

# The Articulation of Islamic Practices and Free Market Principles - *Not that far from reality*

By

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“... the shocking 2001 newsreel image of the Taliban blowing up the gigantic statues of the Buddha in Bamyan”<sup>2</sup>

“... Are they the ones who destroyed the statues of Buddha in Bamyan?”<sup>3</sup>

For the past seven years, the destruction of Bamyan Buddha Statues in Afghanistan has been in the pages of the dailies. Since 2001, this news was cited as an example of the intolerance of Islam. Mullah Mohammed Omar, the Taliban leader, boasted in the London Times March 6 "Muslims should be proud of smashing idols..."<sup>4</sup> After this statement, intentionally or not, Islam was judged as the reason behind this destruction. But no one was eager to remember that these Bamyan Buddha Statues had been there for 1400 years and throughout most of this period the region was under Muslim control. Taliban's uncivilized action was patched into Islam though millions of Muslims did not approve and condemned this destruction.

We can observe a similar approach in relation to the discussions regarding Islam's compatibility with free market principles. Present practices of Islamic countries are overmuch tariffs and taxes, too complex administration and bureaucracy, limited trade due to regulations, price controls, the use of public expenditure to intervene in the economy and of

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<sup>2</sup> Philip French, The Observer, Sunday July 27, 2008

<sup>3</sup> Massoumeh Torfeh, The Guardian, Wednesday October 08, 2008

<sup>4</sup> Thomas Barfield, "Idol Threats", Religion In The News, Vol. 4 no 2, Summer 2001, p.7

course property rights are not respected in the field of economics. Nowadays it seems Islam does offer almost nothing in terms of economic opportunity to its people. Nonetheless, if we claim Islam is not compatible with free market principles due to the practices of socialist Islamic countries today, we naively make the same mistake that the public did with respect to the Bamyán Buddha Statues. Furthermore, Quran verses, teachings of Prophet Muhammad and his successors, ideas of esteemed Islamic scholars indicate Islamic tradition, unlike what we observe today, can be very compatible with free market economy. In this article, I illustrate this compatibility and then discuss the ways which might be used to flourish market-oriented economy.

Lands in which Islam was born were the trade centers. Mecca was a local trading center around a religious temple. According to Gene Heck, several historic dynamics joined together to create this mercantile miracle that was situated at the bosom of three continents. Mecca served as a prime commercial nexus. Blessed with well water suitable for drinking, it was a fortunate region for Arab capitalism to flourish.<sup>5</sup>

Albeit Islam did not add much into this centrality of trade, it contributed rules and measurements like commercial law, the prohibition of fraud, the call for the establishment of clear standards of weights and measures, and the uncompromising defense of property rights which are all necessary for an effective proper free market economy. Imad Ahmad states this free market system had pushed the Islamic civilization to the front of the world's economic stage and rendered the Muslim world the defining force in international trade for centuries.<sup>6</sup>

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<sup>5</sup> Gene W. Heck, *Charlemagne, Muhammad, The Arab Roots of Capitalism*, Berlin, Walter de Gruyter, p. 52

<sup>6</sup> Imad-ad-Dean Ahmad, "Islam and Markets," <http://www.minaret.org/acton.htm>

Islam is a religion whose prophet was a successful merchant for the greater part of his life. During his rule of Medina, Muhammad intentionally did not impose any taxes on trade to make the city an effective free-trade zone. Generally, it is supposed that Zakat in Islam substitutes tax in command-economy. However Zakat is primarily a voluntarily act of devotion, and it is also to be directed towards the community's less fortunate. For these reasons Zakat cannot be perceived as a tax to a commander government.<sup>7</sup> His successors and later Islamic rulers, like Muhammad, banned price controls and built enormous market places. Moreover, extensive networks of roads, wells, canals and special security forces (that protect trading caravans from brigands) were built to promote free trade and to expand commerce.<sup>8</sup>

Although external trade was strengthened under Islam, trade restrictions appeared when other countries imposed similar restrictions. After Muslim traders complained that other countries were collecting duties from them at borders, Caliph Umar implemented the first import duty policy in the Islamic world. Traditionally, Muslims abstain from imposing tariffs on imports unless the exporting country imposes similar tariffs on Muslim trade.<sup>9</sup>

Prophet Muhammad, in his farewell pilgrimage, highlighted the importance of property rights by announcing to the Muslims gathered, "Nothing shall be legitimate to a Muslim which belongs to a fellow Muslim unless it was given freely and willingly."<sup>10</sup> Unlike socialism, according to the Quran, everything in this world belongs to Allah, and the individual, to

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<sup>7</sup> John Thomas Cummings, Hossein Askari and Ahmad Mustafa, "Islam and Modern Economic Change", *Islam and Development, Religion and Sociopolitical Change*, ed John Esposito, Syracuse, Syracuse University Press, 1980, p 27

<sup>8</sup> Peter J. Ferrara and Khaled Saffuri, "Islam and Free Market", <http://www.islamicinstitute.org/freemrkt.htm>

<sup>9</sup> Muhammad Nejatullah Siddiqi, *Role Of The State In The Economy, An Islamic Perspective*, Leicester, Islamic Foundation, 1996, p. 112

<sup>10</sup> Muhammad Husayn Haykal, *The Life Of Muhammad*, Trans by Ismail Ragi A. Al Faruqi, United States, North American Trust Publications, 1976, p. 487

whom Allah has entrusted the world, has this property and Muslims have to respect others' private properties as well. "And do not eat up your property among yourselves for vanities, nor use it as bait for the judges, with intent that ye may eat up wrongfully and knowingly a little of (other) people's property."<sup>11</sup> "O ye who believe! Enter not houses other than your own, until ye have asked permission and saluted those in them..."<sup>12</sup> Likewise, the Quran, unlike socialism, mentions differences in wealth among people and counsels Muslims not to begrudge others' wealth. "... His gifts more freely on some of you than on others: to men is allotted what they earn, and to women what they earn: But ask Allah of His bounty..."<sup>13</sup>

The great 14<sup>th</sup> century Islamic scholar Ibn Khaldun, called the first advocate of privatization, in his magnum opus the *Muqaddimah*, explains "profit" in capitalistic ways:

"Commerce means the attempt to make a profit by increasing capital, through buying goods at a low price and selling them at a higher price. ... The attempt to make such a profit may be undertaken by storing goods and holding them until the market has fluctuated from low prices to high prices. Or the merchant may transport his goods to another country where they are more in demand than in his own, where he bought them. This will bring a large profit."<sup>14</sup>

Besides, Khaldun thinks that to increase tax rates firstly could increase tax revenues; nevertheless, after a period of time, this increase in tax rates, contrary to expectations, causes a decrease in tax revenues. Though this idea, known as the Laffer Curve, belongs to an Islamic scholar lived 14<sup>th</sup> century, free market advocates of 21<sup>st</sup> century claim passionately the same.

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<sup>11</sup> Quran, 2-188

<sup>12</sup> Quran, 24-27

<sup>13</sup> Quran, 4:32

<sup>14</sup> Ibn Khaldun, *The Muqaddimah*, Trans. Franz Rosental, 5<sup>th</sup> edition, Princeton, Princeton University Press, 1981, pp. 309-310

In Islamic tradition, public expenditure is used to increase social welfare. Yet, it should not curtail the individual's will to work, save and invest. Public expenditure should be limited for minimizing state control and protecting individual freedom.<sup>15</sup> Maxime Rodinson, the author of *Islam and Capitalism* points out that though some religions' texts dishearten economic activity in general, the Quran affirms commercial activity by condemning fraudulent practices.<sup>16</sup> Islamic traditions and teachings have no conflict with a market-oriented economy inspired by profit motive, private property, the individual desire for saving capital and movements of people and goods between countries. Additionally Islam does not require restrictions on trade, high tax rates, price control, imposing duties or the spread of controlling actions.

While Europe remained submerged in the anti-market economy of the Dark Ages, the Islamic World was the dominant economic power on earth for centuries because the free market is a source of efficiency, affirming the most rational allocation of means of production and the surest motor for economic growth and personal prosperity.<sup>17</sup> In parallel with this, Islam lost its power and entered a deadly stagnation due to excessive military expenses and new global trade pattern in Middle Age. The Islamic authorities started to raise taxes to compensate military expenses. These higher taxes were one of the main causes behind the economic breakdown. Additionally, when Vasco de Gama rounded the Cape of Good Hope in 1497, global trade pattern changed. It was no longer the Middle East and the Mediterranean but rather the oceans function as a center of global trade. After that, the rise of religious bigotry

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<sup>15</sup> Muhammad Nejatullah Siddiqi, *Role Of The State In The Economy, An Islamic Perspective*, Leicester, Islamic Foundation, 1996, pp. 71-72

<sup>16</sup> Mustafa Akyol, "Islamocapitalism", <http://www.tcsdaily.com/article.aspx?id=061906C>

<sup>17</sup> James G. Carrier, *Meanings of the market : the free market in Western Culture*, ed James G. Carrier, Oxford, Berg, 1997, p. 19

and the end of cosmopolitanism came onto scene. According to Akyol, “While the early commentators of the Koran cherished trade and wealth as God's bounties, late Medieval Islamic literature began to emphasize extreme asceticism”.<sup>18</sup>

Of course, Islamic countries will not adopt themselves to free market economy tomorrow morning. This is long and challenging process and as Abdulaziz Sachedina<sup>19</sup> states “What will happen? That depends on all of us, men and women, Muslim and non-Muslim, working together to make the ideal attain reality.”<sup>20</sup>

Being profoundly influenced by *Road to Serfdom* by F. A. Hayek, Sir Antony Fisher began having conversation with Hayek about his political plans. Nevertheless Hayek warned him against going into politics and persuaded him that think-tanks, academics and universities are the better means to transform societies and said “Society’s course will be changed only by a change in ideas. First you must reach the intellectuals, the teachers and writers, with reasoned argument. It will be their influence on society which will prevail, and the politicians will follow.”<sup>21</sup> As Linda Whetstone<sup>22</sup> summarizes before being able to change policies, the climate of opinion should be changed. I totally agree with this idea and from this point of view, it is crucial to give students from Islamic countries more chances to have the opportunity to study in the west because this supplies them important positions in their countries. Internships, masters, Phds and exchange programs should all be expanded and

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<sup>18</sup> Mustafa Akyol, “Islamocapitalism”, <http://www.tcsdaily.com/article.aspx?id=061906C>

<sup>19</sup> Abdulaziz Sachedina is the Frances Myers Ball Professor of Religious Studies at the University of Virginia

<sup>20</sup> Michael Novak, *The Universal Hunger for Liberty: A Surprising Look Ahead at the Culture, Economics, and Politics of the 21st Century*, New York, Perseus Publishing, 2004, p 218

<sup>21</sup> John Blundell, “Hayek, Fisher, and The Road to Serfdom”, Introduction of the Condensed Version of *The Road to Serfdom with The Intellectuals and Socialism*, London, *The Institute of Economic Affairs*, 2005, p.28

<sup>22</sup> Linda Whetstone is the daughter of Antony Fisher, Chairman of International Policy Network and in the Board’s of the Institute of Economic Affairs and the Atlas Economic Research Foundation.

funded for this transformation. Tural Veliyev<sup>23</sup> from Azerbaijan is a noteworthy example at this point. Future decision makers of Islamic countries can be aware that the free market is not something which belongs exclusively to Christianity or other religions. Additionally, they will realize that free market principles do not prevent them from worshipping like millions of their Muslim counterparts in America and Europe nowadays. Most Muslims who does not like the idea of a free market simply confuse it with materialism. Violence, drug addiction, general selfishness, and degeneration of family values are supposed to be fundamental elements of the free market, though they are not. It would be a bit confusing for these worried Muslims if they knew some of the most candid followers of the free market in the West are also devoted defenders of religious faith and family values. If more Muslims recognize that the market-oriented economy is not necessarily equated with materialism, they will be more eager to open their societies into economic development.<sup>24</sup> New generations of Muslim scholars, journalists, activists, politicians and businessmen/women studied in the west may find their earlier predecessors' prejudices on the free market naïve and certainly off the mark. They will be one of the components of this transformation. Nonetheless, the West countries shouldn't demoralize or disorient Muslims by imposing westernization; rather they should recognize their civilization is one of many. Though westernization encompasses market-oriented economy; free market economy does not mean "westernization" and as stated above free-market could be seen in Muslim world 1300 years ago when America wasn't discovered by Christopher Columbus yet and Europe was living in its Dark Ages.

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<sup>23</sup> Tural Veliyev was a Cato research intern and in 2006 he founded the Free Minds Association, the first libertarian youth organization in Azerbaijan. He is the editor of Azadliqciragi.org, Cato's Azerbaijani website and Mr. Veliyev has worked for BP Azerbaijan since 2004. ([www.azadliqciragi.org](http://www.azadliqciragi.org))

<sup>24</sup> Mustafa Akyol, "Islamocapitalism", <http://www.tcsdaily.com/article.aspx?id=061906C>

Additionally, Hassan Mneimneh<sup>25</sup> says if there are numerous organizations which support market economy then radicals will be forced to try to refute these organizations' ideas or propositions. Before defeating these ideas, the radicals firstly have to gain an understanding that goes beneath their initial superficial ideas. In this process some of them may begin change their views. Likely, agreeing with Mneimneh, Micheal Novak would say that "The source of radicals is not so much deep study and profound inquiry as resentment; not so much transcendent religion."<sup>26</sup> The other remarkable idea of Mneimneh is that on the one hand there are extremely limited sources and translations that disseminate moderate ideas or benefits of free societies and on the other hand that there are extensive amounts of pro-Islamist money coming from oil wealth which is spent propagating radicals' views. Similar to Hayek, Mneimneh says think tanks, academics and universities could really change this undesirable situation by using their massive resources.

Based on all these arguments, it's fairly hard not to agree with Rachid al-Ghannouchi's<sup>27</sup> claim that "Once the Islamists are given a chance to comprehend the values of [the free market,]<sup>28</sup> they will search within Islam for a place for these values where they implant them, nurse them, and cherish them just as the Westerners did before..."<sup>29</sup>

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<sup>25</sup> Hassan Mneimneh is visiting fellow at the American Enterprise Institute. Mneimneh has written extensively on radicalization and insurgency in the Middle East

<sup>26</sup> Michael Novak, *The Universal Hunger for Liberty: A Surprising Look Ahead at Culture, Economics, and Politics of the 21st Century*, New York, Perseus Publishing, 2004, p 203

<sup>27</sup> Rachid al-Ghannouchi is the founder of the Tunisian Islamic movement

<sup>28</sup> In original article, instead of "free-market", "values of Western modernity, such as democracy and human rights" is used.

<sup>29</sup> Ali R. Abootalebi, "Islam, Islamists, and Democracy", *Middle East Review of International Affairs* Vol. 3, No. 1, March 1999, p 19