

Islamic Teachings, Institutions and Islamicity Indices

Introduction

Today, Islam is the most misunderstood religion in the world. On the Western Main Street, Islam is perceived as a perverted religion that abhors freedom and nurtures oppressive rulers, with corruption and an opulent lifestyle for a privileged few. Islam is viewed as a harsh, militant and barbaric religion that was spread by the sword and oppression, resulting in backward political, social and economic systems. Westerners presume that Muslim anger, frustration and envy have led extremists among them to lash out with acts of terror against the West. These presumptions have in turn buoyed the popularity of Islamophobic politicians around the world whose platforms contain policies to ban Muslim immigration and refugees and in time may even require the registration of their Muslim citizens and residents. While some Muslim communities are simply underdeveloped, others are in turmoil, with extremists murdering innocent Muslims and non-Muslims. If even a small fraction of what we see were indeed the message of Islam, then the world would have good reason to shun Islam and to prepare for the epic struggle that some Western political leaders are already preaching. If the dire state of many Muslim countries and the behavior of Muslim extremists is not a reflection of Islam, what then explains the dire landscape of Muslim countries and of Muslim behavior, and how can it be reversed? We must begin with an introduction to Islam and its teachings.

What is the source of Islamic teachings and where should we turn to discover the pure tenets of the religion? Clerics, rulers, and extremists are not the source of Islam. These self-appointed purveyors of Islam have throughout the centuries invariably packaged that which serves their own personal interest and agenda throughout the centuries. As a result and because of the publicity rulers, clerics, extremists and terrorists receive, this distorted and packaged delivery of Islam has become the face of Islam in much of the world. Simultaneously and unfortunately, whether because of oppression from rulers or laziness that excludes personal study and learning, many Muslims have followed one or more of these false ‘prophets’ and their neatly packaged doctrines. But Muslims should read, discuss and debate the teachings of their religion without the fear of persecution from self-appointed rulers and clerics. Allah has endowed humanity with the gift of freedom to choose in all dimensions of life—to study, to learn and to perfect the self on this temporary plane of existence in preparation for the Hereafter—and even to follow or reject Him, the Almighty. If the Almighty, who is all-powerful, had wanted to, He could have created humans as perfect beings who automatically followed his dictated path. But in such a ‘perfect’ world human dignity and morality would have little meaning.

The source of Islam has been the same for roughly 1400 years—The Holy Qur’an and the *Hadith* (the teachings and practices) of the Prophet. The two go hand-in-hand and are inseparable. The Qur’an is the immutable, abstract and theoretical presentation of Islam and the life of the Prophet is its interpretation at his time on this earth, which may be changed and adapted to prevailing conditions. Thus, first and foremost, the foundation, or the fountainhead, of Islam is the Qur’an. Second, the Prophet Mohammad’s interpretation and practice point to the Qur’an’s application in the real world. The Qur’an and the practice of the Prophet provide humankind with the foundation and the rules to build just and flourishing societies.

We must emphasize that Islam is a rules-based system. Western writers have delineated the reasons why rules and their observance are important. Their reasoning, though similar, is very different from the reasoning in Islam. There are numerous reasons for rules in Islam: to establish

social order; to delineate for individuals what they can do as opposed to what they wish to do; to reduce uncertainty and promote predictability; to allow the appropriate formation of expectations; to promote coordination, social cohesion and economic efficiency by reducing transaction cost; to provide a reference structure against which the fairness and justice of individual behavior can be assessed; and promoting equal treatment, human dignity and collective justice in society. Thus we begin with Islam's foundational teachings; we indicate the rules that follow and then we go on to discuss the important institutions that these teachings and rules necessitate.

Principle Teachings, Rules of Behavior and Institutions in Islam

(i) The Unity Of Creation and Freedom of Choice

There are four fundamental concepts in the Islamic system. The first is *Walayahh*, the unconditional, dynamic, active, ever-present Love of the Supreme Creator for His Creation manifested through the act of creation and the provision of sufficient resources to sustain life. Humans reciprocate this Love by extending their love to other humans and to the rest of creation. The pursuit of *walayahh* is love manifested through knowledge and the upholding of justice. The second is *karamah*, human dignity. The Qur'an considers humans to be the crowning achievement of the Creation. An important facet of this is the freedom that has been gifted to humans—to think, to decide and to choose their path in life, while supporting good and opposing evil. The third is the *meethaq*, the primordial covenant in which all humans are called before their Supreme Creator and asked to testify that they recognize Him as the One and Only Creator and Sustainer of the entire Creation and all other implications flowing from this testimony. The fourth concept is *khilafah*: agency-trusteeship. *Khilafah* is the empowerment of humans by their Creator as agent-trustees to extend *walayahh* to one another, materially through the resources provided to them by the Creator, and non-materially through unconditional love for their own kind as well as for the rest of creation, which can be best displayed by the pursuit of unity and justice.

A number of verses of the Qur'an affirm the unity of mankind [1: 4; 13: 49; 28: 31].¹ These verses plus those dealing with the availability of resources as well as human endowments are the foundation of the legislative framework of rules (institutions) for the socio-economic-political behavior of humans. The most important dimension of the adoration of Allah is removing barriers on the path of other humans. For example, poverty is a barrier for the poor on their path to reach perfection. Removing these barriers from their path is a demonstration of the *walayahh*, as in politics by ensuring that no human is deprived of the freedom of choice by standing up for justice, which includes supporting just rulers and opposing unjust rulers.

(ii) Human and Economic Development in Islam

The concept of development in Islam has three dimensions: individual self-development called *rushd*, the physical development of the earth called *isti'mar*, and the development of the human collectivity, which includes both. The first specifies a dynamic process in the growth of the individual toward perfection. The second specifies the utilization of natural resources to develop the earth to provide for the material needs of the individual and humanity. The third concept refers to the progress of the human collectivity toward full integration and unity. Fundamental to all three is the belief that the Supreme Creator has provided the ways and means to facilitate the achievement of all three dimensions of development.

With regard to the physical development of the earth, the Islamic view would suggest that the Almighty would not leave humans without sufficient resources to perform the duties expected of them. Consequently, the assumption that at a general level humanity (macro) faces scarcity would

be untenable. This, however, may not be the case at the micro level.ⁱⁱ The Islamic view of scarcity is thus in contrast to conventional economics, where there is never enough to go around. In Islam scarcity is not the root cause of excessive inequality and distributional injustice; instead it is selfishness, the misuse of resources and human greed that cause scarcity, poverty, misery and destitution. This is what creates social divisions, not natural scarcity. Such an institutional structure combined with a poorly functioning process of self-development provides no opportunity for the self to transcend the focus of the self on “me and mine.” Self-development is necessary to transcend selfishness. The Qur’an clearly states the need for “a revolution in feeling or motivation.” [11: 13] The revolution, as defined comprehensively throughout the Qur’an, is a change toward compliance with the rules of just conduct for the individual. According to Islam, there are sufficient resources if individuals *share*. The notion of sharing is central in Islam, as it demonstrates the unity of mankind and the unconditional love of the Almighty’s creation. With regard to exhaustible resources, Islam teaches that these are the heritage of all generations and current generations must preserve the right of future generations. Robert Solow reached a similar conclusion in conventional natural resource economics when he said: “The finite pool of resources (I have excluded full recycling) should be used up optimally according to the general rules that govern the optimal use of reproducible assets. In particular, earlier generations are entitled to draw down the pool (optimally, of course!) so long as they add (optimally, of course!) to the stock of reproducible capital.”ⁱⁱⁱ

When it comes to the development of the human collectivity, the Qur’an recognizes legitimate authorities, namely, selected rulers and governments. The important point here is that those in positions of authority must be rule-compliant if they are to oversee the implementation of the prescribed rules.

(iii) Economic Structure and the Rules of Behavior in Islam

Corresponding to the objectives of the messengers and prophets, humans are to listen to the revelation with the aim of internalizing the rules of behavior (institutions) prescribed in the message, cleanse themselves of character traits unworthy of the human state, develop the earth (Qur’an, 11:61), establish social justice (57:25), and finally, move from darkness into light (2:257; 5:16) and help others of their kind to do the same. Humans can achieve all these outcomes by being fully rule-compliant. Thus, we turn to important Islamic tenets and ideals in economic behavior and list some of the rules for: property rights, market behavior, exchange and trade, contracts and trust, and rules regarding distribution and redistribution.

During his ten years in Medina, the Prophet developed numerous rules to guide economic and social behavior: rules of governance, accountability and transparency; rules regarding property ownership and protection; rules regarding the formation and the structure of the market; rules concerning the role of the state in overseeing the market; rules of behavior by market participants; rules regarding distribution and redistribution; rules related to education, technological progress and society’s infrastructure; and rules regarding sources of government income and its expenditures. The central axis of design and operation of these rules is justice. The Prophet taught the responsibility of the individual and the collectivity. He particularly emphasized the equality of individuals before the law, or what today we call the rule of law.

The Prophet clarified rules of property rights by a set of rules regarding rights and obligations. The first rule governing property relations is that everything in creation, including humans, is the property of the Creator. He has created natural resources for the benefit of all of mankind. The second rule asserts the rights of the human collectivity to these resources: *He it is who created for you all that is in the earth* [29: 2]; and: *Do not give your resources that Allah has made you*

(responsible as) its preserver on to the foolish [5: 4]. These two verses, and a number of others, establish the right of access to these resources by all humans. The third rule establishes that once the property is accessed and combined with work by individuals, a full right of possession of the resulting product is established for the individual without either the Creator losing His Original Property Right or the collectivity losing its initial right of possession to these resources. The fourth rule recognizes only two ways in which individuals gain legitimate property rights: (i) through their own creative labor, and/or (ii) through transfers—via exchange, contracts, grants, or inheritance—from others who have gained the property rights title to an asset through their own labor.

Fundamentally, therefore, work is the basis of the acquisition of property right. Work, however, is not only performed for the purpose of satisfying one's desires, it is considered a duty and an obligation. The importance of work has been emphasized in over 300 Qur'anic verses. An important corollary of the importance of work is a fifth rule that forbids gaining instantaneous property rights without having worked to earn them, with the exception of lawful transfer. This rule prohibits property rights gained through gambling, theft, earning interest on money, bribery, or, generally, from sources considered unlawful [188: 2; 29: 4]. Although Islam prohibits debt-based contracts, it embraces a contract of exchange that allows risk sharing and consumption smoothing [275: 2; 29: 4].

Just as work is a right and obligation of all humans, so is access to and use of natural-physical resources provided by the Creator for producing goods and services. If an individual, for whatever reason, lacks the ability to work, it does not deprive him of his original right to resources granted to every human. Therefore, the rule of the "immutability of property rights" constitutes the sixth rule of property relations. Before any work is performed on natural-physical resources, all humans have an equal right and opportunity to access these resources. When individuals apply their creative labor to resources, they gain a right to priority in the possession, use and exchange of the resulting product without nullifying the original property rights of the Creator or the rights He granted to all humans in the final product or the proceeds from its sale. The duty of sharing the product or the income and wealth proceeding from its sale constitutes the seventh rule of property relations, which relates to property ownership rights as a trust. This rule is operationalized through the ordained duties imposed on income and wealth, which must be paid to cleanse income and wealth from the rights of others. This is perhaps the reason why the Qur'an refers to these duties as *zakat*, from the root word meaning cleansing and purification, akin to tree pruning that simultaneously rids the tree of its undesirable parts and allows its further growth. The eighth rule of property relations imposes limitations on the right of disposing of property—a right that is presumably absolute in the Western concept of property rights. In Islam, individuals have an obligation not to waste, squander, or destroy, or to use property for opulence or unlawful (*haram*) purposes, such as bribery.

Once the specified property obligations are appropriately discharged, including that of sharing in the prescribed amount and manner, property rights on the remaining part of income, wealth, and assets are held sacred and inviolate and no one can force their appropriation or expropriation. While these eight rules strongly affirm mankind's natural tendency to possess—particularly products resulting from individual labor—the concomitant property obligations promote interdependence and cohesion among the members of society. Private initiative, choice and reward are recognized and acknowledged, as legitimate and protected but are not allowed to subvert the obligation of sharing.

The Qur'an fully acknowledges the important contribution of markets and places great emphasis on contracts of exchange and trade. The Prophet implemented a number of policies to enhance the

market mechanism and to encourage the expansion of trade. While Medina had its own existing market, the Prophet, with the advice of the leading merchants, selected a location for a new market for Muslims. The Prophet prohibited the imposition of taxes on transactions and individual merchants. He also implemented policies to encourage trade among Muslims and non-Muslims by creating incentives for non-Muslim merchants in and outside of Medina. The rules included, *inter alia*, and in addition to those mentioned above, no restrictions on international or interregional trade (including no taxation of imports and exports); the free spatial movement of resources, goods, and services from one market to another; no barriers to market entry and exit; free and transparent information regarding the price, quality, and quantity of goods, particularly in the case of spot trade; the specification of the exact date for the completion of trade where trade was to take place over time; the specification of the property and other rights of all participants in every contract; guaranteed contract enforcement by the state and its legal apparatus; the prohibition of the hoarding of commodities and of productive resources for the purpose of pushing up their price; the prohibition of price controls; a ban on sellers or buyers harming the interests of other market participants, for example, by allowing a third party to interrupt negotiations between two parties in order to influence the negotiations to the benefit of one of the parties; and a ban on the shortchanging of buyers, for example, by not giving full weight and measure. The moral-ethical foundation of market behavior prescribed in the Qur'an and implemented by the Prophet was designed to minimize the risk for participants and increase the efficiency of exchange. Moreover, rules specified in the Qur'an regarding faithfulness and upholding the terms of contracts and the knowledge of their enforcement increased certainty and reduced the cost of contracts. The Prophet would advise the participants to go beyond mere rule-compliance and to treat their fellow humans with beneficence.

The Prophet is reminded in the Qur'an that the crucial aspect of his own mission, and that of the prophets before him, is to establish justice. In practical terms, the Qur'an is clear that this means creating a balanced society that avoids extremes of wealth and poverty, a society in which all understand that wealth is a blessing afforded by the Creator for the sole purpose of providing support for the life of all members of society. While the rich consume opulently, the poor suffer from deprivation because their rights in the wealth of the rich are not redeemed.^{iv} Islam ordains that what is left after one has reached a modest living standard must be returned to the less able members of society as an act of redeeming their rights [7: 57]. Therefore, while Islam ordains hard work, the development of the earth and natural resources provided by the Creator, and the use of proceeds for the satisfaction of the needs of all humans, it prohibits the concentration of output and wealth in the hands of a few.^v Operationally, such an economy can be defined as: the collection of institutions, that is, the rules of conduct (described above) and their enforcement characteristics, to deal with the allocation of resources, the production and the exchange of goods and services, and the distribution and redistribution of the resulting income and wealth to establish balance and justice in society.^{vi}

Although the Qur'an acknowledges that in His wisdom the Almighty has created humans with differences, it also emphasizes that these differences are only apparent and that all humans are the same. In a society in which there is poverty amidst plenty, the roots of inequality must be traced to distortions in the pattern of resource endowments, in the workings of the exchange and/or distribution mechanisms and/or in the redistributive framework. The most fundamental among these is the pattern of resource endowment. This pattern determines the formation of individual preferences, which, in turn, determine behavior in the rest of the economy and in society. Individual preferences are not only influenced by the pattern of resource endowment, but also by the "ethos" of society.

Allah has ordained equal access to resources of all humans and that the resulting income and wealth, which, by implication from the earlier principle, are also His blessings, must not be hoarded, but must be shared with those who are less able to access the initial resources.^{vii} This expenditure is over and above the mandatory portion of net income and wealth collected by the legitimate authority (*zakat*, *khums* and *kharaj*).^{viii} These charges are referred to as *sadaqat* from the root word meaning truthfulness and sincerity. Their faithful discharge indicates the strength of the sincerity of a person's belief. These expenditures are essentially the repatriation and redemption of the rights of others in one's income and wealth.

The next set of rules is for those covering contracts and trust. The key to market operation is decision-making autonomy. The collection of devices that organize and support transactions—channels for the flow of information; laws and regulations that define property rights and enforce contracts; and the informal rules, norms, and codes that help markets self regulate—collectively referred to as market design. Islam advocates a design that allows markets to keep transaction costs low. The rules prescribed by the Law Giver and interpreted and implemented by the Prophet were intended to reduce transaction costs, a factor that is important for investment and economic activity in every economic system. Market supervisors, appointed by the Prophet, ensured that there was no fraud, cheating, withholding of information, or other practices that could lead to the malfunctioning of the price mechanism. Each physical segment of the market was specialized with respect to products. Prices were determined by competition among suppliers and every market was intensely supervised by a person called *Muhtasib*, a position and practice initiated by the Prophet. Market supervision was supplemented by guilds of each profession and trade.^{ix} Supervisory devices were based on the rule-enforcement mechanism of commanding the good and forbidding evil.

There is a strong interdependence between contract and trust; without trust, contracts become difficult to negotiate and conclude, and costly to monitor and enforce. When and where trust is weak, complex and expensive administrative devices are needed to enforce contracts. When and where property rights are poorly defined and protected, the cost of gathering and analyzing information is high, and trust is weak, it is difficult to clearly specify the terms of contracts and enforce them. In these cases transaction costs—that is, search and information costs, bargaining and decision costs, contract negotiation and enforcement costs—are high. Where and when transaction costs are high, there is less trade, fewer market participants, less long-term investment, lower productivity and slower economic growth.

In a very important tradition, the Prophet says: “Three (behavioral traits) if found in a person, then he is a hypocrite even if he fasts, prays, performs bigger and small pilgrimages, and says ‘I am a Muslim’: when he speaks, he lies; when he promises, he breeches; and when trusted, he betrays.”^x Thus, Islam demands much more of Muslims and their community than does what is commonly referred to as the Five Pillars of Islam—prayers, fasting, alms, pilgrimage and declaration of faith—a fact that supports our quest to construct indices that reflect the degree of rule compliance of Muslim communities.

(iv) The Islamic Vision of Distributive Justice

The concept of distributive justice—the “just” division of the economic pie (production and wealth) among the members of society that includes owners of capital, workers, those that cannot provide for themselves and the animal species—has evolved from the time of Aristotle, is evolving and is far from settled, and while some see a role for governments in its enforcement others do not.

Based on a utilitarian concept, welfare economics developed the analytic position that in such a system in which prices were determined by the free interplay of supply and demand, all factors of production would receive rewards commensurate with their marginal contribution to the production of goods and services. Vilfredo Pareto demonstrated analytically that in such a system “social welfare” would be optimal. Beyond this point, any attempt to increase rewards for any factor of production would lead to sub-optimality. Therefore, at such equilibrium, actions or policies to move away from such a market solution could be justified if, and only if, at least one person were made better off without anyone else being made worse off. This simplified version of the Pareto rule is, in effect, the criterion of just distribution based on utilitarianism.

Unhappy with utilitarianism, John Rawls searched for an alternative principle of distribution relying on the concept of the social contract—a procedural approach that assumes some key features of what is fair and impartial in order to arrive at what would be considered a just outcome.^{xi} Rawls settles on two principles of justice, where members of society, with different concepts of good and just, can all agree to cooperate with each other and form a social compact because of mutual advantage and not because of love or pursuit of justice. The first principle (the Liberty Principle) guarantees the right of each person to have the most extensive basic liberty compatible with the liberty of others. The second principle (the Difference Principle) states that social and economic positions are to be organized such that they are (a) reasonably expected to be to everyone's advantage, and (b) attached to positions and offices open to all. Sequential ordering is necessary for Rawls to rule out the possibility that a departure from the first principle of equal liberty could or would be compensated by greater economic advantages; these principles apply to the “basic structure of the society,” defined as the bifurcation of social institutions, one set of institutions “define and secure the liberties of citizenship” and the other “specify and establish social and economic equalities.” He considers people in the Original Position, where each person wants to pursue his own advantage in a procedure that is made fair to all because of moral impartiality and a sense of fairness through the Veil of Ignorance with no information on their own race, gender, class, birth, age or where they will end up in the choice that they make about the rule of distribution.

Rawls argues that the Difference Principle would lead the unknowing chooser (as to whether she or he would happen to end up in the least desirable position) to choose that allocation that maximizes the opportunities for the group of citizens with minimum advantage. Assuming a Veil of Ignorance, the logic of this choice is clear. Since no one knows whether or not they will end up being a member of the least privileged group and since all are rationally self-interested, they would agree that all opportunities should be distributed equally unless unequal distribution would benefit the least advantaged. This principle then allows comparisons between societies with respect to their distributive justice. A society is just if the least advantaged in the society are at least as well off as the least advantaged would be in any other alternative. Rawls' solution is understandable, but is it just? Can we call a solution just if there are obscene inequalities? These inequalities in the Rawlsian scheme are essentially a result of the fact that the most capable members of society will not work as hard if their tax rate on additional income (above the Rawlsian solution) is increased. If this is the case, what has happened to individual empathy, morality and societal cooperation? Islam demands much more in its conception of justice.

The Qur'an does not afford a separate or stand-alone theory of justice theory of justice. Instead, the Qur'an indicates that compliance with rules of behavior (what some might call duties) handed down in the Qur'an and interpreted by the Prophet *assures* the emergence of justice as a *natural outcome* of the practice of a rule-compliant society. Justice and a just political, social and economic system is thus an essential outcome of the Islamic system if Muslims comply with Divine rules. Simply said, a society will be just in Islam if the rulers and the people are rule-

compliant. And in summary we could say that Islam has two simple propositions for a just society: (i) place things in their rightful position and (ii) give everyone their rightful due. The first can be merged into the second. The rightful place and right dues are guaranteed by compliance with the rules.

The Prophet is constantly reminded in the Qur'an that the crucial aspect of his own mission is to establish justice. In practical terms, the Qur'an is clear that this means creating a balanced society that avoids extremes of wealth and poverty, a society in which all understand that wealth is a blessing afforded by the Creator for the sole purpose of providing support for the life of all members of society. And in the widely acknowledged words of the Prophet: "*Authority may survive disbelief but not injustice.*" In the Qur'an, Allah emphasizes how He Loves truth and justice: "*The word of thy Lord doth find its fulfillment in truth and in justice: None can change His words: for He is the one who heareth and knoweth all.*"^{xii} Islam did not invent theories of justice but *is* itself justice.

The central goals of Islam for the society are the welfare of all its members and socioeconomic justice. All members of an Islamic society must be given the same opportunities to advance; in other words, a level playing field, including equal access for *each* member of society in *every* generation to the natural resources provided by Allah. For those for whom there is no work and for those that cannot work, society must afford the minimum required for a dignified life: shelter, food, healthcare and education. For those who cannot access the natural resources provided by Allah, society must preserve their rights, while preserving the rights of future generations. Thus Islam advocates an environment where behavior is molded to support the goals of an Islamic society: societal welfare and socioeconomic justice, with the goal of making humankind one, confirming the Unity of Allah's creation. It is with the Unity of Creation as the goal that the Qur'an advocates risk sharing as the foundation of finance to enhance trust.

Distribution takes place post-production and sale when all factors of production are given what is due to them commensurate with their contribution to production, exchange and sale of goods and services. Redistribution refers to the post-distribution phase when the charge due to the less able are levied. These expenditures are essentially repatriation and redemption of the rights of others in one's income and wealth. Redeeming these rights is a manifestation of belief in the Oneness of the Creator and its corollary, the unity of the creation in general and of mankind in particular. It is the recognition and affirmation that Allah has created the resources for all of mankind who must have unhindered access to them. Even the abilities that make access to resources possible are due to the Creator. This would mean that those who are less able or unable to use these resources are partners of the more able. The Expenditures (*sadaqat*) intended for redeeming these rights indicate the strength of the sincerity of a person's belief (Qur'an, 2:26; 2:272). The Qur'an insists that these are rights of the poor in the income and wealth of the rich; they are not charity (Qur'an, 91:26; 38:30; 70:25; 19:51; 2:177). Therefore, the Qur'an asks that extreme care be taken of the recipients' human dignity of which the recipients themselves are fully aware and conscious to the point that they are reluctant to reveal their poverty.

Given the rules governing property rights, work, production, exchange, markets, distribution and redistribution, it is reasonable to conclude that in a rule-complying and Allah-conscious society, absolute poverty could not exist. It can be argued that there are no topics more emphasized in Islam than justice and poverty and the responsibility of individuals and society to eradicate poverty. The Prophet said that poverty is near disbelief and that poverty is worse than murder.^{xiii} It is almost axiomatic that in any society in which there is poverty, Islamic rules are not being observed. Thus rulers who live in opulence are *prima facie* not rule compliant, but those who do so while others live in poverty are also unjust and illegitimate.

(v) Islamic Finance

Turning to Islamic finance, its central proposition is risk sharing, which allows both parties to reduce the risk of income of volatility and to allow consumption smoothing, a major outcome of risk sharing. It is generally recognized that equity participation provides a first-best instrument of risk sharing. While the beneficial and ethical attributes of Islamic finance are evident, most observers have largely ignored the economic benefits. Indeed, in the years between the two great wars, eminent Western economists, such as Keynes, raised serious questions about the stability of conventional finance. More recently, a number of economists are again questioning the stability assumptions of conventional finance and banking, its debt-based characteristic and leveraging, and its contribution and the impact of financial crises on income and wealth inequality.

(vi) Institutions and their Importance in Islam

Douglass North (1990) has argued that the key to the performance of high performing economies is their low transaction costs, which in turn is the result of the institutional structure that they had developed over a period of more than two centuries. Transaction costs are an impediment to economic and social progress and prosperity. They arise because getting access to information is costly and held asymmetrically by parties to an exchange. It can be argued that the collectivity of institutions provides society with the social capability to establish a stable order by reducing uncertainties or ambiguities members of society face.

Poor performance, North believes, is due to path-dependencies resulting from past institutional structure, encompassing cultural heritage, which impose “severe constraints on the ability to effectuate change.” This is because path-dependence may be the result of the institutional structure that reflects a belief system that is difficult to change, either because the needed changes that improve economic performance run counter to the belief system or these changes pose a threat to existing political or business leaders. Needed changes in the institutional structure may also be difficult because although formal rules can be changed by fiat, social norms may be less flexible and their enforcement characteristics respond much more slowly to policies to change them. Although acknowledging that improvement in economic performance may be slow to develop because of cultural factors and path-dependency, North nevertheless envisioned an ideal political-economic institutional structure that, in his view, has great potential for achieving good economic performance and societal well being. In addition to the institutions (rules) recommended by North, Islam requires institutions that monitor and enforce distribution and redistribution, that eradicate poverty and provide for those who cannot provide for themselves and who are still in need after individuals have done what is required of them, and insure a level playing field with equal access to high quality education and healthcare.

Finally, we must emphasize the capstone rule in Islam—the rule “commanding the good and forbidding evil,” applicable to individuals and society, assures that leaders are selected by the community and are answerable for their actions; leaders acquire legitimacy by being more rule-compliant than members of the community; and leaders must be confronted if they do not uphold Divine Rules and enforce them. In turn, this capstone rule assures the full and active participation of all in the affairs of society. The existence of absolute and relative poverty, along with significant income inequality, is evidence of rule-violation and governance failure, for which members of society are, individually and collectively responsible.^{xiv}

Concluding Comments on the Islamic System

Allah could have created a world of total perfection inhabited by “perfect” humans that had no

free will. If He had done so, human dignity would have been empty of any meaning. He gave humans freedom. Islam is founded on *freedom, equality and justice*; and thus the concept of justice in Islam is founded on freedom and equality of humankind. He gave humans bountiful resources that, if managed well and shared, could satisfy all human needs. While the Creator is the ultimate owner of all things in this world, He has placed humans as His trustees.

The Islamic economic system is market based, but has little else in common with today's capitalist system, which is in turn very different from Adam Smith's concept as Smith included a heavy dose of morality and empathy for others as discussed in his other book—*The Theory of Moral Sentiments*. Capitalism has institutions that do not exist in Islam or are prohibited, such as the unlimited accumulation of private property and wealth, debt with associated interest, consumerism with its wastefulness, extravagant and opulent consumption, mal-distribution of income, massive poverty, growing financial and economic exclusion and all the adverse impact of environmental degradation.

Islam does not have a separate theory of justice. In Islam, justice thrives and proliferates when everything is placed in its rightful place and is achieved by simply following the divine rules. In order to generate genuine debate inside Muslim countries and thus be effective in bringing about needed change, the criticisms of their policies and practices must be framed around the contradictions and inconsistencies of the behavior of these regimes against the *framework they are espousing*. In this way, first establishing the Islamic framework for a just society and then proceeding to compare policies and practices to this framework, any errors or failures can be readily identified and attributed. It is the institutional structure of society and its policies that allow a pattern of wealth accumulation, creating abundance for a few and scarcity for the many. This is what creates social divisions, not natural scarcity. It is the institutional structure of society that determines the resource endowments of its members, which, in turn, determine the structure of their preferences and ultimately their economic behavior. Such an institutional structure combined with a poorly functioning process of self-development provides no opportunity for the self to transcend the focus of the self on “me and mine.” Self-development is necessary to transcend selfishness. The Qur'an clearly states the need for “a revolution in feeling or motivation.” Leaders and rulers are unlikely to change unless Muslims who have worked on their own development force their hands and compel their leaders to change course or be replaced.

In a rule-abiding Muslim community there must be freedom, no poverty alongside wealth, accountability of rulers and governments and socio-economic justice. It is crucial to note that in most Muslim countries sustained and meaningful change will come in an Islamic context. It is for this reason that prevailing conditions and progress should be assessed in an Islamic context. It is our hope that Islamicity indices provide such a context and the scaffolding for needed reforms in Muslim countries. The elements of Islamicity indices and summary Islamicity rankings are attached. The elements of these indices are based on Qur'anic teachings and the practice of the Prophet. Islamicity indices indicate that liberal and socially conscious non-Muslim countries better reflect Islamic values than do Muslim countries. Muslim countries need drastic institutional reforms—social, economic and political—to realize their potential and reverse the centuries of missed opportunities.

Islamicity Indices and their Elements

I. Economic Islamicity Index

1. Economic Opportunity and Economic Freedom

- 1.1. Business Environment
- 1.2. Economic Regulation Indicator
- 1.3. Ease of Doing Business Indicator
- 1.4. Economic Freedom Indicator
- 1.5. Business and Market Freedom Indicator

2. Job Creation and Equal Access to Employment

- 2.1. Equal Employment and Job Creation
- 2.2. Labor Freedom

3. Property Rights and Sanctity of Contracts

- 3.1. Property and Contract Rights

4. Provisions to Eradicate Poverty, Provision of Aid and Welfare

- 4.1. Poverty Effectiveness Indicator
- 4.2. World Giving index
 - 4.2.1. Helping a stranger
 - 4.2.2. Donating money
 - 4.2.3. Volunteering time
- 4.3. Social Welfare

5. Supportive Financial System

- 5.1. Investment Freedom
- 5.2. Financial Freedom
- 5.3. Monetary Freedom
- 5.4. Financial Market Risk Indicator

6. Adherence to Islamic Finance

- 6.1. Absence of Interest Indicator
 - 6.1.1. Central bank discount rate
 - 6.1.2. Commercial bank prime lending rate

7. Economic Prosperity

- 7.1. Economic prosperity
- 7.2. Price Stability
- 7.3. GDP per capita
- 7.4. GDP Per Capita Average Growth Rate

8. Economic Justice

- 8.1. Income Distribution

II. Legal and Governance Islamicity Index

9. Legal Integrity

- 9.1. Legal and Judicial Integrity Indicator
 - 9.1.1. Judicial independence
 - 9.1.2. Impartial courts
 - 9.1.3. Integrity of the legal system
 - 9.1.4. Protection of property rights
 - 9.1.5. Legal enforcement of contracts
 - 9.1.6. Regulatory restrictions on the sale of real property
 - 9.1.7. Business cost of crime
- 9.2. Military Interference Indicator
 - 9.2.1. Military interference in the rule of law and the political process index

9.2.2. Reliability of police

10. Prevention of Corruption

10.1. Transparency International Indicator

10.2. Freedom from Corruption Indicator

11. Safety and Security Index

11.1. Safety and Security Index

12. The Management Index

12.1. Government Management

12.1.1. Level of difficulty

12.1.2. Management performance

12.1.3. Steering capability

12.1.4. Resource efficiency

12.1.5. Consensus building

12.1.6. International cooperation

12.2. Management of Depletable and Other Natural Resources

12.2.1. Protection of animal rights

12.2.2. Environmental health

12.2.3. Air quality

12.2.4. Water resources

12.2.5. Productive natural resources

12.2.6. Biodiversity and habitat

12.2.7. Sustainable energy

13. Government Governance

13.1. Voice and Accountability Indicator

13.2. Political Stability and Absence of Violence Indicator

13.3. Government Effectiveness Indicator

- 13.4. Regulatory Quality Indicator
- 13.5. Rule of Law Indicator
- 13.6. Control of Corruption Indicator

III. Human and Political Rights Islamicity Index

14. Human Development

- 14.1. Human development index

15. Social Capital

- 15.1. Social Capital Indicator

16. Personal Freedom

- 16.1. Personal Freedom Index

17. Civil and Political Rights

- 17.1. Civil Liberties Indicator
- 17.2. Political Rights Indicator

18. Women's Rights

- 18.1. Gender Inequality
- 18.2. Proportion of Seats Held by Women in the National Parliament
- 18.3. Ratio of women to men

19. Access to Education

- 19.1. Education Indicator
- 19.2. Education Prosperity
- 19.3. Education Equality Indicator
- 19.4. Education Effectiveness

20. Access to Healthcare

- 20.1. Life Expectancy at Birth
- 20.2. Health Quality
- 20.3. Health prosperity
- 20.4. Mortality Rate

21. Democracy

- 21.1. Global Democracy index

IV. International Relations Islamicity Index

22. Globalization Index

- 22.1. Economic Globalization Indicator
 - 22.1.1. Globalization Index
 - 22.1.2. Restrictions

- 22.2. Social Globalization Indicator
 - 22.2.1. Personal contact
 - 22.2.2. Information flows
 - 22.2.3. Cultural proximity
 - 22.2.4. Freedom of foreigner to visit

- 22.3. Political Globalization Indicator

23. Military/ Wars

- 23.1. Militarization Index

V. Overall Islamicity Index (summation of Indices I-IV above)

ⁱ Qur'anic verses are referred to in the text as [verse: chapter].

ⁱⁱ Zaman, "Toward A New Paradigm for Economics," and "The Ethical and Political Foundations of Scarcity"; Barrera; and Marglin.

ⁱⁱⁱ Solow.

^{iv} Al-Hakimi et al., 1989, Vol. 3, 211–214; Vol. 4, 203–273.

^v Al-Hakimi et al., 1989, Vol. 4, 168-179.

^{vi} Al-Hakimi et al. 1989, Vol. 6, 324-415.

^{vii} Al-Hakimi et al. 1989, Vol. 6, 93-111.

^{viii} Al-Hakimi et al. 1989, Vol. 5, 441-480; Vol. 6, 33-92.

^{ix} Metz, Chapter 26; Kister; Shihata.

^x Al-Hakimi et al. 1989; Z. Iqbal and A. Mirakhor: 35–38, 244–246, 298-302.

^{xi} Arguably, *A Theory of Justice*, by John Rawls is among the most important writings on Western political philosophy that include Plato's *Republic*, Adam Smith's *Theory of Moral Sentiments* and *Wealth of Nations*, Hobbes' *Leviathan*, Kant's *Critique of Pure Reason* and Machiavelli's *The Prince*.

^{xii} Qur'an 6:115

^{xiii} Al-Hakimi et al. 1989, Vol. 4, 278-468; Seyed Qutb.