Economics and Islam
Can Free Markets Work in the Muslim Context?

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Austrian Student Scholars Conference
Grove City College, Nov. 2-3, 2007
When men and women conduct their business from day to day, they use means to achieve their desired ends. Such behavior constitutes human action. Because of scarce resources, man must rank his ends according to preference and work to achieve them in order of valuation. Economically smart public policy takes into account the effect of costs on human action with the realization that incentives from the government can alter the preference rankings of given ends on people’s value scales and thus change their behavior. But it would be folly to assume that with enough incentive the government can change any human behavior. Some human values, specifically those given by religion, cannot be shaken even by the threat of death. In light of this phenomenon, economists ought to consider how religion affects human action and whether economic laws still hold true. Considering the importance of Islam on the world stage in recent years, this paper will focus on the function of free markets in the Muslim context, specifically examining whether free markets will work in an Islamic society.

Islam is the second-largest and the fastest-growing religion in the world.¹ As the West has reached out to Muslim countries in its fight against radical Islamic terrorism, Islam has moved to the center of the world stage. In Europe, the growth of Islam has caused friction over the past decade as the demographics shift within traditionally-Christian countries. According to one study, Europe’s “Muslim population more than double in the last three decades, and the rate of growth is accelerating.”²

The burgeoning religion of Islam is in a standoff with globalization. The increasing interconnectedness of the global economy is seen by many Muslims as a threat to the Islamic community. In his writings about the recent phenomenon of Islamic economics, Professor Timur

Kuran says that the goal is not to improve economic performance, but to preserve the Muslim culture. The “real purpose” of Islamic economics, he writes, “is to help prevent Muslims from assimilating into the emerging global culture whose core elements have a western pedigree.”

According to Kuran, “in pursuing cultural protectionism Islamic economics depends minimally on controlling the way Muslims behave in the marketplace. Its chief instrument for fighting assimilation is the guilt that it fosters by characterizing certain universal economic practices as un-Islamic.”

Thomas Philipp compares the reticence of the Islamic world to accept its modern economic context with the position of the German historical school of economics at the turn of the 20th century. Islamic economics combines a “preoccupation with somewhat anachronistic issues” with “a hankering for a romanticized preindustrial world,” Philipp writes. Similarly, “Otto Strasser elaborated the concept of economic autarky which was to lead to a decoupling of the national economy from the world market resulting in a reagrarization and a reduction of the level of technology.”

The relatively recent attempt to create a uniquely Muslim economic doctrine is “an instrument of identity creation and protection,” Kuran says, that the Islamic world can cling to in the face of globalization.

Islamic economics was founded by Muslim Indians in the 1940’s. The fundamentalists promoted strong social and economic ties among Muslim communities while promoting the weakening of economic ties between the Muslim world and the West “to protect Muslims from

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4 Ibid.
6 Ibid, page 137
un-Islamic cultural influences,” Kuran says. The program includes a ban on such allegedly un-Islamic practices as interest, insurance, arbitrage, speculation, and indexation. Islamic economics is not a set prescription of economic policy. As professors J. Barkley Rosser, Marina Rosser, and Kirby Kramer point out, “when one reads or hears about ‘Islamic economics,’ one is reading or hearing about something that is itself essentially new in the sense of having been relatively recently put together.” The ideas are cobbled together and lack the unity of a consistent theory of economics. “Given that the rise of Islamic economics was driven largely by noneconomic factors, it is unsurprising that it has solved no major economic problem,” Kuran writes. While it gives a credo to Muslim isolationists, Islamic economics is not the most beneficial policy route for Muslim countries. In fact, the share of Muslim deposits in Islamic banks “has remained under 20 percent; in some predominantly Muslim countries, the figure is as low as 1 percent,” revealing the unpopularity of Islamic economics even among Muslims. Broadly speaking, keeping the Western world out by force is bad public policy for the Islamic world.

Globalization is not synonymous with secularization. Islamic economists have tended to support more restrictive governments, yet restricting the markets as a reaction against globalization only harms the economies of Muslim countries and impoverishes the people. The solution to this religionized brand of economics is to remove the ties to religion and let Muslims freely choose what to do with their money. Reexamining the ties between Islam and reactionary isolationism reveals that free market ideas can fit within the Islamic context. The Muslim scriptures do not give clear economic directives, so Islamic policy is largely a matter of

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10 Ibid.
13 Ibid, page 73.
interpretation. As Philipp writes, “The process of selecting supporting arguments for a specific economic pattern from the vast compendium of Islamic literature remains highly subjective. Fazlur Rahman has called it the ‘atomistic’ approach, which constitutes ‘a general failure to understand the underlying unity of the Qor‘ān coupled with a practical insistence upon fixing on the words of various verses in isolation.”¹⁴ Kuran agrees, noting, “Contemporary Islamism is capable of supporting both pro- and anti-market ideologies, because this is as true of Islam itself as it is of other major religions. In the fundamental sources of Islam one can find justifications for respecting market outcomes along with ones for restricting them.”¹⁵ The Islamic attitude toward the market is a result of interpretation, which is currently colored by a fear that globalization will overshadow the Muslim identity.

Some modern examples point to the integration of economic freedom and Islam, as some Muslim countries open their economies while retaining their Muslim identity. The Acton Institute reports that over the last 15 years, “Kuwait, Bahrain, Qatar, and the United Arab Emirates have made significant advances towards becoming open economies.”¹⁶ The countries have “reduced tariffs and are pursuing Free Trade Agreements with major economic players, including America, China, and Japan.”¹⁷ They are also working to draw more foreign capital investment. These measures are paying off, as the countries see an increase in investment and, consequently, in wealth. Historically, Muslim countries were able to interact economically with other nations without losing their religious identity. “In the past, the Muslim community mingled with other civilizations, absorbing what was seen as useful and rejecting what was seen as not. In such a manner did progress occur in many different ways - cultural, political, social, economic,”

¹⁷ Ibid.
according to a 1998 conference on Middle Eastern Studies. “If that was possible in the past, it is also possible today. Keeping its identity, the Muslim community is not incapable of dealing with the modern and global era.”18 Indeed, the Islamic world can reap increased benefits in today’s markets.

What role can the U.S. play in encouraging the Islamic world to move toward the free market? The key lies in preserving the identity of Muslim countries while promoting great economic opportunity. Economic freedom transcends religious barriers as humans reap the benefits of action in cooperation with others around the globe. These benefits are available to Muslim countries as they open their economies to the free market and allow investment to spur economic growth.

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