



ISLAM and free markets: *Can they co-exist?*

The Arab Spring gave rise to much hope, though progress since has been traumatic. Can Muslim countries embrace their faith and a free economy?

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A political chain reaction was set off in the Arab world in 2010 when Mohammed Bouazizi, a young Tunisian stall-owner, was denied a licence to ply his trade and in desperation driven to suicide.

That his immolation might ignite mass protests in his home country was to be expected, but not that protest movements would erupt across the Arab world that still have not burned out. Popular movements in Muslim countries gained traction by invoking the promise of reviving Islamic values that authorities were accused of having betrayed. As of now, the roadmap leading to an Islamic society is as vague as the outlines of what that destination would look like. However, reformers can take heart that early Islamic society promoted entrepreneurs and banned kleptocrats. In fact, the pro-business approach of Mohammed and his successors helped turn early Islamic societies into the most dynamic economies of their time. A revival of

Islamic values should incline policies to a pro-business stance. Islam, after all, is the only world religion founded by an entrepreneur.

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Islam and entrepreneurship

Mohammed was an orphan who had to pay his way in life. Whilst Buddha and Jesus were conspicuously indifferent to acquiring wealth,

Mohammed encouraged his adherents to engage in business and deemed acquisition of wealth meritorious. He was born in Mecca, a city located in a barren valley whose population had as its sole useful natural endowment a black rock that attracted pilgrims from all over Arabia because it was believed that Abraham had built an altar on that cube, the kaba. The coming and going of pilgrims offered opportunities to trade and do business. This communal business had been operational for many generations when Mohammed was born in 570.

Mohammed was born into a family of leading Meccan traders. He was around ten years old when his uncle took him on his first caravan journey and married an entrepreneur when he was 25. When Mohammed found his calling as Allah's Apostle, he emigrated to Medina to set up a community on Islamic lines. One of Mohammed's first actions in Medina was to set up a market. Raising the standard of living through trade, after all, was what he was familiar with. Indeed the Koran

exhorted believers that gold should be put to productive use.

Mohammed died in 632 and the boundaries of the Islamic empire expanded within decades to encompass the entire Middle East and most of North Africa. A large trade zone emerged governed by Islam's ruler, the caliph. Long distance trade became easier once borders fell away. By the end of the seventh century, the caliphs introduced a gold standard that powered investment activity. The caliph's mints used bullion from Arab gold mines, church treasuries in former Byzantine lands, and Pharaonic gravesites in Egypt.

Islam and the rule of law

Market economies cannot thrive without a supportive legal framework and respect for private property. Mohammed's first successor, the caliph Abu Bakr, made clear in his

Exemplary anecdotes of judicial independence from the executive were passed from generation to generation reading the classic collection of tales in Arabian Nights. In one such story, the famous jurist Abu Hanifa declined an invitation to work for an administration where he might compromise his standard of integrity, because, as he made it known to the caliph, "how can I enter the water without getting wet?". The Arabian Nights gather many other instructive anecdotes explaining a nuanced understanding of the interdependence between low taxes, entrepreneurial freedom and political liberty. The Arabian Nights' narrator Shahrazad told her royal husband (and all her readers) how good governments are run: "Religion depends on the king, the king on his troops, his troops on money, money on prosperity, and prosperity on justice." The Arabian Nights feature

Some Islamic scholars and lawyers pined for a return to the simplicity of Islam's early days and had reservations about the luxurious lifestyle of the Muslim upper classes. But they could not point to a single Koranic injunction to compel Muslims to stop pursuing business opportunities and enjoying the rewards of successful investments.

Tenth century Baghdad afforded a much higher standard of living than European cities. Medieval Islamic societies were the most advanced economies of their time and their prosperity seemed assured. Manufacturing and agricultural innovations from Islamic societies found their way to Europe, including manufacturing paper and growing oranges.

Islam's golden age ended after crusaders attacked from the West and Mongols from the East. There were economic reasons for decline, too. Once new trade routes were found, trade no longer depended on traversing land routes across the Middle East. The drive to build new markets overseas sidelined the Arab world.

But the long-term effect of these external shocks was not as pernicious as the enfeeblement of entrepreneurial energy wrought by a combination of self-inflicted factors. Islamic societies lost the ambition to lead the world in scholarship and science and the loss of integrity of ruling classes was even more damaging. Entrepreneurs had no incentive to build a business once more money could be made from seeking favours from whoever happened to be in power. Rent-seeking became more remunerative than investment. Civil institutions and personal initiative withered.

None of this was inevitable, though. Whilst we look at the Arab Spring today without the same optimism that might have been apparent in its initial stages, there should still be hope. Political and economic freedom are compatible with the best traditions of Islam. It is to be hoped that young people in the middle-east will see that embracing their Islamic faith and developing the policies for a successful free economy are entirely compatible objectives •

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acceptance speech that his authority was that of a deputy to Mohammed (caliph means deputy) and he did not assert the right to construct laws arbitrarily. He would forfeit his right to govern were he ever to deviate from what the teachings of the Prophet. Abu Bakr thus set a precedent – a ruler is bound by laws too. Medieval Arab lore abounds with anecdotes about Abu Bakr's and his successor Umar's integrity. Both were extremely conscientious in avoiding conflicts of interest and pre-empting accusations of nepotism. Umar personally punished his sons in public to show they had to comply with the same laws as every other citizen. Indeed, Umar asked each senior government official to disclose his personal assets before taking up a senior appointment and to explain any sudden increase in wealth. Umar fired corrupt officials on more than one occasion, including the army's commander-in-chief Khalid al Walid.

Early Islamic judges were known not to countenance even the appearance of accommodating the government.

many other examples of good and bad governments, showing that early Islamic societies had a very articulate educated class voicing opinions on public affairs. Islam's fundamental pro-business stance was not controversial. Mohammed was remembered to have given sound investment advice: "There is nothing wrong in wealth when a person is God fearing, but health is better than wealth for the God fearing, and cheerfulness is a blessing."

The rise and fall of the Islamic empire

The early Islamic empire grew very quickly and Arab Muslims were a minority that was vastly outnumbered by Christian and Jewish subjects. The early caliphs had no option but to rely on non-Muslims to staff their administration, collect taxes and negotiate treaties. The integration of a vast region, and the scope for professional advancement of a vast talent pool, engendered dynamic economies and spawned rapid urban growth. Baghdad in the tenth century was the world's largest city.