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Arab spring and reorganization of the state

by

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## Arab spring and reorganization of the state

### I. Introduction

This paper is based upon the assumption that within the next five years or so, bulk of the Islamic world will get rid of their dictators and be governed by democratic regimes. If so, what kind of a state and what kind of an economic system will these countries have? Since bulk of the research during the last few decades has been focused on Islamic finance rather than Islamic economics, this is a timely question, one which must be answered urgently. The focus on finance at the expense of political systems and economics was such that it is as if Muslims did not even dare to question their political and economic systems. Dictatorships were so powerful and taken so much for granted that, the system was thought to be the one that the dictator wanted and that people would have no choice on the matter.

But now that democracy is advancing, the future political and economic systems of Islamic countries will be decided by the peoples themselves. What then will be this system like? I will argue that it should fulfill four conditions:

- a) It should be compatible with the Shari`ah
- b) It should emerge from the age old traditions of Muslims
- c) It should be desired by the people
- d) It should be able to address modern needs.

Such a system exists. I have called it elsewhere Islamic capitalism.<sup>1</sup> All the basic principles of this Islamic capitalism are enshrined in the Qur`an. The Prophet was the first human being to translate it into reality.<sup>2</sup> He did this by establishing institutions and teaching Muslims how to operate those institutions. His followers also continued this process. The result was an ethical, pre-industrial, commercial capitalism, in one word our capitalism, which allowed Muslims to establish and finance a great civilization that flourished for centuries. This Islamic capitalism

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<sup>1</sup> Murat Cizakca, *Islamic Capitalism and Finance: Origins, Evolution and the Future* (Cheltenham: Edward Elgar, 2011).

<sup>2</sup> Quoting Abbas Mirakhor. See, *ibid.* p.6; 9, fn. 11.

preceded western capitalism by almost one thousand years. Our task now is to re-discover, modernize and then re-introduce it.

## II. Pre-conditions for economic growth

All economic systems, Islamic capitalism included, need certain pre-conditions in order to achieve economic growth. In western societies, these conditions are taken for granted but not in dictatorships. So, we need to remember their importance.

### 1. The Rule of Law

In a nut shell, rule of law means that everybody is equal before the law. This principle found application for the first time in the early-modern West in the year 1688, when the King and Queen of England visited the Parliament and declared solemnly and in humility that they shall obey the laws of the Parliament like everybody else. This principle is a *sine qua non* condition for effective property rights without which no economic system can function. Indeed, without the rule of law, a dictator can confiscate the hard earned wealth of a citizen at will violating his property rights. Effective property rights, *hifz al-mal*, on the other hand, is considered to be one of the five original purposes (*maqsud*) of the Shari`ah. Thus, the rule of law, a western concept, becomes a pre-condition for one of the purposes of the Shari`ah.

The rule of law should also be expanded so as to grant complete equality before the law to all citizens with total disregard to religion, ethnicity, nationality, race or gender. This would be compatible with still another *maqsud*, *hifz al-nefs*, or the duty of the state to protect the individual.

### 2. The Democratic package

Democracy is not just elections. It needs to operate as a package. The government is divided into the legislative and executive branches, the former led by the parliament drafting the laws and the latter applying it. A third branch is absolutely important. This is the independent judiciary. It is this independent judiciary, which fulfills the rule of law and protects the property rights. In view of its importance and the support that it provides to the original *maqasid*, I have suggested that

democracy should be added as the sixth purpose, *maqsud*. Scholars such as Kamali and Auda are also of the same opinion.<sup>3</sup>

### 3. Freedoms

Freedoms, particularly the freedom of thought/expression and worship are absolutely important for economic development. The former ensures that the Islamic concept of *hisbah* becomes applicable and the latter ensures that sectarian violence is avoided, both absolute necessities for economic growth.

“Commanding good and forbidding evil” is a cardinal principle of the Qur’an which lies at the root of many Islamic laws and institutions (31: 17). Known as *hisbah*, this principle constitutes the ethical core of governmental power. The *hisbah* lays down the foundation of freedom of thought/expression in Islam, because only thanks to this freedom can the government be informed about what good or evil prevails in the society. Thus, since without this freedom it would be inconceivable to command good or to forbid evil, freedom of thought/expression becomes a *conditio sine qua non* of *hisbah*.<sup>4</sup> Modern re-interpreters consider these freedoms to be embodied in *maqasid al-Shari`ah*. More specifically, freedom of thought/expression is considered to be embodied in *hifz al-aql* and freedom of worship in *hifz al-din*.<sup>5</sup>

### 4. Secularism

Avoidance of sectarian violence is so important that we need to elaborate it further. After fighting long wars and centuries of total bloodshed, western nations learned to avoid sectarian violence through secularism. The last major religious war they fought ended in 1648. The west has developed basically two types of secularism: the French and the Anglo-Saxon. The former is totally irrelevant for Muslims as it is basically anti-religious in nature. The latter is more neutral but still irrelevant as it not only separates church and the state but also declares the state without any religion. Both types have been condemned by Prof. Syed Naquib Al-Attas, an outstanding Malaysian philosopher.<sup>6</sup> So, still another type of secularism is needed, one which not only effectively separates state and religion but also respects

<sup>3</sup> Cizakca, *Islamic Capitalism*, pp. 285-290; Kamali, *Expression*, p. 41; Auda, *Maqasid as Philosophy*, p. 174.

<sup>4</sup> Al-Raysuni, *Al-Shatibi's Theory*, p. 139.

<sup>5</sup> Cizakca, *Islamic Capitalism*, pp. 276-281.

<sup>6</sup> Al-Attas, *Secularism*.

religion. Separation of state and religion is needed in the Islamic world just as much as it was in the west for basically two reasons: first, if such a separation does not exist and the state declares itself Islamic, whoever happens to be governing the state, can claim that he is governing in the name of Islam and places himself above criticism, because criticizing him would be tantamount to criticizing Islam. History is full of examples of absolutist tyrants governing in the name of Islam. Second, if the state is Islamic, this immediately invites the question of “which Islam?”. A Sunnite state discriminates against the Shiites and vice versa. In short, sectarian violence and dictatorships ruling in the name of Islam can only be avoided if the state distances itself from religion and at the same time respects it.

Such a system, unknown in the west, had existed, even if imperfectly, in the Ottoman empire. Between 1424 and 1517 the Ottoman state re-organized itself by establishing the office of the Seyhulislam. This was the highest office of the religious institution. The Seyhulislam was not a member of the cabinet of ministers, which functioned as a secular body thus effectively separating state and religion. It was an institution for consultation – when the state needed religious opinion on a certain issue, the Seyhulislam was consulted.

More importantly, the Ottoman state granted all non-Muslim groups complete freedom of worship and was able to govern for centuries highly diverse peoples of a huge empire by and large without sectarian violence. The system succeeded so well that throughout the 14<sup>th</sup>, 15<sup>th</sup> and the 16<sup>th</sup> centuries countless Crusader armies aiming to dislodge the Ottomans from Europe with the help of the Christian Ottoman peasantry failed. The Christian peasantry neither revolted nor changed sides and the invading crusaders without the support of the indigenous population were easy prey for the Ottoman armies. A major reason for the loyalty of the Christian peasantry was the religious freedom they enjoyed.

The Ottoman state failed to extend the same tolerance to the Muslims, however, and discriminated, occasionally even massacred, the Shiites. This was a huge mistake because the result was endless sectarian violence among the Muslims. When Iran began to support the Ottoman Shiites, the conflict quickly worsened and Ottoman-Iranian wars, which lasted for more than a century, started. These wars proved to be disastrous for the whole of the Islamic world because, while the two great Islamic states were thus engaged in mortal religious combat, the Europeans

entered the Indian Ocean and conquered it with relative ease. It is for this reason I conclude that Muslims need secularism just as much as the westerners.

To sum up, I would like to argue that a modernized and improved version of Ottoman secularism granting complete freedom of worship to ALL citizens, including all the Muslim groups and at the same time effectively separating state and religion would bring an end to sectarian violence. This is a very important pre-condition for economic development.

### III. Capital accumulation

Sustained and rapid capital accumulation in the newly emerging democratic nations of the Islamic world will follow the fulfillment of the pre-conditions just stated. Let us now assume that the pre-conditions have been fulfilled and focus on the process of capital accumulation itself.

First of all, trade and profits constitute the essence of capital accumulation. In Islam there is no upper limit imposed on profits. The only condition imposed is the knowledge that we shall all be asked in the Day of Judgement how we have earned and spent our money. Thus, the message is crystal clear; as long as profits are earned legitimately and they are spent on the needs of our family and for the good of the society, a Muslim businessman does not need to fear his wealth. One reason why profits are desired is that they make it possible for a Muslim to accumulate capital to finance his pilgrimage. Thus, capital accumulation and religious duties become inseparable in Islam.

Capital accumulation in an environment of strict interest prohibition can only take place by transferring the capital of the principal to the agent utilizing Islamic business partnerships. There are a number of such partnerships all derived from the classical *mudaraba*. These partnerships have survived for fifteen centuries. In the mid-twentieth century, when modern Islamic banks were established, they were originally envisaged as multiple- tier *mudarabas*.<sup>7</sup> Had their original structures been maintained, Islamic banks would have provided a substantial boost to entrepreneurship in the Islamic world. But, unfortunately, the banks preferred to transfer the deposits they collected to their clients through *murabaha*, a cost plus sale instrument, rather than a profit-loss partnership. Consequently, responding to

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<sup>7</sup>*Ibid.*p. 137.

the demands of their depositors, Islamic banks have minimized their risks and provided quasi-fixed returns but have failed to address the question of entrepreneurship.

It is now generally agreed that the problem of entrepreneurship should be addressed by non-bank institutions such as venture capital, micro-finance and private equity firms. In view of cultural considerations, introduction of venture capital is considered to be the most difficult one.<sup>8</sup> But there is room for optimism: let us never forget that the classical *mudaraba* partnership as practiced by the Prophet (SAW), is considered to be the institutional origin of venture capital.<sup>9</sup> So, entrepreneurship and entrepreneurial finance are at the very heart of Islamic culture.

#### IV. Capital re-distribution

Islam redistributes the capital accumulated in the economy through basically three institutions: taxes, the Qur`anic law of inheritance and waqfs.

##### 1. Fiscal policy

There are only three types of taxes specifically mentioned in the Qur`an. Based upon this, some Islamic economists have tried to find ways to introduce extra-Qur`anic taxes. But these scholars have failed to see the message of the Qur`an. This message should be clear: assuming balanced budget, modest revenue to be collected by the Qur`anic taxes means modest expenditure leading to a small state. As it is well known, small state is the most desired form of governance today. Viewed from this perspective, the modernity of Qur`an is simply astounding.

##### 2. Awqaf (philanthropic/charitable foundations)

If, a small state is indeed the message of the Qur`an, a number of questions need to be answered. In our days, modern states try to fulfill a variety of functions, defense and a host of social services ranging from education to health

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<sup>8</sup>Cizakca "Introducing Venture Capital", *passim*.

<sup>9</sup>Cizakca, *Comparative Evolution of Business Partnerships, passim*.



being the most important. How can all these services be financed if the size of the state is deliberately kept small by modest tax revenues? The answer is simple: by allocating bulk of the state expenditure to defense and allowing the private capital to take care of the services. This is tantamount to establishing a third sector, known as the third sector or the non-profit sector. The evidence that Muslims have actually practiced this principle can be found in the Ottoman budgets of the sixteenth century when this empire was at its zenith. Ottoman budget studies have indicated that bulk of the state revenues were, indeed, channeled to the military. All the other services were financed, organized and maintained by private persons who established waqfs.

Thus we can conclude: modern democratic nations of the Islamic world should impose minimum taxation upon the population and let the essential services be financed through private initiative. One warning though: much of North Africa has been colonized by France, the most hostile country to the waqfs. The starting point must therefore be a completely new waqf law which not only is in perfect harmony with the *Shari`ah* but also takes into consideration the latest developments in western philanthropy. The latter is relevant for us, indeed, let us remember in this context that some of the greatest universities in the west were actually established emulating the medieval Islamic waqfmadrasas.<sup>10</sup> Successful institutions are borrowed across civilizations. Just as the west borrowed medieval Islamic waqfmadrasas, modern Muslims can and should borrow the latest advances achieved in western philanthropy.

### 3. Monetary policy

Open market operations practiced by the central banks of Islamic banks in order to control inflation in the economy are currently based on commodity *murabahas* and *tawarruqs*. These are both dubious from the *Shari`ah* perspective as well as costly. The central banks of the newly emerging democracies therefore need hundred percent *Shari`ah*compliant and cost effective instruments yielding fixed returns to conduct their open market operations. Such instruments have now been discovered and may soon be put into operation.

### V. Conclusion:

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<sup>10</sup> M. Cizakca, *A History of Philanthropic Foundations*.

We are now fairly well informed about the political and economic systems which the newly democratic nations of the Islamic world should pursue. These systems embody the combined wisdom and experience of the west as well as our own heritage. The former should be incorporated only in so far as they conform to the basic principles of the *Shari`ah*. It is to be hoped that the resulting synthesis will be a highly effective one and will lead to the development of modern Islamic capitalism which can compete with that of the west and stand tall on its own. Such a system would not only be a great achievement for Muslims and alleviate their poverty but would also be a gift to the whole humanity.

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