneficial. This is because people quickly get used to luxury so that it does not provide them with additional happiness. Also, the luxury of one person leads to unhappiness of many who seek to emulate, but are unable to do so. Simple lifestyles allow satisfaction with relatively little effort, can be achieved for all, and leave one free to do things which really matter, instead of wasting our precious lives on an empty pursuit of consumption.

6.3.2. *Avoiding Israf and Tabzeer: Excess and Waste*

The Quran prohibits *Israf* and *Tabzeer*, or excess and wasteful consumption (Q7:31). The problem is not the scarcity created by economists, but inequity and waste. Astonishing amounts of inequity in consumption exist today, because the rich do not recognise the rights of the poor. The top 10 percent consume about 60 percent of the entire global consumption, while the bottom 10 percent only get access to 0.5 percent. This issue, as well as the idea that haves should share with the have nots, is not mentioned in any conventional economic textbook.

Contrary to the conventional view that people know what is best for them, excess consumption actually causes many kinds of harm to the consumer. For instance, overall obesity-related health spending reached \$147 billion last year, double what it was nearly a decade ago⁵. This *Israf* and *Tabzeer* is enough to feed, clothe, house, educate and provide healthcare for all those who need it on the entire planet.

Also, a huge amount of money is simply wasted. Dennis, *et al.* (2005) found that over \$10 billion worth of goods were purchased but never used by consumers in Australia alone. Annually, about 300 million tons of garbage is thrown away by US consumers. The natural resources in terms of wood, metal, etc. in this trash would be enough to meet planetary needs for more than a century. This waste impacts on the soul by producing guilt in those who have a conscience. The study showed that the majority do feel guilty at this wasteful consumption, but that the younger generation does not feel as much guilt. The Quranic diagnosis of the economic problem as being inequity and waste is far more accurate than the economists' scarcity. In addition to internal harmful effects, there are also devastating external harmful effects. Wasteful consumption by the unheedful rich is leading to disaster on a planetary scale [Hawken, *et al.* (1999)].

6.3.3. *Avoiding Conspicuous Consumption*

To a far greater extent than commonly realised, economic theories assume that there are no externalities in utility functions—that is, people do not envy others, and are not driven by the desire to emulate luxurious consumption patterns. Empirically, the opposite is true and is widely observed, as documented by Veblen's theory of conspicuous consumption.

Islam prohibits Muslims from envying others and teaches strategies to prevent envy. The Prophet told us to look at people less fortunate than ourselves in worldly affairs, so that we feel thankful for what we have. The Quran states:

⁵About one-third of U.S. adults (33.8 percent) are obese. Approximately 17 percent (or 12.5 million) of children and adolescents aged 2-19 years are obese. [Data from the National Health and Examination Survey (NHANES)].

(Q4:32) 'Hence, do not covet the bounties which God has bestowed more abundantly on some of you than on others. Men shall have a benefit from what they earn, and women shall have a benefit from what they earn. Ask, therefore, God [to give you] out of His bounty: behold, God has indeed full knowledge of everything.'

Making others envy us is also prohibited in Islam. The rich should conceal their riches to prevent envy—the exact opposite of conspicuous consumption. At the same time, the poor are encouraged not to envy the rich, but to be content with their lot. True richness is that of a heart with a generous disposition. Taseen (1998, p. 153-156) cites the Quran and *Hadith* in support of these principles; for example:

'Those who earn to avoid having to ask from others, and to spend on their families and neighbors will meet Allah with shining face like that of the full moon. Those who earned halal but with intent to show off, and pride himself over others, will meet with an angry Allah.'

From Veblen (1899) to Lane (2001) and Layard (2005), many have identified envy as an important source of waste and unhappiness in capitalist economies.

7. THE HEART OF AN ISLAMIC SOCIETY

At the heart of an Islamic society is the love between members which cannot be purchased by all the treasures in the world. The Prophet S.A.W. spent a lot of effort in removing inter-tribal frictions and rivalries, and uniting all the Muslims on the common platform of Islam. In a caring and cooperative society, everyone is rich, because they can count on the help of others in their time of need. The *ummah* is like one body—if any part is damaged, the pain is felt by the whole body. Furthermore, this love extends to all human beings, whether or not they are Muslims.

The struggle to create an Islamic society requires working on the following four major dimensions.

7.1. Community

First, the creation of unity among the Muslims (the *ummah*) is commanded by the Quran in many places.

Q23:52 'And, verily, this community of yours is one single community, since I am the Sustainer of you all: remain, then, conscious of Me!'

For collective action, some form of community is necessary. Islam offers the ideal of universal brotherhood, without compulsion, which is dramatically superior to the concept of community based on geographical or linguistic ties, currently dominant in the West.

Q49:10 'All believers are but brethren. Hence, [when-ever they are at odds,] make peace between your two brethren, and remain conscious of God, so that you might be graced with His mercy.'

This brotherhood, in an attenuated form, still exists in the hearts of Muslims. As Malcolm X. And Haley (1965) testifies, during his Hajj in 1964, he found a spirit of unity and brotherhood that my experiences in America had led me to believe never could exist between the white and non-white Well known historian Toynbee (1951) testifies that: The extinction of race consciousness as between Muslims is one of the outstanding moral achievements of Islam. In the contemporary world there is, as it happens, a crying need for the propagation of this Islamic virtue of tolerance and peace .

Although some exigencies can lead to conflict between the community of the believers and those outside it, the main purpose of this community is to serve all mankind by inviting all human beings towards the good, and by working against injustice and evil. Both Quran and *Hadith* urge the Muslims to adopt the best behaviour towards those who have not yet accepted the message. There are many testimonials to the good treatment of minorities under Islamic rule. Menocal (2002) describes how the Muslim rulers of Al-Andalus created a unique culture of tolerance under which all three communities of Jews, Christians, and Muslims thrived and achieved tremendous progress on many intellectual and cultural fronts.

7.2. Cooperation

Second, brotherhood among Muslims leads to cooperation, as ordained by Allah:

Q5:2 'help one another in furthering virtue and God-consciousness, and do not help one another in furthering evil and enmity; and remain conscious of God.'

One of the central lessons of modern economic theory is the idea of competition which creates efficiency through the survival of the fittest. In contrast, Islamic teachings stress cooperation, community, and compassion. In the cooperative model, one trader would say that he has had sufficient profit for the day, and recommend the buyer to go to the other shop. Also, Islamic law requires the seller to disclose any defects in his merchandise, quite the opposite of the let the buyer beware paradigm. The strong are supposed to use their strength to help the poor to survive instead of ruthlessly eliminating them. a d (Radi Allahu Anhu) reports that Rasulullah (Sallallahu Alaihi Wasallam) said: *'Allah assists this Ummah (nation) by virtue of the weak and the disabled, their Duas, Salaah and their sincerity.'* [Nasai]

7.3. Responsibility

Third, there is responsibility. A Muslim society must collectively take care of the basic needs of all its members, including health, education, food, housing and provision of opportunities for employment.⁶ Recognition of this responsibility goes back to the earliest times of Islam [Zarqa (1995)]. The second Khalifa of Islam, Umar said to a non-Muslim citizen who had paid taxes when young that he was entitled to be provided for in old age. The first state-run hospitals and orphanages, as well as pensions for widows, the handicapped and older people, were established in his time. These are Islamic inventions of which Muslims can justifiably be proud [Nadvi (1986)].

Provision of economic security will protect life, create goodwill and harmony in society, provide equality of opportunity, and rectify many injustices. Economic security will also free individuals to turn to higher spiritual and social pursuits. Note that these motives for the provision of economic security are conceptually different from standard secular ones, which are based on utilitarian or Rawlsian principles.⁷ Also, it is an explicit Islamic injunction to provide for the poor in an honorable way (Q93:10). In contrast, early poorhouses in England were designed to be shameful and degrading, so as to give people little incentive to stay; such an approach is prohibited in Islam.

7.4. Compassion

As the title *Mercy for all Mankind* of our Prophet Mohammed .A. . indicates, compassion and concern for all human beings is required of Muslims. The Quran (Q59:9) praises those who give to others when they are themselves needy. This concern for welfare of others—almost entirely ignored by economists, is central to Islamic teachings. It is narrated in a *Hadith* by Abu Huraira R.A. that the Prophet Mohammad S.A.W. said that *the heart of a Believer is full of love and affection, and that there is no good in a man who does not love others and others do not love him*. Musnad Ahmad, [ho b ul Eeman] Furthermore, spending on others is to be done out of the love of Allah (Q76:8), and not because of compulsion or because of expectation of worldly rewards, nor even the gratitude of the recipients. This leads to a reversal of priorities—we give to others from the best of what we have, rather than the worst.

⁶Maududi (1960, p. 331) reports that a group of eminent Islamic scholars agreed to the following item as essential for the constitution of an Islamic state: It shall be the responsibility of the Government to guarantee the basic necessities of life, i.e., food, clothing, housing, medical relief and education to all citizens without distinction of race or religion, who might be temporarily or permanently incapable of earning their livelihood due to unemployment, sickness or other reasons.

⁷Kahf (1995) discusses the concept of the welfare state as it arose in the West and distinguishes it from the superficially similar Islamic conception.

Q2:267 'O you who have attained to faith! Spend on others out of the good things which you may have acquired, and out of that which We bring forth for you from the earth; and choose not for your spending the bad things which you yourselves would not accept without averting your eyes in disdain. And know that God is self-sufficient, ever to be praised.'

8. INSTITUTIONS OF AN ISLAMIC SOCIETY

These fundamental principles result in considerable differences between those institutions which are central to Islamic societies and those which are central to Capitalist societies. The rise of the West and effects of colonialism have been such that Muslims have accepted Western institutions without questioning them. Efforts are under way to accommodate these institutions, which are patently un-Islamic, within the framework of Islamic law. A revolution in thought is required to bring about the radical change that Islam represents. Some of the dramatic differences between institutional structures of an Islamic society and current Western structures are discussed below.

8.1. *Ummah* and Brotherhood versus Nation-States

Islam places stress on the brotherhood of all human beings. Separation into nations and races creates diversity which helps in recognition, and is not meant to be a source of pride:

Q49:13 'O mankind! We created you from a single (pair) of a male and a female, and made you into nations and tribes, that ye may know each other (not that ye may despise (each other)). Verily the most honoured of you in the sight of Allah is (he who is) the most righteous of you. And Allah has full knowledge and is well acquainted (with all things).'

This ayat was revealed after the conquest of Mecca, when the nobles of Mecca found it injurious to their dignity that the former black slave Bilal R.A. was asked to say the Adhan after the conquest of Mecca. Honor belongs to those who are righteous, and does not depend on geographical location or race or language. Administrative arrangements of different types can be made for governance, but these arrangements are not a source of identity, or of hostility and conflict among different units. See Iqbal and Lewis (2009) for a good discussion.

Almost all of these ideas are in direct conflict with the basis for unity and community currently in use in the West. The West has embraced the idea of the Nation-State. This form is automatically assumed in the background of economic theory of international trade, without explicit mention. In fact, the idea of organising human beings along lines of a nation-state is repugnant to Islam. The poet Iqbal has correctly said:

*Among the newly minted Gods, the biggest one is the 'Nation'
The clothing that it wears is the Coffin of Islam. —Iqbal (free translation)*

The European invention of Nation as a basis for collective action has caused a tremendous amount of damage to humanity . A contributing factor has been the secular idea of the social contract as a basis for morals. Since the social contract is between members of a nation, it follows that the nation itself, and its leaders, are beyond morals—they are the creators of morality. This creates a justification for any atrocity for reasons of the state. Hoover (2001) has noted the dark record of the many atrocities committed in the twentieth century. For example, continuation of British blockade of food to Germans after the surrender of Germany, led to death by starvation of about 800,000 Germans. Bauman (2001) has analysed the Holocaust, in which million of civilian Jews—men, women and children—were scientifically exterminated in specially designed ovens.

The message of Islam puts our brotherhood as human beings above all petty claims of allegiance. Just as the nation-state was largely a European innovation and the civilisation-state a Chinese one [Jacques (2009)], so the need of the times is for a Muslim innovation which rises above nationhood and creates more inclusive bases for unity and world governance.

8.2. *Waqf* versus Banks

A key question which faces all societies is: how should members spend surplus wealth—that which is in excess of their personal needs? Here Islamic societies and capitalist societies differ tremendously. The Quran encourages us to spend excess on others, for the sake of Allah. In capitalist societies, there is an emphasis on the accumulation of wealth. Either the excess is used for acquiring more wealth, or it is used for luxurious and extravagant consumption, both of which are prohibited in Islam.

In Islamic history, excess wealth was spent on creating *Awqaf*, as per the original directive of the Prophet S.A.W. Not only was there an effort to spend on the poor, but there was an effort to do it cleverly, to provide maximum benefit to the maximum number of people for the longest time—in other words, the maximisation of the benefits to others. About one thirds of all the land in the Ottoman Empire was allocated to *Waqf*, showing the strong effect of the command to spend on others. These *Awqaf* were at the heart of the fabric of social life in Islamic societies, and carried out a tremendous range of community welfare functions. Hoexter (2002) write as follows:

prior to the twentieth century a broad spectrum of what we now designate as public or municipal services, e.g., welfare, education, religious services, construction and maintenance of the water system, hospitals, etc. were set up, financed and maintained almost exclusively by endowments, was documented in this stage. So was the fact that very large proportions of real estate in many towns and in the rural areas were actually endowed property.

In this way, everyone in the society could expect to be fed, clothed, housed, and educated, since that was the collective responsibility of the society. Whereas banks are designed to bring depositors the earning of this world, *Waqf* are designed to generate earnings of the Akhirah. This difference in spirit is the essential difference between Islamic and Western worldviews. Just as banks compete to find the best investments in Dunya, so the *Awqaf* compete to find the best investments for the Akhira.

Banks did not arise in the West until the social stigma was removed from greed, miserliness, and hoarding as a result of transformation to a secular society. Tawney (1926) has traced the history of how pursuit of wealth went from being a vice to a virtue in Europe. The ill effects of this irrational pursuit of wealth for its own sake can be documented in many different domains, of which we list a few. First: extreme concentration of wealth in hand of a few individuals. The top fifteen people own more wealth than the bottom billion. There is an explicit command in the Quran not to allow such concentration of wealth (Q59:8). Second: money flows from poor to rich. Economists do not study the tragedy of how the poorest countries in the world have made payments of more than 500 billion dollars in interest to the richest countries in the world, by starving their own populations. This is again in direct violation of Quranic teachings, which state that the poor have a right in the wealth of the rich. Third: because banks undertake financial transactions prohibited by Islamic teachings, they are prone to crises. More than ninety such crises have occurred over the past fifty years [Krugman (2000); Crowe, *et al.* (2010)].

A capitalist society is geared towards the production and accumulation of wealth. Banks play a key role in promoting and fulfilling these functions. Charities and foundations, analogs of the *Awqaf*, exist, but play a minor role in capitalist societies. An Islamic society is focused on purchasing the goods of the Akhira by selling our lives and wealth. *Waqf* plays a key role in this function. The relative importance of the financial institutions would be reversed in an Islamic society. Banks would play a minor role, while *Awqaf* would be far more central and important financial institutions.

8.3. Service versus Profit

The dictum of Milton Friedman was the profits is the only business of business. He was strongly opposed to the idea that corporations have social responsibility. A commentary on the mindless pursuit of profits for its own sake comes from Harvard Professor Zuboff (2009):

I spent a quarter-century as a professor at the Harvard Business School, including 15 years teaching in the MBA programme. I have come to believe that much of what my colleagues and I taught has caused real suffering, suppressed wealth creation, destabilised the world economy,

and accelerated the demise of the 20th century capitalism in which the U.S. played the leading role.

Corporate Social Responsibility has re-emerged as a way of restoring the tarnished reputation of purely profit seeking business. Islam offers a clear alternative vision. Earning money and trade is permissible and encouraged for the sake of serving humanity.⁸ When done in this way, earning earns the blessings of Allah and the honest traders will be in the company of the pious on the Day of Judgment.

Such change in the orientation of business is reflected in the institutions of the society. The natural way of doing business in a cooperative and service oriented Islamic society is the craft-guild. These guilds were widespread throughout the Islamic world. Their devotion to service, and organisation as a brotherhood served many Islamic ideals, and provided meaning to their work. The guilds were responsible for providing service to the society, and could be called to account for failure to provide it to all. They were responsible for quality control, internal policing, maintaining standards of service and other aspects of professional conduct. The guilds of Al-Andalus were famous for the quality of their products, innovations, and efficiency in production; see Vadillo (n.d).

On the other hand, if the spirit of service is replaced by the spirit of profit making then guilds become a menace to society. A guild of doctors can make tremendous profits by threatening to withhold vital services. When everyone is out for personal profits at the cost of society, competition is best competition will lead to lower prices. Islam envisions the creation of a society of humans concerned for the welfare of each other. It does not allow one person to undercut the offer of his brother for the sake of personal profits. The best modes of doing business differ radically in a cooperative society of civilised human beings. The critical question is how to transform the spirit of society from competition to cooperation. This is the question to which our Prophet S.A.W. demonstrated the answer, by transforming illiterate semi-savage Arabs to civilised leaders of the world. It is up to us Muslims to replicate this achievement today.

8.4. Communities and Local Public Goods

Islam places a great deal of stress on communities, and their mutual responsibilities.

Q4:36 'AND WORSHIP God [alone], and do not ascribe divinity, in any way, to aught beside Him. And do good unto your parents, and near of

⁸Service falls into several categories. First, one must earn for self-sufficiency, so as not to be a burden on society. Second you must provide for your family, as required by Islam. Third, you can earn so as to provide for neighbours and extended family. Fourthly, you can try to excel in providing more broadly to society as a whole, via Awqaf and other means.

kin, and unto orphans, and the needy, and the neighbor from among your own people, and the neighbor who is a stranger, and the friend by your side, and the wayfarer, and those whom you rightfully possess. Verily, God does not love any of those who, full of self-conceit, act in a boastful manner;'

In particular, the neighborhood is a natural community in Islamic teachings. In a Sahih *Hadith* from Bukhari and Muslim, the Prophet S.A.W. is reported to have said that Jibraeel A.S. kept emphasising the rights of the neighbors until I thought that the neighbors would also be given a right of inheritance. By contrast, conventional economic analysis takes individuals as the unit of analysis. Collective action is the province of the government. Intermediate units like communities do not exist. In fact, communities can solve certain problems in ways that neither governments nor markets can.

Communities have access to inside information about benefits and costs, ability and willingness to pay, skills, talents and capabilities of the members. Markets and governments lack access to this localised information. The Orangi Pilot Project succeeded in laying down sewer lines in a poor neighbourhood at minimal cost because of community involvement; see Khan (1998) for details. The community knew which members could afford to pay, and could enforce an equitable distribution of the burden. It could also exploit knowledge of relevant engineering skills available with members of the community. Islam has a natural basis on which a community can be built. The local masjid is (supposed to be) attended by all male members five times a day, and this could build community with local problems discussed and solved collectively. Unfortunately, like many other Islamic practices, the form is still present, but the spirit has faded away.

8.5. Extended versus Atomic Families

The most fundamental unit of society is the family. Children learn from their families and secondarily from their schools. If families break down, then the entire society can collapse. Where all families provide good training to their children, the entire society will be enriched. This was the secret of the rapid rise of Islam. The Prophet S.A.W. created a society in which all the children received training in moral excellence.

Families are built on commitment and sacrifice. Each member has duties and responsibilities, which are clearly delineated in Islamic rules and regulations. The children must respect and obey, while the parents must provide love, affection and equitable treatment to children. Similarly the duties of husbands and wives towards each other are spelled out in detail. As the hold of religion weakened in the West, so has the family unit. At the present time, more than 50 per cent of births to women under 30 are outside of wedlock in the

West. This has had grave social consequences. A report on Fractured Families in Britain stated that:

This Report paints a worrying picture of family breakdown in the UK. We now have one of the highest divorce rates in the Western world and the fabric of family life has been stripped away in the past thirty years. This study also shows more clearly than ever the destructive effects of family breakdown upon millions of children, as well as the links between family breakdown and addictions, educational failure and serious personal debt (Centre for Social Justice, 2006).

Economists pay little or no attention to the family in their economic theories, whereas Islamic teachings recognise the structure of the family is crucial to the structure of the society. Unlike the Catholics who have no provisions for divorce, Islam is realistic enough to allow it, while ruling that it is the least favourite of the permissible acts. Similarly, it is the greatest sin to separate a man and his wife. Creating a strong family is the secret to creating a strong society.

8.6. Goals of Education

Muslims have made many path-breaking innovations in the field of education. Syed Abul Hasan Ali Nadwi (1986) has called them a gift of Islam to all mankind. The concept of a university, as a place where scholars would acquire higher learning without being troubled by worldly pursuits, was invented by Muslims. Europeans acquired such institutions by diffusion through Islamic Spain. Since every Muslim child is required to learn the Quran, mass education came into existence in Islamic societies from an early stage. Writing about the culture of learning which arose in early Islam, as evidenced by libraries, a variety of educational institutions, and many schools of thought of Islamic law, etc., Kazmi (2005) states that, for an early Muslim to be a Muslim and not be interested in learning would [have been] a contradiction in terms. In contrast, education was considered a prerogative of the elites in Europe, and was not considered relevant or useful for the masses.⁹

Because free provision of education to all was taken as a social responsibility by Muslims, methods to fund such education were found. Principal among these was the *Waqf*, or endowment, which provided the financial backbone of the system. These *Waqf* were seized or destroyed in the

⁹There is historical evidence that the British instituted public education in England after learning about the educational system in India which provided education freely for all. For example, Dalrymple (2006, p. 95) writes about the early period of British India that He [the Muslim man] who holds an office worth twenty rupees a month commonly gives his sons an education equal to that of a prime minister. After seven years of study, the young Muhammadan is nearly the equal of a young man raw from Oxford.

colonial period, which led to collapse of the Indian educational system. Because education was considered a religious duty, and Muslims are not permitted to charge money for performance of religious duties, in Islamic civilisations, education was generally available to the rich and poor, as well as women and minorities. This provided for equal opportunities for all in a way that has rarely been matched.¹⁰

Even more important are the objectives of the educational system. The first lines of the Quran revealed to the Prophet state '*Read, in the name of thy Lord*'. Learning is from the cradle to the grave, according to the Prophet. An education is a means of development in all dimensions: spiritual, social, and human, and not simply a means to earn money or acquire job skills [Gatto (2002)].

9. CONCLUDING REMARKS

Economists have mistaken the nature of human beings, and the nature of economic problems that we face. Unfortunately, modern Islamic economists have also been mesmerised by the sophisticated mathematical models of Western economists, which has resulted in a crisis discussed in Zaman (2012b). In fact, the teachings of Islam are dramatically opposed to those of conventional economics, and suffice to provide us solutions for today.

The burden of the teachings of Islam is heavy. They call for excellence in areas not envisaged in conventional analysis. We point out three aspects.

Sacrificing for Others The origins of cooperative behaviour continue to puzzle economists, who seek to explain it on the basis of long-run self-interest. However, Allah *swt* has praised those who feed others while being themselves needy. He has praised those who sell their lives to buy the pleasure of Allah, and those who feed the hungry for the sake of His love.

Justice The standards of justice required of human beings by Islam are extremely high. Muslims are required to bear witness, even if it is against their own self-interest:

Q4:135 'O ye who believe! stand out firmly for justice, as witnesses to Allah, even as against yourselves, or your parents, or your kin, and whether it be (against) rich or poor: for Allah can best protect both. Follow not the lusts (of your hearts), lest ye swerve, and if ye distort (justice) or decline to do justice, verily Allah is well- acquainted with all that ye do.'

¹⁰Shalaby (1954) gives a history of educational methods, syllabi, institutions, libraries, the inclusion of women, and other evidence of the prevalence of education in the first 600 years of Islamic civilisation. Makdisi (1990) details the rise of institutions of higher education in Islamic civilisation, and Goody (2007) documents both their imitation in Europe, and the suppression of this information in historical accounts.

This standard is considered beyond human reach in US law, and the Fifth Amendment allows people to abstain from bearing witness against themselves. The justice called for includes economic justice. We are not allowed to eat our fill while our neighbors are hungry. This understanding is crucial to solving economic problems of today.

Purity of Intention □ An essential requirement for the acceptability of all our deeds is an exclusive focus on winning the pleasure of Allah. Anything done for praise, or for worldly rewards, or even for earning gratitude of others, is not acceptable. Whereas incentive theories in the West place stress on the external structure of rewards and punishments, Islam places stress on purifying the heart. *But those will prosper who purify themselves* (Q87.14).

The challenge faced by the *Ummah* today is spelled out clearly in the Quran:

Q22:78 'And strive in His cause as ye ought to strive, (with sincerity and under discipline). He has chosen you, and has imposed no difficulties on you in religion; it is the cult of your father Abraham. It is He Who has named you Muslims, both before and in this (Revelation); that the Messenger may be a witness for you, and ye be witnesses for mankind! So establish regular Prayer, give regular Charity, and hold fast to Allah. He is your Protector - the Best to protect and the Best to help!'

It is the internal struggle to purify our hearts, and to achieve the potential for excellence within us, that leads to long lasting change, and the transformation of societies. Failing this, changing external structures and institutions will not bring the peace that all humans are seeking in these troubled times.

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