CHAPTER II

ISLAM AND ENTREPRENEURSHIP: ANALYSIS OF VALUES

The allegation that Islam is a conservative religion and is non-conducive to the development of Capitalism and private entrepreneurship owes to the nineteenth century discussions between the Christian missionaries and Muslim apologists and the writings of Max Weber, who proposed a religious theory of entrepreneurship.

Max Weber\(^1\) tried to prove that the puritan religious ethic of Calvinists exhorts the persons to lead ascetic life and earn as much as one can, because the size of earnings in this world would decide the rewards in the hereafter. This he discovered when he compared the countries of Protestant following and high levels of economic development: Capitalism. This thesis of the Protestant ethic and spirit of capitalism ever since has been variously modified, criticised and rejected.\(^2\). Yet, because of the sound reasoning, the unique methodology used by the author (Verstehende) the inconclusive debate still continues with the scholars from various social sciences. He further


tried to prove that no other religious ethic, including Indian religions\textsuperscript{3}, were capable of generating the process of capitalism. Similar allegations he put forward for Islam and Muslim countries\textsuperscript{4}. There had been many scholars, both Muslim and non-Muslim, who produced counter arguments to this thesis on Islam. But these critiques are either sketchy or treat this subject as a corollary, as far as Weber on Islam is concerned. The most exhaustive study is carried out by Bryan S. Turner\textsuperscript{5}, who presents Weber's ideas something like this:

Weber's commentary, published or unpublished, falls roughly into two sections - an account of the Islamic ethic; and the political and economic studies of later Islamic dynasties. The former has two key components. First, Islam did not develop into ascetic this-worldly religion and its main social carrier was a warrior group. The content of the religious message was transformed into a


set of values compatible with mundane needs of a warrior stratum and that the salvational element was transformed into the secular quest for land which did not develop into a religion of transformation. Second, the pristine message of Meccan monotheism was adulterated by sufism which catered to the emotional and orgaistic needs of the message. As a result these two strata pulled Islam into two different directions, none of which led to rational capitalism.

The second section dealt with structures of earlier Islamic dynasties. This dynastic Islam depended on patrimonial bureaucracies, to maintain which required continuous conquest of new lands. The alien warriors that were to be recruited never developed into a genuine feudal stratum since Islam was essentially prebendal. The structure hinged on the Sultan, the military, the Ulema and the mass, that resulted into repeated dynastic revolutions leaving the basic structure of society intact. The Ulema always supported status quo for the sake of stability. This necessitated central coordination, defying emergence of independent social groups; the potential agents for social change, thus did not develop any independent institutions—the characteristic of the societies of Europe. It also did not allow to develop the rational and formal law because the ideal sacred law was subservient to the state and to
political expediency. Similarly, city in Islamic society never developed beyond a military camp and a place of government business, this did not allow growth ofburghers or merchants. Entrepreneurs and craft guilds supervised by state officials, were limited to the provision of the state. This political system was encased within a religious tradition which came to stress initiation and rejection of innovations.

The Marxian concept of Asiatic mode of production, as applied to the study of India and China, is in agreement with Weber's concept of patrimonialism. Marx and Engel noted that, given the special problems of irrigation, the state in Asia monopolised property, this did not develop the economic classes and thereby the absence of class conflict. These societies were characterised by a paradoxical stability and rapid turnover of political, dynastic personnel, thus represented political stagnation and insecurity of rights and possessions. Here Marx and Engel emphasised the monopoly of economic factor, unlike Weber who emphasised the monopoly of political (military) factor. Therefore, both Weber and Marx believed that such societies


could only be transformed by exogenous forces; namely, European capitalism.

Turner, however, criticised Weber from the point of view of methodology, content and analysis. The specific methodology, namely, Verstehende, in which the subjective meanings of the actors need to be taken into account while analysing the behavior. Turner argued that Weber did not employ the same methodology to the study of Islam and imposed his own meanings on the behaviour of Islamic actors. He tried to explain Weber's attitude towards Islam by assigning reasons to his biographical factors like the difference in the value systems of his parents and conflict arising of his two marriages etc. 8

Turner also showed that Weber was factually mistaken by assuming that Islam was based on militaristic ethic and ignoring the fact that it continued to be the religion of urban merchants as well as that of state officials, and also was wrong comparing virtuoso Christianity with the Sheikhs of Islam 9. Besides, Weber failed to emphasise the conflict between pious and their rulers, also failed to recognise the social solidarities of Islamic cities and he did not provide an accurate

9. ibid, pp. 56-74.
periodisation of Islamic history. However, he agrees with Sami Zubaida on the view of Weber that partimonial system of domination was greatly responsible for the lack of development of capitalism in the Muslim world. "It was not the attitudes and ideologies inherent in Islam which inhibited the development of a capitalist economy, but the political position of the merchant class vis-a-vis the dominant military-bureaucratic classes in Islamic societies". 10

With these background remarks on Max Weber, Karl Marx and the critique of Weber on Islam by Bryan S. Turner, it is proposed to analyse the Islamic values related to entrepreneurship.

Islam as Religion

Islam is a way of life11. As such it has three main aspects: religious, political, and cultural. The three overlap and interact, often imperceptibly, passing from one to the other. It implies that the code of conduct, both for the individual as well as the group life, is prescribed. Therefore, it is important to look for the basic essence of religion as applicable to its followers as individuals or groups in all of its dimensions. The emphasis on the

material and spiritual well-being need not be separated in any frame of analysis.

But before attempting to analyse the relationship between Islam and entrepreneurship, the two terms need definition, giving allowance to varying shades of both the terminologies. Even before attempting to do so one needs to venture in the realm of religion and economic development to accommodate both the terms of 'Islam' and 'entrepreneurship' in their respective wider frames and their interactions, which may perhaps would take one to the realm of evolution of human society encompassing religion and economy.

It appears that religion owes its origin to the unexplained or uncertain phenomenon of individual and societal existence; the uncertainty which would blur psychological images beyond human capacity. It may be considered as a system of beliefs, rituals and practices which is not explicable by the normal rational faculty of human beings and yet affects the existential conditions either in a positive or negative way. This would create conditions ripe for emergence of bodiless souls, gods, reincarnations, angels, dieties, jinns, demons; characteristics of which reflect the felt needs of that society or culture. Through such beings the human rational urge would be satisfied through various practices, would
provide philosophy of existence, rituals and beliefs which would balance the explanation of the total existential phenomenon by combining these logical and non-logical systems of explanation.\textsuperscript{12}

As more and more social phenomenon becomes explicable, the relative importance of religion would decline, as the felt needs of the individuals and the society would be satisfied through rational means. This applies equally to the tribal pantheism as well as monotheistic religions of Abrahmnic tradition. To the former group the most living example is the Hindu religion in India, along with its offshoots like Jainism, Buddhism and to some extent Sikhism and other similar tribal traditions. To the Abrahmnic religions belong the Judaism, Christianity and Islam. The difference between the two set of religions is the stress on the latter's belief on the oneness of God and high level of abstraction in a shapeless, colourless, endless phenomenon of God\textsuperscript{13}. The continuation in this line would distract to an area not part of the enquiry under consideration. Therefore, emphasis on Islam would bring closer to the problem under consideration.


\textsuperscript{13} For a better treatment of the evolution, structure and functions of religion one may refer to Bellah, R.N.,
A scholar of Islamic History, Philip K. Hitti, sums up the definition of Islam, thus, "Islam, the religion, is a system of beliefs and practices, initially revealed by Allah to Mohammad, enshrined in the Arabic Koran, supplemented by tradition, and modified through the ages in response to changes in time and space, in the tradition of Judaism and Christianity. Today, about 450 million followers, and represent perhaps as many races, nationalities and ethnic groups as any world religion. Every seventh man is a Muslim"\(^\text{14}\).

Among the beliefs, the most important pillar of Islam is the belief in oneness of God and Mohammad as the last prophet of the Abrahmnic tradition of prophets. The second important pillar is the compulsory five daily prayers. The third is the fasting during the month of Ramadhan. The fourth is the Zakah (compulsory poor tax) and the fifth is

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\end{quote}

the pilgrimage to Mekkah, if one can afford\textsuperscript{15}.

These may be called the Great Traditions of Islam and are common to all Muslim cultures irrespective of time or space frame. There is near consensus on these issues as far as the Ummah (follower of Islam) is concerned\textsuperscript{16}.

Since Islam is a way of life and these prescriptions are not sufficient to guide the followers in their individual or social behaviour, the fiqah or Shariah or body of law has come into existence over the long evolutionary period of Muslim society. There are four well-known schools of thoughts, which are derived from Koran and Hadith. The other elements of Shariah are ijtihad (or reasoning), ijma (or consensus), qiyas (or analysis) and taqlid (imitation). One of the schools of Islamic thought was organised by Imam Hanafi with followings in Turkey, Central Asia and North India. The Second by Imam Shafi and has scattered following in a very small number. The third by Imam Maliki which is confined to North Africa and to some extent in India, and the fourth by Imam Hanbal which is

\textsuperscript{15} There are other festivals, rituals and ceremonies like, Id-Uzuzuha, Shabe Barat, Id Milad Nabi, Muharram, which are celebrated with various intensities and zeal in different Muslim societies.

\textsuperscript{16} There are some sects which question the authenticity of Koran as it exists today, especially some extreme subsects of Shias; some sects differ in the way the prayers are offered and the frequency of daily prayers. But they are in small minority.
little known in India but followed by Arab Wahabis.  

All these sources could be utilised to shed light on the economic system of Islam from the view points as given in Islamic texts and Islamic history (institution) with respect to Entrepreneurship.

Analysis of Islamic Values Related to Entrepreneurship as Reflected in Islamic Texts:

The basis of society in Islam is religion. It implies that the basic structure of Islamic society is religion and all the other structures may be treated as super-structures; namely, political, economic and socio-cultural. All these super-structures should by necessity derive their strength from the religious structure.

Going through the textual literature and their medieval and modern interpretations, it appeared that central to the Islamic social system was the religious ideology, that means that the basic religious institutional framework ought to be formed which will determine the types of social, economic and political super-structures in a Islamic society. Therefore, all the human behavior, both individual and collective, should be expressed in this framework. That is, the economic, social and political

behaviour should express within the norms of islamic ideology. It appears, as if the Islamicists reject the basic economic structure of Karl Marx and political structure of Max Weber as basic to social change and development.

From this description it seems that religious structures is relatively fixed and, therefore social change is not possible. Theoretically, however this is not implied here. It only means that the basic levels may be interpreted in relation to the change required, which themselves would adapt to the change, thereby widening their scope, but basic spirit of Islam would remain. This relationship amongst various structures is the major focus of the thesis in relation to the change agent, namely the Muslim entrepreneur.

The 'spirit of Islam' is defined in the word 'Islam' itself. It means surrender and obedience or 'peace' of body and mind through submission to Allah. It implies (a) to surrender and (b) to become reconciled to each other to make peace. The Article of Faith (Kalima) is the bed-rock of Islam, which is an important metaphysical concept to answer

18. For detailed discussion on the integration of various aspects of life: individual, social, material, moral, economic, political, legal and cultural see Ahmad, Khursheed, Islam: Basic Principles and Characteristics; Crescent Publishing Co., Aligarh, 1974, pp. 16-17. Also, Koran (13: 28-29).
the endlessness of the universe, which further points to the supremacy of law in cosmos, the all-pervading unity behind the manifest diversity, or an integrated view to which the modern science is moving.\textsuperscript{19}

In Islamic view one reality cannot be divorced from the other. Therefore, it tend to integrate material, spiritual and social needs.\textsuperscript{20} The material needs provide the basis for social relations in an overarching spiritual frame. Within this frame are set the claims of an individual on society and that of society on the individuals. In fact Mohammad himself recognised that spiritual concern could not be divorced from everyday behaviour.\textsuperscript{21}

During the last four decades there had been an increasing debate on issues relevant to economic behaviour in Islam. The debates of 1950's and 1960's remained

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\item \textsuperscript{20} Koran: (42:13; 3:83; 2:136).
\end{itemize}
confined mainly to whether Islamic economic system is closer to Western capitalism or to the Socialism, if not Communism; mainly out of a concern intergating the concepts of private property, and equality of brotherhood, and justifiably so because of the need to integrate technological advances, having strong bearing on economic development in the background of the advanced Western and Russain economies, and the appaling poverty of the Third World countries to which the major Muslim societies belong.

But there is a growing realisation that the Islamic economic doctrines do not conform either to Capitalism or Socialism, even though some experiments were conducted in countries like Nasser's Egypt, Bathist Syria, and Iraq, on the one hand; Pakistan, Saudi Arabia and Iran, on the other. These experiments created contradiction, in the ideology of Islam on one hand and Capitalism and Socialism 22, on the other. This concern led to the search of an Islamic economic system based on its spiritual and material codes enshrined in Koran and Sunnah. It may, however, be noted that neither Koran nor Sunnah represent a codified theory of economic development. Nor does it provide a definition of entrepreneurship, let alone the theory of entrepreneurship.

Therefore, one has to derive both the theories from the information spread over the Islamic religious scriptures in the writings of scholars on Islam and that is what is presented in the following text.

To begin with, Koran and the Prophet took a positive attitude to economic enterprise. The Koran says, "..... It is He who hath produced you from the earth and settled you therein to develop." The only occupation that the Prophet followed, other than his Prophetic duties was trade. That the trade is superior way of earning one's livelihood, "If thou profit by doing what is permitted, thy deed is a jihad (holy war) and, if thou uses it for the family and kindered, this will be a sadaqa (pius work of charity)", and "truly a dirham(silver coin) lawfully gained from trade is worthy more than 10 dirhams gained in any other way". The prophet also said,"The merchant who is sincere and trustworthy will (on the Day of Judgement) be among the prophets, the just and the martyrs". If is,

23. The term entrepreneurship is of recent origin, which will be elaborated in the next chapter.

24. Koran (Hud: 61), see also Koran (62:10, 73:20, 24:60;7:31) etc.

therefore, clear that trade and by implication entrepreneurship is not only permitted but encouraged and considered a better pursuit than others.

Of late there is a recognition that human factor is a very important factor of production, beside the traditionally known factors of labour and capital. In Islam there is a great emphasis on the human resource development, entrepreneurship is considered the prime mover of the factors of production, but rarely any empirical study of entrepreneurship in Islamic framework is attempted. However, the definition of the concept of entrepreneurship, its functions and its precise role in the production function remains enigmatic. There is a general agreement among the scholars, however, that it includes the study of need Achievement and need Power, innovativeness, risk taking, and management skills. Implicit in these attributes is the capitalist mode of production. Therefore, the concept of private property, rational attitude, knowledge of science and technology, factors of production, like labour and capital; rational bureaucratic organisation, alongwith industrial relations, consumption, savings and investments, interest and banking, type of ownership, namely; propriety,

partnership and Ltd. Company; market, prices, inflation, along with the study of social order, and type of government administration, need to be understood.

It is imperative to see whether Islamic body of knowledge had to offer something at least on some of these issues and interlinkages of these concepts. In what follows is presented the Islamic textual discussion, although sketchy, yet reasonable to form certain hypotheses about Muslim entrepreneurship.

The emphasis of Islam is on balancing the interests of individual and society, but with enough scope for the development of a responsible entrepreneurship.\(^\text{27}\) Therefore, not only the differential economic distribution among people\(^\text{28}\) is recognised but also every person is given full right to own and develop one's own private property. However, Islam does not recognise the classes as defined by Karl Marx or Max Weber, nor does it recognise caste, creed, or colour as any criterion of social importance. What in fact has been emphasised is the individual achievement as

\(^{27}\) It is in contradistinction to the type of individualistic capitalism that operates in the Western countries where individualised cut-throat competition operates, or the Socialist countries where state has the power to control the means of production.

against ascription for a person to become socially important here or hereinafter. 29

Hoarding in Islam is detested 30 as it causes social imbalances. Koran seeks to occultude exploitation. It seeks to assume that within the limits set by sharih, each party will receive due benefit for its contribution, industry, work, entrepreneurial skill and inventiveness. 31 Islam does not leave the matter here. If seeks to reduce the concentration of wealth by way of Zakah (poor tax). Laws of inheritance, and alms giving to be rewarded here and Hereinafter by the Lord of the Universe. In fact, God is considered the owner of all the property and man is made its trustee to develop and benefit from the bounties of life, and sharing such benefits with his fellow beings.

Zakah is the minimum irreducible 32 compulsory tax and considered important next only to prayers to God. Its

29. ibid., 1964, pp. 158-164. See also, pp. 132-143 on Islamic Capitalism.


rate varies according to commodities on which tax is levied but a rough of 2.5 percent in considered as normal and is given to eight classes of people who are economically deprived to create social equilibrium and order in Islamic society. A greater stress is laid on the individualism, as he and only he is responsible for his actions, to be judged on the Day of Judgement.

Other tool to break classes is the law of inheritance, where the property of the deceased is distributed in accordance to a particular law, in which the share depends on the distance of relationship of the deceased and the sex. This also entitles the state to collect some wealth tax which again goes to the poor or needy or to the social overheads. In fact the state is allowed to impose additional taxes on property, if social needs demand so. This leads to the dispersal of property in the wider society and is consistent with the negative attitude of Islam to hoarding. The distributed inheritance makes next generation relatively less well off, if the offsprings are more than one, which would induces the next generation to strive hard to gain the status to which the

33. For brief view of the rate, collection and distribution of Zakah see Al-Mahdi, Dr. Sadiq, 'Economic System of Islam' in Islamic European Council (ed.), Islam and contemporary Society, 1982, pp. 101-119

34. Koran, 4:8; 59:7. See also Qutb, Mohd., op.cit, p.161
offsprings were used to. This shapes the motivational pattern to work and earn. Religious emphasis on having property without actually not working is proscribed, so that no one thrives on the labour of the other. Therefore, the emphasis on individualism, rationality, acquisition of knowledge, be it of scientific technological or theological nature, laws of Zakah, inheritance and burden of alms form a motivational complex consistent with entrepreneurship. But this motivational pattern is saddled to social welfare measures, thereby creating resonally responsible entrepreneurship. It may be examined how these values could lead to capitalism.

An individual motivated to achieve economic well being of his own and his family has to work hard but also has to share it with the society at large. An individual may earn to whatever extent but through fair means. A successful entrepreneur will accumulate money within a year but has to pay Zakah, state taxes, alms, which will reduce his wealth, which may have a dampening effect on his savings and reinvestment capacity. He has two alternatives, either pay taxes and consume the rest, but emphasis on moderate expenditure will set limits to his consumption level, which in turn will be saved for reinvestment.
On the other hand, if he pays his taxes then it will ease the business operation due to increased infrastructure and will increase demands for goods as the purchasing power of the poor will go up, which will boost further production and exchange in the market. In either course of action an entrepreneur can build great capital assets over a period of time by reinvesting in trade or industry. Laws of inheritance, however, will redistribute these resources back into the society. The sons to regain the same status as their parents enjoyed, again would have to be motivated to even higher degree of entrepreneurship.

Further, rationality is the key to Weberian thesis of capitalism. Rationality as a word in Koran occurs 50 times and additional words 'have ye no brains' is repeated 13 times. No religion, including Christianity, has ever stressed so much on rationality. 35

If Islam is to be followed, the spirit of rationality has to be kept alive. If this is so, and with a stress on exploring the world with objectivity and going to the foreign lands for education and to enjoy the bounty of life, for which enormous rewards would be given in the Hereafter, the outcome would be nothing but the development of science in all its dimensions, including technology

35. Rodinson, Maxime, op.cit, 1974, pp. 91-92
applied to economic life which will yield an entrepreneur with innovative, risk-taking and achieving behaviour. He would create high degree of rational organisation, with fair administration, with an emphasis on treating human beings as respectable entities, thereby creating harmonious industrial relations. If all the wealth belongs to Allah, than an entrepreneur owner would be a trustee whose social status will dependent on his individual merit. Therefore, Islam does not allow unbridled cut-throat competitive capitalism—a characteristic of European capitalism.

Islam allows the market forces to determine the prices, except in an extreme emergency situation. Honest dealings are emphasised. Therefore it will reduce undue advertising, cost of which has to be paid by the consumer, will provide cheaper goods, reduce malpractices and build a good will, which will boost the demand further. This proves that Islam as an ideology would create relations between the labour and entrepreneur on one hand and entrepreneur and consumer on the other, harmonious, sustained by rational objective means expressed through science and technology.

Besides, restrictions are placed on uncertain earnings e.g. speculative trade, middlemen etc, which are usually responsible for increasing the prices and cheat both the parties. Islam also restricts gambling, lotteries, and
speculative trade in commodities, outcome of which is uncertain, thereby reducing the undue risk in the environment which would further ease the supply of entrepreneurs. It would also motivate persons through working, mental or physical, as not simply controlling undue proportions of wealth, thereby reducing class disparities.

Undue tax by the state is also prohibited. It would reduce the burden on the earning capital engaged in business, since nobody is allowed to take away anybody's property except in extreme social need. Therefore, the political structure and administration that will emerge would provide rational operation of Shariah law and would provide stable political environment in which the entrepreneur would thrive. Bureaucracy is expected to be God-fearing which would provide support to the entrepreneurs.

The major conflict that arises between modern capitalism and Islamic capitalism is the interest and banking. The Capitalism of the West is dependent on interest which is the reward for the postponement of the current need. But Islam puts desperate restrictions on 'riba' or interest that grows without any action involvement of the owner of the money. Instead what is allowed is 'Qirad' or 'Madharba', that is partnership of human and
capital factors of production. That is, man and man could be partner and capital and man could be partner in such a system. But fixed return on investment in the shape of interest is disallowed. Every Muslim is under obligation to work in order to live, and nobody in entitled to any gain or reward without exerting a productive effort or shouldering subsequent risk.

Islamic jurists differ on the interpretation of riba. One school of thought emphasised that riba is banned by the Prophet as it had a strong connotation of exploitation. If in case of modern banking, where both depositor and loaner benefit, then no body is exploited. Therefore, interest is allowed. However, others reject it all together and suggest a separate system of banking which would act as coordinator between the capitalist and the entrepreneur. In one case, the depositor gets some additional money over principal which is due to inflation. Therefore, it only keeps the net worth of a depositor constant. In other case the bank loans the money to the entrepreneurs and earns profit or loss, which is distributed to the depositors according to the size of their deposits after deducting the service charge to sustain the banking.

36. See Koran on riba (usury/interest); 2:275-76; 2:278; 3:131
system. The latter thinking is in strong currency in the modern Islamic thought.

Whatever be the case, implied is the concept of work and the content of risk, which an entrepreneur has to take if he wants to earn, which is his religious duty. In case of partnership outside banking system, a person may employ capital with the entrepreneur and would share profit or losses in proportion to which they had contracted. The need of the entrepreneur for finance and need of the capitalist for investment will determine contract in a free market situation.

Theoreticaly it is, therefore, clear that Islam is capable of having its own economic system in which equality before law, equality of opportunity, with property rights consistent with a welfare state allows only the socially responsible entrepreneurship and not the type found in Western capitalism.

From the ongoing discussion, the 'ideal type' of a Muslim entrepreneur and an ideal type of his 'environment' can be attempted. The Islamic entrepreneur is a rational human being who believes that his actions are responsible for the outcome, which will be rewarded or punished here and in the Hereafter. He will have to work hard to improve his social status and of his society. He
will not engage in speculative gain (would take risks) but will save out of his earnings or will enter into partnership with other man for marshalling investment capital. He would engage in partnership with others for management and for running his enterprise and treat them with compassion. He will engage only in honest dealings, if possible without middlemen. He would not produce prohibited luxury items, would not spend in luxuries, would pay religious and state taxes and would spend in social welfare. Whatever is saved, he would re-invest. Before he dies he would distribute the inheritance according to the Koranic justice among his relatives.

On the other hand, because of his paying taxes and alms, the society would grow richer which would provide overhead costs that would facilitate his operations and increase the demand of his goods amongst the consumers. The state would create institutions and bureaucracy which would support his entrepreneurial efforts and would provide peace and stability in the society, which would also facilitate his operations.

How far these 'ideal types', of an entrepreneur and the society could be translated into reality will be treated in the next section by examining the history of the Muslim countries. For a fair assessment, the thesis will confine
itself to the core Muslim countries of the Middle East, where the impact of native cultures, other than Islamic, is expected to be least.

**Analysis of Values as Practiced during the Course of History (Institution Building):**

From the perusal of literature on the Islamic economic institutions it appears that there had always been a concern amongst the Muslims for economic values as preached by Islam. But whether such a concern could lead to building economic institutions according to Islamic values needs to be examined. It is shown here that Islamic societies could never build such institutions, notwithstanding the individual behaviour of Arab traders who established themselves as honest traders in many countries like portions of south India, Indonesia and Malaysia etc. Often this concern had been a crying need for those who believed in Islam or the jurists but never had there been a firm political or social will. Often business-men dealing in goods and services reeled under the non-Islamic institutions related to capitalism.

Contrary to the belief that capitalism originated in the Western Europe during eighteenth to twentieth century, it may be stressed that capitalism was in existence
during medieval ages. It is not argued that capitalism did bloom during that period. However, what is emphasised is that despite the preponderance of feudal mode of production, capitalism existed in fair degree. According to Rodinson, who studied Islam and Muslim societies most extensively wrote that, "the capitalist sector was undoubtedly well-developed in a number of aspects, the most obvious being the commercial one. The development of capitalistic trade in the Muslim world is a very well known fact." 37

Having stated that capitalist sector existed during middle ages in the Muslim countries, it would be desirable to describe the situation of Islamic economic values as practised in Muslim economics.

When Islam was born in the early seventh century A.D. Mecca was already a capitalistic trade centre. The dominant tribe of Quraysh, in which Mohammad, the prophet, was born were engaged in trade and banking (loans at interest), which was 'rational' in the sense Weber used the term—to invest money with the expectation of increments, "Economic activities were carried out in a frame work of economic roles that were grouped in lasting economic organisations, namely, trading companies, and the structure 38

37. Rodinson, Maxime, op.cit, p.28. Most of information and facts on the subject are drawn from this work.
of relations between these companies was in no way 'embedded' in a non-economic context such as the clan. 38

However, Mecca was only a small island in the sea of tribal society. The Koran took positive view of the economic enterprise, "...It is He who hath produced you from the earth and settled you therein to develop it (Hud : verse 61) and, the prophet says, "There is reward for anyone who cultivates land whose produce feeds a living being," reflect an agrarian relationships in the economic production. Yet, some progress was made to stabilise the economic institutions by prohibiting and enforcing rules regarding usury, gambling, monopolistic trade practices, speculation and the meddling of middlemen. Further, the Zakah (poor tax) and Jaziya (graded head tax imposed on non-Muslims) were practiced quite stringently during the life time of the Prophet and the first four Caliphs. The land was allowed to be exploited directly or indirectly through rent (Ijara), water partnership (Musagah), or crop partnership (Muzarah). 39 The Islamic system revolutionised the status of women by allowing her the share in inheritance, which was never allowed in any hitherto existing society.

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38. ibid., p. 29

During the early age of the Islamic societies economic values and institutions had acquired a status of respectability. To summarise, Dr. Mahdi writes, "the morality, the spirituality, the prosperity, the fraternity, and the social justice of that system earned for Islam glowing praise as an oasis of compassion in a desert of human injustice and callousness".40

After the death of the Prophet the Islamic state expanded rapidly specially under the second Caliphate of Umar I (634-44), and came in contact with the two powerful civilisations of their times: Bayzantine and Egypt. This cultural contact with the Arab life provided new opportunities for trade and development. The dynastic rule established by Umayyads provided more freedom to non-Islamic values to creep in. The democracy was shunned off from the scene with a usual claim to Caliphate as had been granted to the previous four Caliphs. All this period was marked with dissentions in the Arab society. The Abbasid revolution of 750 AD, brought equality between ethnic groups, with large scale conversions, and Arabisation of a large part of the Empire that caused widespread commercial activity, even in hitherto separated societies which continued down to the fourteenth century, albeit with a slowing down rate. Yet the Muslim empire still conformed, to a large extent, to the

40. ibid. p. 103
Weber's criterion for capitalist activity. 41

However, it may also be reiterated that the commercial entrepreneurship was considered an occupation in which one necessarily had to make use of cunning, quibbling, tricks, quarrelsomeness, tactless insistence. 42 Such an entrepreneurship does not conform to Islamic ideals of honesty, forgiveness, welfare orientation as was expected from Muslim entrepreneurs. He further defined a typical entrepreneur (merchant) as the one who strives, everywhere and all the time and by any and every means to get money. 43 Rodinson quotes Ali ad-Damishqi, the writer of a manual on commerce in eleventh century where the functions of bonder (Khazzan), traveller-exporter(rakkad) and sleeping partner (mojahhiz) are defined in clear capitalistic terms.

Further, the great development of trade in the Muslim Middle Ages shows that at least part of the production was directed towards the market, although the large part was the transit trade. Besides, there are innumerable documents available on the crafts and agriculture for the Arab Middle Ages which show that there

43. ibid., p. 336
had been craftsmanship of various types, on monolithic lines in each major town of these countries which were known worldwide. For instance, Iranian trade between seventh and eleventh centuries consisted of textiles bearing the names of the town of origin like Rayy, Qazwin and Qomm. Some towns dealt in silk and some in cotton textiles, hides and skins, carpets. Some of the towns specialised in exporting of soap, ointments, rose water, palm shoots, scent, wax, honey, saffron, dried fruits, horses, fish, weapons, copper pans and pails, scales, and furniture for export markets. The Syrian olive oil and the dates of Lower Iraq or Arabia etc. were geared to markets.44

The lexicographic treaties contained discourses on market prices, where the laws of demand and supply operated freely. "It is quite obvious that all these numerous craftsmen of many different sorts represented an extremely substantial volume of production destined for exchange."45 Therefore, the capitalist system of production and exchange was fairly developed in the Middle Age and never, notwithstanding a few exceptions of age and region, guided by the Koranic injunctions for economic behaviour, as was discussed in previous section.

44. See Rodinson, op. cit., pp. 33-34 and ff, 16-18
45. ibid., p. 35
Moreover, Rodinson produces innumerable evidences to show that the practice of lending at interest, with the development of financial capital, was equally well known in the Meccan society in which Islam first appeared. It was undoubtedly practiced very extensively in subsequent times, despite the Koran's prohibition of riba.\(^{46}\) It is not to state that the entrepreneurs or lenders or borrowers were oblivious to the Koranic doctrines on riba, but instead they devised ingenious ways (eg. hiyal or qard husna) to get around the Koranic injunctions. Evidences supporting the view that the riba (usury) was always in practice are available for almost all Muslim societies of the Middle ages - Mecca, Iraq, Tunisia, Morocco, Ottoman Empire, Egypt, Iran, Algeria and Indian Muslims in Mecca- the practice that continued to the present day.

However, these type of transactions or the petty commodity production was almost similar to the one prevalent in the Europe upto the fourteenth century A.D. But this mode of production had longer life in the Muslim countries than the European countries where capitalism had set in the sixteenth century A.D., and is seen down to the nineteenth century amongst the Muslim countries- a state that they shared with the Third world countries upto the middle of twentieth century, not withstanding a few efforts made by

\(^{46}\) ibid., p. 35., also pp. 35-45
some Caliphs or kings at various points of time. 47

The craftsmen usually hired a few wage labour and worked with them and in a way behaved like capitalists of classical type. Therefore the labour was not organised, until perhaps the thirteenth century, when the system of guilds got organised. Before this date wage labour definitely existed even in an epoch of partnership businesses. Besides, there were a few instances of large industries mainly state-owned like the textile industry of Egypt throughout the middle ages, which provided scope for the private enterprise also, as the work was carried home and anybody could employ extra labour for a margin of profit. Similarly the pearl fishing in the Persian Gulf and Indian ocean, where the "Entrepreneur provided the fisher men with equipment, paid them a wage, and sold the pearls for their own profit alone".48

Such craft units worked under an ustad (master craftman) with three to four employees, including children or apprentices and wage labour. Barring a few manufactories, private or state-owned, most of the manufacturing was based on what is variously called, in

47. Like the modernisation of Egypt by Mehmet Ali (1805-49) and that of Turkey's by Ataturk Mustafa Kamal Pasha in the early 1920's.

48. Rodinson, ibid., p.52. Similar pattern is seen in Moradabad town even today, as is shown in chapters VI and VII.
Marxian terminology 'The Asiatic mode of production'. Therefore, the mode of production could not be described as either exclusively feudal or capitalist.

S. D. Goitein⁴⁹ in one of his articles had shown how the commercial bourgeoisie took shape in the Muslim world from 718-815, attained an important social position, won the respect of the other strata of society as respectable and praise worthy, which became an important sociological motive up to 1000 A.D. but could never acquire political power. From around the eleventh century onward the political domination was engineered by slave soldiers of Turkish origin which further reduced the significance of business entrepreneur, resulting into the shrinking of the capitalistic sector.

But this type of capitalistic sector existed in which subsistence production or non-monetary circuits predominated, with interventions from landowner and state in countries like ancient East, Greece, the Roman World, India, China, Japan and Medieval Europe.⁵⁰ Yet, it may be stressed that, "Not only did the Muslim world know a capitalistic sector, but this sector was apparently the most

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extensive and highly developed in history before the establishment of the world market created by the Western European bourgeoisie, and this did not outstrip it in importance until the sixteenth century\textsuperscript{51}. If this class in Muslim Middle Ages did not develop after sixteenth century at a scale at which European and Japanese contemporaries reached, it was due to factors other than ideological-political, social and economic\textsuperscript{52}.

The march of capitalism in these countries was hindered by the relatively higher density of population with cheap labour supply, requirement of strong central state to regulate agriculture production, unpredictable successions of historical circumstances, especially created by the Central Asia invasions. Therefore, the fortunes of the economic structures oscillated with political upheavals, especially so after 1250 A.D., when Seljuks, Mamluks and Ottomans ruled the destiny of these countries. Bound up with the Middle East and Central Asian countries were the states of South Asian and South East countries, like India, Indonesia and Malaysia, where Muslim domination had acquired

\textsuperscript{51} ibid., p. 56

\textsuperscript{52} Haffar, Ahmad R., 'Economic Development in Islam in Western Scholarship, Islam and Modern Age, Vol. 6, No.2, May 1975, pp. 5-22, on p.9 where he refers to a study of Maxime Rodinson showing that the resource basis of the Middle East Europe were different and explains the poor capitalist development of the former.
substantial proportions. But the relatively lower levels of entrepreneurship in these countries, Muslim or non-Muslim, were nothing to do with the Islamic ideology. The examples of China and Japan during the Middle Ages can be cited as examples to support this view.

After the ascendance of the European civilisation and decadence of the Muslim civilisation, sixteenth century onward, led to colonialisations of the countries of Asia and Africa, which brought further prosperity to the European colonial countries bringing about strong entrepreneurial class in those countries at the expense of the colonies. This led to the decay of indigenous industries and crafts thereby halting the economic development of the colonies. This cultural contact with two distinct socio-economic structures created, over a period of time, socio-economic tensions. Paradoxically, to sustain the colonies the natives were educated and trained in the new ways of administration, and law, but the native industries were neglected until the end of First World War. This educated elite, trained as it was in European type of rationality, started questioning the exploitation of the colonies by the 'Central economies', and carried a desire for independence and economic development.
In the Muslim world, excepting Egypt under Mehmet Ali (1805-49) who introduced state-owned industries, 1816 onward, and Turkey under Mustafa Ataturk during early twentieth century, industrial awakening started after Second World War, especially when oil acquired a strategic importance. In either of these countries, if the private entrepreneurship did not emerge, it was because of economic and historical reasons, and that is the reason the state had to take the lead. The lack of investable capital, shortage of technicians and managers, lack of infrastructural development, and historical and political instability were the main factor that inhibited the private initiative in these countries, including almost all the Asian countries, where capitalistic development remained at lower levels, barring a few exceptions like Japan and China.

Rodinson concludes that the essence of Islam has nothing to do with the lack of entrepreneurship and capitalist development. Since the practice of riba (usury), remained prevalent directly or indirectly (through hiyal), throughout the middle period up to the present day.

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53. For the influence of Islamic ideology on the countries of the Middle East, see Rodinson, op. cit., pp. 118-184.

Muslim world, including the countries like Saudi Arabia (despite a legislation against usury) and Pakistan (whose constitution of 1956 contained proclamation to ban interest), and notwithstanding the co-operatives with small fortunes operating for interest-free loans in Indian subcontinent. Although the non-Muslim minorities provided a respite against the Sharia law on usury. Similarly, he also notes, "it is significant that nobody has dared even to claim that Muslim capitalists have shown any special humanity towards the wage workers whom, in Maxist terminology, 'they exploited'\textsuperscript{55}. The child labour also flourished under Muslim capitalism no less than under Christian variety\textsuperscript{56}.

Rodinson further emphasised that the concept of private property, social solidarity, mutual aid and communal way of life were never specific to Muslims alone but were common to most other religious or ethnic groups. Therefore, the fiqah or Muslim law regarding these issues, did not create institutions of any consequence for capitalist development, more than an ideology, religious or secular.

\textsuperscript{55} Rodinson, op. cit., p. 165.

does without enforcement of the values. 57 To conclude his views on the topic, "In any case, these percepts (values enshrined in scriptures) have hitherto played no role in orienting countries towards socialism or state economy. They have played no role in checking or modifying penetration by capitalist economy. There has been no special Muslim road for capitalism. It may be that there will in the future prove to be Moroccan, Algerian, Egyptian, Arabian, Turkish and Iranian roads to socialism. It is highly unlikely, however, that their chief characteristics will owe very much to the Muslim religion."58

In a separate study on Weber and Islam, Turner showed that the underlying motives of the Islamic society underwent change depending on the political and economic conditions. He stated that "The tension between urban morality of Islam which finds its highest expression in Sharia and the tribal tradition of manly courage, independence and strength is present from the origins of Islam itself".59. He considered that early Islam was a triumph of Meccan merchants and financiers over tribal anarchy and that the early Islamic leadership came from the

57. ibid., pp. 181-182.
58. ibid., p. 84. Similar conclusions are arrived at by Van Leur, op.cit, p. 112
59. Turner, B.S. op.at., p.141.
merchant elite of Mecca. This urban vocabulary of motives-moral sternness, its emphasis on law and order and an individual responsibility - flourished with the growth of commercialism under Ummayyads and during the first two centuries of Abbasid rule. Therefore, there was enormous ethical, artistic and industrial inventiveness and expansion.

Thereafter the emergence of a foreign military elite, growth of partrimonialism, curtailment of Islamic conquests, threats of Crusades and the internal dissent led to patrimonial leadership sought for an articulate orthodoxy, indoctrination and social control. Innovation (bida) had become a criminal activity, closed the gate of ijtihad (reasoning) but taqlid (imitation) became preponderant motive. These were even more enforced under the Mamluks, seljuqs and Ottomans. Thus fatalism, imitation and passivity ruled. These were further reinforced by the growing Sufism. Then there arose reform movements due to the encounter with the West and the capitalism. The set of motives prescribed were ascetism, activism and responsibility, derived from early period of Islam and interpreted in modern context. Yet the parallel between the

60. ibid., p. 141

ascetism of the puritan sects and ascetic doctrines of Muslim intellectuals was superficial and derivative. 62.

From the ongoing it is clear that the history of Muslim countries did not support the 'ideal types' either of an entrepreneur or the society, as was stated in previous section, but for a brief period upto the beginning of dynastic rule of Ummayyads. The Islamic 'ideal types' underwent changes according to the exigencies of the times, displaying different value systems at different stages of history. Despite the protests from the ulemas and jurists, the religious institutions could not be evolved in accordance with the tenets of Islam, and were always gripped by the existential needs of the age.

But historical studies have their limitation. These may, at best, capture the general trends, which are highlighted through the documents or by historians. There may still be very wide differences between the conclusions of the historical study and the contemporary reality. Therefore, there is a great need to examine the problem empirically. However, there is not much literature on Muslim entrepreneurship based on empirical studies. The

present study addresses the problem in a limited context as mentioned in the introductory chapter.

It may also be noted that so far nothing has been stated about the definition and characteristics of entrepreneurship and the environment. In the next chapter a brief review is made of the existing literature on entrepreneurship before stating precisely the hypotheses of the study, which this review would help.