The Moral Economy of Classical Islam: A FiqhiConomic Model

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Down out of the heaven, He sendeth water, and the wadis overflow each in its measure: So the torrent beareth (on its back) a mounting froth, akin to that froth (emitting) from what they smelted in the fire for making ornaments or wares. Thus Allah depicteth the true and the false: The froth is cast away a vanishing dross, but that which benefits mankind abides in the earth. So doth Allah coin His similitudes.

Qur’an, 13:17

The inner meaning of history . . . involves speculation and an attempt to get at the truth, subtle explanation of the causes and origins of existing things, and deep knowledge of the how and why of events. History, therefore, is firmly rooted in philosophy . . . It takes critical insight to sort out the hidden truth; it takes knowledge to lay truth bare . . .

Ibn Khadûn’s Muqaddimah

Let the sūq of this world below do no injury to the sūq of the Hereafter, and the sūqs of the Hereafter are the mosques.

Al-Ghazâlî’s Iḥyâ’

Each economy necessarily functions within the confines of a particular social framework, which is defined by its distinctive moral philosophy and legal system. What makes an economy “Islamic” is Sharî’ah: a huge corpus of moral and legal discourses, which was intended by scholars (jurists and theologians) of the second and third Islamic centuries to guide Muslims in their pursuit of a good and virtuous life (and which also qualifies them for paradise in the life after). As such, Sharî’ah defined the moral economy of classical
Islam, shaped its micro and macro institutions, and modulated its actual performance. Recently, it has become both a symbol and a basis for revivalist Islamic movements in their attempts to Islamicize their polities and economies.

The Moral/Legal Framework

Sharī'ah was molded by the theological and jurisprudential debates that began towards the end of the eighth century. The Mu'tazila, a rationalist school of kalām (philosophical theology) and self-designated as Ahl al-ʿAdl (Advocates/People of Justice), adopted a doctrine of teleological ethics and law, arguing that humans — with their divine gift of ʿaql (reason) alone — are capable not only of recognizing good and evil acts, but also of legislating good laws to regulate their lives, at least in the domain of muʿamallat (social and economic transactions). In this they were bitterly opposed by the pietistic disposition and literalist bent of Ahl al-Hadith (the Traditionists).6 The Mu'tazila gradually lost its primacy after the termination of a mihna (inquisition) enacted by Caliph al-Ma'mūn (d.218/833) in a failed attempt by the state to impose Mu'tazili theological doctrine on its officials, notably the judges. It was in the midst of a resurgent traditionalism that the Ash'arīya school was founded by a former Mu'tazilite, Abul-Hassan al-Ash'ari (d.324/935), who worked out a “reconcilement” that largely accepts the rationalist doctrine and method of the Mu'tazila, but rejects their views in the all-important area of ethics and law. In this realm, the Ash'arites accepted the Traditionists’ doctrine that “God does not command an act because the act is just and good; it is His command (amr) which makes it just and good,” as Gardet puts it. Eventually, the Ash’arīya gained ascendancy and has since become the official kalām of Sunni orthodoxy, thereby providing the theological justification for its classical legal theory of usul al-fiqh (Sources/Roots of Jurisprudence).

Intertwined with the raging theological debate, the jurisprudential debate ultimately brought about an “idealistic” concept of Sharī'ah as being an all-embracing system of “divine commands,” which the classical jurists (fuqaha) set out to construct with their theory of the four sources. Only two of these, the Qur'ān and the Prophet’s Traditions (hadith), are material sources: the former is divine, the latter quasi-divine. The third is a rational hermeneutic method that enabled the fuqahā to interpret the material sources, and extend the embrace of the sources’ positive content to span the entire range of human experience. This formal method, centering on qiyās (essentially, analogical syllogistics), was intended to safeguard the integrity of divine commands from the vagaries of personal prejudice. The entire structure of their brilliantly reasoned edifice hangs on the fourth root: Ijmā' (consensus of the jurists), an authoritative (albeit informal and dialectical) sanctioning process which was deemed necessary for adjudicating the epistemological status of the material sources as
well as the fruits of their juristic effort (ijtibād). When this highly competitive and geographically diffuse community of jurists reached a consensus, the substance of their ījmā’ was classed as ‘ilm (indubitable knowledge), and when they did not, the substance was considered zann (conjecture/opinion).

The classical jurists, who belonged to a number of competing schools (madhāhib), often disagreed, not least in the area of economic and commercial law. Nevertheless, they considered their variant opinions equally valid according to their doctrine of ikhtilāf, a correlative term to ījmā’.

The jurists also recognized that a mechanistic and strict application of their analogical syllogistics might lead to injustice. This was particularly so because the conclusion of their qiyās depended critically on the ‘illa (cogent reason); this was more of a reason in the logical sense (ratio), rather than a cause in the ontological sense (causa), or bikma. In his celebrated Muqaddimah, the jurist and philosopher of history Ibn Khaldūn (d. 808/1406) gave an incisive re-statement of the logical hazards of this classical method:

Analogical reasoning (qiyās) and comparison are well known to human nature. They are not safe from error. Together with forgetfulness and negligence, they sway man from his purpose and divert him from his goal. Often, someone who has learned a good deal of past history remains unaware of the changes that conditions have undergone . . .

Hence, in their pursuit of tawbīdī justice, the classical jurists invoked the material sources (especially the Qur’ān) and often exercised their analytical/speculative (as opposed to formal qiyās) reasoning. In so doing, I believe they must have drawn on the concepts of the Mu‘tazila theory of divine justice: namely, that Allah, being necessarily just, only wills what is morally good (hasan), and that His motive in imposing the Law on His creatures is their welfare/benefit (shalab).

The first concept (hasan) was the root of istibsān (‘seeking the most equitable solution’), the juristic method of the Hanafis (who tended to be Mu‘tazilis); the second (shalab) was the root of istislāb (‘seeking the best solution for public welfare’) of the Mālikīs. The Hanafi and Mālikī schools viewed their respective methods as a kind of qiyās khafī (hidden analogy), considered them as subsidiary sources/roots, and often employed them when the solution issuing from formal qiyās entailed injustice or harm (darar), not the least in the area of economic dealings and business contracts. In spite of the idealist nature of their enterprise, the classical jurists also exhibited an acute understanding of their economic and business environment, one that enabled them to articulate the moral foundations and efficient legal institutions of a highly successful Islamic economy. This fact led the economic historian Abraham Udovitch, in a meticulous and well-reasoned study of those institutions, to conclude that:
The prominence of the Muslim world in the trade of the early Middle Ages, if not attributable to, was certainly reinforced by the superiority and flexibility of the commercial techniques available to its merchants. Some of the institutions, practices and concepts already found fully developed in the Islamic legal sources of the late eighth century did not emerge in Europe until several centuries later.

The preceding synopsis, which only highlights the nature of Sharī'ah, its principles, and how it came to be, is particularly important for recognizing that ill-conceived tendency among many Islamists to hypostatize Sharī'ah and separate it from its historical context, be it socio-economic, political, or technological. This tendency is evident in much of the body of literature designated as “Islamic Economics”: a vast body that is more accurately rendered as “Mawdūdiconomics,” in view of the defining influence of the activist/scholar Abu’l-A’la Mawdūdī (d.1979), the founder of Pakistan’s Islamist movement jamā’at-e-Islami and the first to articulate the doctrine that continues to dominate this literature (especially in English); as such, he is considered the intellectual progenitor of its contributors.18

The above-mentioned tendency is no more evident than in the wholesale adoption by (what I will call) “Mawdūdiconomists” of the doctrine of Riba as a pivotal principle in their prescriptive paradigm of the Islamic economy. In the interest of clarity, I will use the term Riba (with capital “R”) to signify the generic moral meaning of the term, a principle/essence of economic inequity, and the term riba (with small “r”) to signify a species of the genus Riba, notably loan interest (as estimated by the classical jurists).

In this article, I attempt to sketch out a verbal “model” of the “classical” economy of historical Islam, one that assembles what is known of its basic “building blocks” in a coherent system that highlights its moral and legal philosophy, and encapsulates its fundamental principles and “laws of motion” in theory as well as its modus operandi in practice.19 In the process, the broad lines of this model are juxtaposed against the revivalist views and doctrines espoused by “Mawdūdiconomists.” In implementing this objective — besides the introduction — the article consists of four other sections. In section II, Islam’s work ethic of “legitimate/justified gain” is expounded to reveal a doctrine of economic justice that underpins the juristic effort of the classical jurists. This doctrine is employed in section III, “The Sharī’ah Market Model,” to delineate and typify the economic structure of classical sūqs, their moral and social embeddedness, their legal framework, and their operational and policy institutions. Section IV then addresses the microeconomic institutions of business association and financing as well as the macroeconomic conduits of financial intermediation between savers and investors. Finally, in Section V, the
article ends with a perspective summary and concluding remarks regarding the nature of the socio-economic system typified here.

**Economic Morality and the Classical Doctrine of *Riba***

In their pursuit of *tawbīdi* justice and good, classical jurists found in their material sources (Qur’ān and Sunna) a divine sanction for economic activity and the work ethic in general. They also found persistent exhortation for fair and just economic exchange. On this basis, they formulated a meritorious doctrine of economic justice as fairness in economic dealings. This doctrine rests on two fundamental maxims: (1) The avoidance of *gharar* (unjustified *jahl* or absence of necessary knowledge); (2) The avoidance of “unjustified enrichment” (*fadl ma‘l bilā ‘iwad*).

(a) *Gharar*: Intended essentially for obviating the possibility that a party to exchange gains an unfair advantage over the other (*ghubn*) due to a lack of necessary information, the prohibition of *Gharar* was sanctioned by *ijmā‘*. But jurists disagreed over the content and nature of this necessary knowledge, the conditions for securing it, and the implications of their respective views to various types of sale contracts and practices. Their disagreements centered mainly on questions regarding the actual existence of the exchanged countervalues at contracting time, the actual control of the parties over those countervalues, the quantum and specification of the countervalues (precisely expressed in a genus/differentia pattern), and the question of future performance of exchange dealings with regard to the risks and uncertainties involved. Viewed in its totality, the idealized world of the classical jurists ensures a complete knowledge (of exchanged objects), one that negates avoidable risks and uncertainties (hence potential deceits) regarding performance. As such, their world — it seems — is akin to the perfect-knowledge and perfect-foresight requirements of perfect competition, the central concept of the idealized market system of modern economics (explained below). In both worlds the community’s economic welfare is sought, notwithstanding the difference in their respective moral justification.

(b) Unjustified Enrichment and *Riba*: The prohibition of *gharar* eliminates a significant source of unjustified advantage or enrichment. *Riba*, generically understood, is every kind of excess or unjustified disparity between the exchanged objects or countervalues, essentially any kind of unjustified gain, a source of unjustified enrichment. As such, in its specific sense, *Riba* assumes two different types: (1) *Riba al-Fadl*, and (2) *Riba al-Nasī‘a*, according to the classical jurists.

The first type is also called “Sale riba” (*buyū‘*) because it is occasioned by a sale or exchange transaction, and is again called *Sunna riba* because its
prohibition is regulated principally by Traditions of the Prophet. According to these Traditions, in bartering certain goods, the exchange of articles of the “same genus” (jins) is legitimate when the exchanged countervalues are quantitatively equal, and their delivery is not deferred. The violation of this rule produces riba, an illegitimate or illicit excess or gain. The Traditions named only six goods (consisting of two types of precious metals, gold and silver; and four types of foodstuffs, wheat, barley, dates, and salt); and the jurists exercised their analogical syllogistics to extend the umbrella of the rule’s applicability, but disagreed in specifying the ‘illa (cogent reason), the distinguishing attributes of these particular goods. The rigor and complexities of their syllogistic differences and conclusions are compounded by their disagreements in defining the genus/species configurations (and their concrete content in each case) as well as the affinity of these differences with their variant views on Riba.

(c) Riba and Interest: Called nasi’a by the classical jurists, the second type of Riba is occasioned by deferring the delivery of a countervalue, regardless of whether the exchanged object is within or without the same species of the countervalue, and whether it does or does not generate fadl (gain/disparity). If the nasi’a transaction stipulates a gain manifestly, this gain is an “Explicit (Jali) Riba,” in effect, a loan interest. The latter is also called Qur’anic riba because the classical jurists reached a “consensus” (ijma’) that the Qur’ān prohibited it. It is noteworthy, however, that this type of Riba is addressed in a number of Qur’ānic verses; given the accepted/traditional interpretation of these verses, the Qur’ānic position ranges from acceptance to prohibition. The consensus prohibition by the jurists was only a consequence of their doctrine of abrogation (naskh). Based on the chronology of revelation, their juristic technique (and its application in this case), although sanctioned by ijma’, is open to question, for it implicitly assumes a paradoxical and unsatisfactory theology regarding the nature of God and His Law, a fact that seems to be lost on or overlooked by modern scholars.

All pre-modern jurists advocate the prohibition against loan interest: To them, the only licit loan is an interest-free loan, this being either qard hassan, a loan of fungible objects (notably money), or ‘ariyya, a usufruct (manfā‘a) loan of non-fungible objects. They disagreed, however, on the scope and licitness of other types of Riba. They also employed their subsidiary methods of istibsān and istislāb to accommodate economic and business imperatives. Towards this accommodation, the jurists, especially the Hanafis, went further and produced treatises and manuals of legal devices (hiyal) to circumvent the prohibition’s deleterious effect on the economy. Modern Muslim jurists tend to reject the hiyal, but disagree on the licitness of loan interest. As well, modern Muslim economists disagree on the prohibition: Muslim secularists and Islamic
modernists reject the entire doctrine of *Riba*. In this they are vehemently opposed by MawdūdiConomists, who have been influential in the Islamic banking movement.

The *Sharī‘ah* Market Model

The idealist worldview of the classical jurists is particularly evident in their distinctively Islamic vision of the market. Perhaps it is illustrated best by the previously stated maxim:32 “Let the *sūk* [market] of this world below do no injury to the *sūks* of the Hereafter, and the *sūks* of the Hereafter are the mosques,” the abode of *tawḥīd*-qua-harmony. Rendered by Abu Hamid al-Ghazali (d.505/1111), the great jurist/theologian (and anti-*falsafa* philosopher), this maxim is an apt representation of the Qur’ānic view of social and economic transactions (*mu‘āmalāt* of *al-umma* (the Islamic *gemeinschaft*):33 That is, a consensual, free, and moral exchange, one that would establish the necessary conditions not only for a prosperous life, but also for “social harmony” and spiritual attainment (Qur’ān, IV:29).54 Ghazālī’s worldly *sūqs* are morally and “socially embedded” à la Polanyi; they provide the fora for a moral economic exchange that was carefully analyzed and systematized by the classical jurists.35

(a) The *Bay‘* Model of Exchange: Translated “Sale,” in fact *bay‘* is a normative Qur’ānic concept which is divinely juxtaposed against “unjustified enrichment” (Qur’ān, II: 275). The classical jurists saw it as such, and developed the *bay‘* contract with so much thought and sophistication that it became “the core of the Islamic law of obligations.”36 Indeed, it was viewed as a paradigm of various types of contracts, including the marriage contract, not to mention the “implicit contract” between the believer and Allah as well as the “social contract” between the Umma and the Caliph (*bay‘ā*).37 Asked: “How is it that you have not written anything concerning . . . *zuhd* (asceticism)?” Muhammad al-Shaybānī (d.189/805) answered: “I have already composed the Book of Sale” (*Bay‘*).58 What the great architect of Hanafi law meant was that the best way of seeking God is not by the hermetic abandonment of the community’s material life, but rather by seeking a good livelihood and opportunity for one’s family (within the community), and above all, according to the law. With this kind of engagement, the fruits of social cooperation proliferate, and in the process enrich the community at large. Abū Bakr al-Rāzī (d. 313/925), the well-known philosopher/medical scientist, put it best:39

When many men agree to co-operate and help each other, they parcel out the various sorts of profitable endeavor among themselves; each labors upon a single business until he achieves its complete fulfillment, so that every man is simultaneously a servant and served, toiling for
others and having others toiling for him. In this way all enjoy an agreeable life and all know the blessings of plenty, even though there is a wide difference between them and an extensive variety of rank and accomplishment; nevertheless there is not one who is not served and labored for, or whose needs are not wholly sufficed.

This socio-economic philosophy of *tawḥīd*-qua-harmony — which imbues basic Qur‘ānic concepts and injunction — underpins the jurists’ careful analysis and meticulous articulation of the *bay′* contract and the law of sale in general. First, the sale has to meet their procedural theory of justice by minimizing, if not eliminating, “unjustified enrichment.” As such, it has to be *gharar*-free and *Riba*-free. In fact, the classical doctrines of *gharar* and *Riba* were developed in conjunction with the jurists’ theory of sale. In addition, the exchange process itself has to be genuinely consensual, fair, and endowed with safeguards and mechanisms to ensure these requirements. All in all, in the ideal world of the classical jurists, the sale conditions, process, and contract ought to minimize, if not obviate, legal dispute and inequity among the parties, thereby enhancing overall social harmony, and in the process create the necessary conditions for the good of community members *à la* Shaybānī.

The classical jurists recognized however that their *bay′* was an ideal prototype; and they were fully aware of the substantial transaction cost of its procedures, as well as the immense information cost the doctrines of *gharar* and *Riba* entailed. With this awareness they exhibited a profound appreciation and acute understanding of the productive aspects of the “practices and customs/conventions” (‘*ādāt* and ‘*urf*) of the business community, its “implicit contracts,” an area that modern economics has begun to analyze and fathom only recently. They deployed their juristic method of *qiyās* to accommodate and regulate the economic and business facts of life; and when *qiyās* failed to comprehend the necessary facts, they resorted to *istihsân*, *istiṣlāḥ*, *darūra*, and *biyāl*. A case in point, they went against their ideal rules of evidence and accepted the necessity of written sale contracts to the functioning of a complex, vibrant and large economy. Again, guided by their *bay′* prototype, they developed or Islamicized a variety of practical contractual instruments which suited the complexities of economic life, albeit with the necessary informational and procedural safeguards for protecting the exchange parties and the community at large.

Among the above-mentioned instruments, the following variants of the *bay′* contract stood out: (1) *salam bay′*, a sale that involves immediate payment, but deferred delivery; (2) *nasi′a bay′*, a sale that involves immediate delivery but deferred payment; (3) *bay′juzāf*, a sale whereby the good or/and price are assessed by mere viewing; (4) *murāhiba*, a form of cost-plus resale with a specified “fair/normal” profit margin; (5) *istiṣnâ*, a form of salam
contract used for commissioning the production of manufactured goods; (6) *ijara*, a hire/lease contract, construed as sale of usufruct (*manfa'a*); and (7) *sarf*, a currency exchange contract.

It is noteworthy that many of these contractual arrangements have been recently reworked and extensively used by *Mawdūdī* Economists in the theory and practice of modern Islamic banking, along with the classical contracts of business association (treated below).

(b) The Classical *Sūq*: Long before Ghazālī’s time, the *Islamic* city planner did perceive and take his maxim seriously. They located in the center of their city plan the great *Jamiʿ* (academy mosque), that great “*Sūq* (market) of the Hereafter” where the jurists dwelled, taught, practiced and reflected on the law. Next to the *Jamiʿ* was *Dar al-Imāra* (House of the Government), the abode of caliphal authority and guardian of the law: A kind of “political *sūq*,” where the democratic transactions of *ṣbūra* and *bay'ā* should take place, and one that Ghazālī was painfully aware of, but did not include in the maxim.

Thus, socially and morally embedded, the “political *sūq*” along with the “Hereafter *sūq*” were both physically encircled by the (likewise embedded) “worldly *sūq*” according to a geometrical pattern, wherein the city’s economic function — as producer of wealth and facilitator of exchange (both local and beyond) — was centered. In this pattern, the city’s thoroughfares emanated from the central circle (towards the gates) and accommodated the bookmakers, merchants, financiers, currency-changers, manufacturers, etc., whose degree of proximity to the center reflected their intellectual, economic, and environmental priority to the city’s welfare. In addition to these “linear *sūqs,*” the pattern included the great conglomerations (variously called *Khan, Qaysariya, Wakala, Funduq,* etc.) which facilitated inter-city and international trade.

According to our current state of knowledge, those classical *sūqs* functioned efficiently, and served their cities and the larger community well. In performing their economic function, they varied in their objects of exchange and scale of operations in such a manner that reflected the occupational structures of the commercial, industrial, and agricultural sectors of the economy. As such, they are classified into three types: (1) The weekly and daily *sūqs,* held inside the city’s districts and outside its walls, for supplying fresh foodstuffs and other locally produced products; (2) The central *sūq* (near the great mosque), which permanently supplied in larger quantities a great variety of products, largely of greater value and luxurious vintage, that were mostly imported from other regional *sūqs;* and (3) A yearly or seasonal *sūq,* a sort of international trade fair, for the diffusion of manufactured, imported, and transit products, accommodated in the above-mentioned conglomerations.
(c) The Market and the State: Again, given the jurists’ moral philosophy of socioeconomic harmony, the system of *sūqs* caricatured above had to be “socially/morally embedded” à la Polanyi: In effect, a “microcosm” of the larger society it inhabited and functioned in. As such, the operation, economic transactions, and terms of trade set in the classical *sūqs* had to abide by the precepts of the jurists’ doctrine of economic justice as fairness with its twin maxims: the avoidance of *gharar* (unjustified absence of knowledge) and the avoidance of *Riba* (unjustified gain, any advantage without equivalent countervalue). And logically this brought to the fore weighty economic questions of price formation and “fair” pricing in these *sūqs*, a subject that received considerable juristic attention and thought.

Prophet Muḥammad is reported to have rejected (during an episode of severe food shortage) price fixing, on grounds of justice: “The Musaʿir (He who sets prices) is Allah,” said the wise Prophet, with his first-hand knowledge and understanding of the workings of markets (both local and international) as a merchant. Naturally, this doctrine of a divine “Invisible Hand,” to borrow a Smithonian metaphor, was accepted — in principle — by the classical jurists, for it was compatible with the above-mentioned Qur’ānic ideal of a free, consensual, fair, and ultimately harmonious exchange, the central principle of their *gharar*-free and *Riba*-free *bay‘* model: A model — it is recalled — that insists on clear, detailed, and near perfect information (on the objects and terms of exchange) in order to preclude the possibility of “unjustified enrichment” (*Riba*) due to *jahl* (lack of information). As I hinted earlier, this *bay‘* type of economic operation and trading is akin to a divinely inspired world of “perfect competition,” the “ideal type” of modern economics, which was justified by the moral theory of Adam Smith and his “invisible hand” (resting on self-interest and competitive markets).

In this regard, it is again recalled that in enjoining consensual exchange (*tijāra*), the Qur’ān (II: 275; IV: 29) juxtaposes *bay‘*, the ideal type of fair exchange, with *riba* (*buyūt*)*, which is castigated as iniquity, and classed as *barām* (forbidden). Analyzed by classical jurists, this essential Qur’ānic categorization of consensual exchange/trade into *bay‘* and *riba* reveals an affinity to another Qur’ānic distinction: namely, between *Ribh/kasb* (justified/earned gain) and *Riba* (unjustified/excessive gain). The latter distinction is akin to a fundamental one made in modern economics between “normal profit” and “abnormal/economic profit”: The former obtains under competitive market conditions, while the latter — an “excess” beyond the “normal” — is obtained and maintained (through market power) under monopolistic conditions. Being the basis of fair-pricing in modern regulation theory, the “normal/fair” profit concept was also critical of the licitness of various species of classical *bay‘* transactions in general and the *murābaba* contract in
particular.\textsuperscript{58} It appears (from what is known) that the socially embedded fora of these transactions, the three categories of classical \textit{sūq}s typified above, had functioned efficiently and competitively (with their prices reflecting market forces) enough to give rise to the superior economy of classical Islam.\textsuperscript{59}

It has to be recognized, however, that the superior performance of this economy was not necessarily because the behavior of economic agents was \textit{ghbarar}-free and \textit{Riba}-free by inclination, an assumption that is often made by MawdūdiConomists in their work, and aptly construed as Homo Islamicus.\textsuperscript{60} In fact, the thorough system of legal mechanisms and procedural safeguards, which the classical jurists structured in their sales contracts, assumed that the contracting parties were not inherently Homo Islamicus. The great Ghazālī remarked that ninety percent of his contemporaries — to whom he was addressing his maxim, I assume — did “let the \textit{sūq} of this world do injury to the \textit{sūq}s of the Hereafter,” to use his phrase.\textsuperscript{61}

Ghazālī’s observation and the previous information on the structure of classical \textit{sūq}s suggest then that the superior performance of the classical Islamic economy is explainable by its efficient and competitive “worldly \textit{sūq}.” But to this, one must add the jurists and “political \textit{sūq}s” which endowed that economy with its viable legal/institutional framework and competent economic governance. Being part of the classical doctrine of Islamic governance, this point was elegantly and insightfully expressed — in a law-like manner — by a later historian/jurist, the famed Ibn Khaldūn (d. 808/1406), in his \textit{Muqaddimah}:\textsuperscript{62}

Dynasty and government serve as the world’s marketplace (\textit{sūq}), attracting to it the products of scholarship and craftsmanship alike . . . Whatever is in demand in this market is in general demand everywhere else. Now, whenever the established dynasty avoids injustice . . . , the wares on its market are as pure silver and fine gold. However, when it is influenced by selfish interests and rivalries, or swayed by vendors of tyranny and dishonesty, the wares of its marketplace become as dross and debased metals.

A case in point is the institution of the \textit{muhtasib}, an important element in the matrix of Islamic economic governance. An Islamicized outgrowth of the institution of ‘\textit{amil al- sūq} (The Market Inspector) — which existed in the Prophet’s era and received his sanction (according to traditional sources)\textsuperscript{63} — the classical \textit{muhtasib} was a judicial office with a much wider mandate.\textsuperscript{64} The mandate covered the broad area of public morality and health, but economic morality figured steadily and prominently in it.\textsuperscript{65}

The classical \textit{muhtasib} was responsible for checking weights, measures, and currencies, investigating and dealing with fraud and generally unlawful market practices, including illicit speculation and misleading information.
In effect, the *muhtasib* was in charge of what is now called fair trade and competition policy.\(^6\) Appointed by, and accountable to the *qādi* (the judiciary), the *muhtasib*’s moral and technical qualifications were enormous. The jurists prepared specialized manuals to facilitate the task, and the *muhtasib* depended on trustworthy associates (*‘arif/āmin*) who were recruited for their expertise in the various branches of industry.\(^6\) The producers of manufactured goods (*sunnā*: artisans) were highly organized in “guilds” (professional corporations) with a potential for exercising monopoly power, and the specialized associates paid attention to their quality standards and pricing practices for good effect.\(^6\)

To perform this mandate of economic morality effectively, the *muhtasib*’s offices were located in the city’s central market, near the *dar al-imāra* (the “political suq”) and the great mosque (the Hereafter suq). Judging by the known results, it appears that the state’s “visible hand,” Smith’s “invisible hand,” and the Prophet’s “divine hand” worked well, hand in hand.

**Business Association and Finance**

Effective operation of any economy is predicated on the availability of efficient and flexible economic institutions: institutions that facilitate the collaboration between workers and employers, between labor and capital, and between savers and investors, as it does generally between buyers and sellers. In the previously sketched market economy of classical Islam, those institutions were developed (or Islamicized) from current and pre-Islamic material, thoughtfully analyzed, and rigorously formulated and systematized by the jurists (with a view to obviate *Ribā* and gbarar). But again the classical jurists disagreed on the particular formulations of those institutions, and in making them licit, they often suspended *qiyyās*, and invoked their subsidiary methods of *istihsān* or *istīslāh*, and innovated *biyya* (legal devices) to accommodate economic and business imperatives. The Hanafis in particular exhibited an insightful understanding of those imperatives, and their formulations were often economically superior to the other schools as the above-cited work of Udovitch has demonstrated.\(^6\) It is not surprising therefore that the Hanafi doctrine was later adopted by the Ottoman Empire to become the most widely accepted of the classical schools in the Islamic world. The following brief rendering of the main forms of business association relies primarily on the Hanafi formulations of those institutions.

(a) Business Partnership and Capital: In facilitating the collaboration between human and financial/capital resources, the classical Islamic economy had at its disposal three basic forms of business association (*sbarikāt* companies): *mufāwada*, *‘inān*, and *mudāraba/qirād*, which were rigorously analyzed and systematized by the jurists in theoretical treatises and practical
All based on a principle of “fidelity” (‘a[qd amänā), these partnerships varied in their characteristics as regards each partner’s “agency powers” (wakāla) and “surety” (kafāla), as well as the scope and nature of investment (capital) shares, profit/risk distribution, and authorized business activities. Their differentiation endowed them with varied configurations which accorded with the particular needs of different sectors of the economy.

The Hanafi mufāwada is characterized as an “unlimited” investment partnership with full powers of mutual “agency” and “surety” among the partners, who also have to be “equal” in wealth and freedom of action (among other things). Consequently, the partners share profit and loss equally, and are equally and mutually liable in their business dealing with outside (third) parties. As such, the Hanafi mufawada anticipates the modern concept of corporation, albeit with unlimited liability. The freedom of action includes each partner’s prerogative to independently enter ‘īnān or mudārāba partnerships with outside parties, and — with the other partner’s consent — mufāwada partnerships as well: an interesting feature that enables the partners to expand the capital base, and diversify the operations of their enterprise.

By contrast, the Hanafi ‘īnān is a “restricted” form of investment partnership, albeit with unlimited liability like mufāwada. Unlike the latter, however, the ‘īnān partner is merely a mutual agent (wakil), not a guarantor (kafil), of other partners. This mutual agency applies only to the scope of business operation specified in the partnership contract, which can either be a class of goods (khass: specific) or all goods (‘amm: general). Moreover, the partner’s “equality” stipulation is restricted here to the area of legal competence. Yet, like mufāwada, the ‘īnān partner can invest in a mudārāda to further the interests of the enterprise.

An interesting aspect of both mufāwada and ‘īnān was the complex and varied concept of what I call the company’s “common/corporate capital,” the sharika’s māl which is formed by khalt, “mingling” of the (possibly diverse) assets contributed by the partners. Being the basis of profit/risk sharing among partners, this concept received a great deal of analysis and thought. The basic form of investment was made in gold and silver coins or bullion: their lack of uniformity forced the jurists — in specifying the investment shares while abiding by the doctrines of Riba and gharaar — to explore notions of equivalence, an exploration that often revealed acute economic analysis. Another form of “common/corporate capital” was skilled labor, the basis of labor cooperatives/partnerships (sbarikāt al-sana‘i‘), which were formed for producing manufactured goods. Again their juristic theorizing here reveals a concept of “human capital” that modern economics started to investigate only recently. Moreover, their juristic examination of credit
cooperatives/partnerships (ṣbarikāt al-wujūb) reveals a third concept of “common/corporate capital” consisting in pooling the business and moral credentials contributed by the partners, a kind of “human/moral capital” which qualified those mafālis (literally, penniless folks) to be granted credit for financing their business.\(^7\)

(b) Mudāraba and Banking: Unlike mufāwada and ‘inān, the formulations of mudāraba partnership exhibited near uniformity among the classical schools, presumably because this indigenously Arabian mode of collaboration was also practiced by the Prophet himself (as mudārib).\(^8\) In any event, the Hanafi mudāraba consists in a contract of “fidelity” (amāna) between rabb al-māl (The Capital Owner/Investor), a silent partner, and the mudārib (an entrepreneurial agent/manager), who is not liable for investment loss, in the normal course of business.\(^9\) In its basic form, mudāraba does not involve a “common/corporate capital” in the usual sense, although it is often aptly rendered as a “partnership of profit” (ṣbarikāt al-ribb).\(^9\) Profit shares have to be specified proportionally to avoid riba; and, in case of loss, the liability of the agent/manager does not go beyond the human effort expended, while that of the investor (towards a third party) is normally limited to the capital invested.

The full agency powers enabled the classical mudārib to freely and independently pursue profit opportunities using any “legitimate” practice or transaction, in any licit field of economic activity, be it industrial or commercial; analogous associational contracts, muzāra’a and musaqat, were also available for agricultural activity.\(^9\) The Hanafi mudārib can also enter mudāraba and other arrangements (with other partners) for enhancing profit opportunities.\(^9\) This flexibility and innovative profit/risk distribution of the mudāraba rendered it an ideal arrangement for long-distance and international trade.\(^9\) It is not surprising that it later became an essential business arrangement in the rise of European trade as it assumed a Europianized form known as commenda.\(^9\)

The innovative features of mudāraba betray its fundamental economic function of combining human and financial resources in a stark manner. This vital economic role is underscored by the mālikī and Shafi‘ī rendering of it as qirād/muqārada, literally loan provision/acquiring, a licit lending mechanism/instrument that escapes the prohibition against riba. And yet, unlike the Mālikī and Shafi‘ī, the Hanafi mudārib — when endowed with an “unlimited mandate” (i‘mal fībī birā‘ika) — was able to invest the mudāraba capital (combined with his own) in another mudāraba, or even a partnership (ṣbarikā), with third parties.\(^9\)

It was this flexible mingling of associational arrangements, as well as the licitness of a multiplicity of “agents” and “investors” in a single mudāraba
contract, that made possible the mobilization and pooling of large amounts of financial resources, and ultimately the emergence of the classical banking houses, the *jabābīdha*, around the end of the ninth century. The evolution of the *jabābīdha* into bankers (in the modern sense), a part of the general ʿAbāssid scientific, economic, and technological progress, culminated in the enactment (ca. 302/913) of the first state/central bank, Jahābidhat al-Hadra. Centered in the capital, Baghdad, probably in Darb al-ʿAwn (the financial district) of its central *Sūq* (near Dar al-Imāra), this banking “partnership” appears to have effectively employed a *mudāraba-sharīka* networking arabesque in mobilizing funds from the capital and other cities of the vast ʿAbbāsid caliphate for meeting the then growing financial demands of the state.

In view of the preceding, it is not surprising that — along with the “inān partnership (*mushāraka*)” — the *qirād/mudāraba* method of financing figures prominently in the modern theory and practice of Islamic banking, given the latter’s aim of avoiding interest and operating on the basis of profit-loss sharing (PLS). In this, the modern Islamic banks also employ formulations of the classical exchange practices mentioned above, notably the *murābāba, ijāra, nasiʿa bayʿ*, and *istisnā*; and this modern banking movement has been remarkably influential. Three countries (Iran, Pakistan, and Sudan) have “Islamicized” their entire banking systems, and Islamic banking has achieved significant inroads in over seventy countries. And yet, the Islamic banks have not been successful in fulfilling their stated primary goals. A case in point — as recent studies indicate — they scarcely supply long-term financing, and the bulk of their lending is directed to the short-term financing of trade. Moreover, only a minor part of their lending activity is PLS-based. The reason hinges essentially on the classical jurists’ problem of *gharār*, the information and agency problems which modern economists call principal-agent problems, moral hazard, and adverse selection, among others.

A recent mathematical model by Aggarwal and Yusuf demonstrates (among other things) that the failure of Islamic banks in the PLS area is a rational response to this type of agency/information problem. This type of problem (among others) goes far in explaining the recent data reported by the International Association of Islamic Banks: that less than twenty percent of bank lending is PLS based. Curiously, this figure is remarkably close to Ghazāli’s above-mentioned estimation that only ten percent of his contemporaries “let the *sūq* of this world do no injury to the *sūqs* of the Hereafter.” It appears, nine centuries after the great Ghazāli, that in the “real world,” the actual behavior of Muslims bears little resemblance to the Homo Islamicus of Mawdūdīconomists, a behavior that has been remarkably stable and heterodox, at least in the “*sūqs* of this world.”
Summary and Conclusions

In attempting to typify the moral economy of classical Islam in its historical context, I have been generally guided by the three quotations I started with: among them they highlight the rationalist trend in Islam’s moral philosophy and its scholarly (social-science) tradition. Ibn Khaldūn (d. 1406) restated the standard of that tradition brilliantly in his *Mugaddimah*:

> Therefore, today, the scholar in this field needs to know the principles of politics, the nature of things, and the differences among nations, places, and periods with regard to ways of life, character qualities, customs, sects, schools (*Madhābib*), and everything else. He further needs a comprehensive knowledge of present conditions in all these respects. He must compare similarities or differences between present and past conditions. He must know the causes of the similarities in certain cases and of the differences in others.

Indeed this is a very modern standard, like “today,” a “tall order” that I have attempted to cope with inasmuch as it is possible for me within the space of a journal article.

The main objective of this article has been the construction of a verbal “model” of the historical economy of “classical” Islam, one that assembles what is known of its basic “building blocks” in a coherent system that highlights its moral and legal philosophy, and encapsulates its fundamental principles and “laws of motion” in theory as well as its *modus operandi* in practice. In order to achieve this objective, I started (Section I) by presenting a synoptic review of the nature of Sharī‘ah discourses, the moral and legal framework of that economy, one that highlights the moral and epistemological doctrine of the classical jurists as well as the jurisprudential theory and method they adopted in molding this framework. In Section II, Islam’s work ethic of “legitimate gain” was expounded to reveal a concept of economic justice that underpinned the juristic effort (*ijtibād*) of the classical *fuqaha*: A meritorious doctrine of “justice as fairness” in economic exchange and dealings (*mu‘āmalāt*), one which is “procedural” in nature, as it rests on two fundamental maxims, namely, the avoidance of “unjustified enrichment” (*fadl māl bila ‘iwad*) and “unjustified absence of knowledge” (*jabl; gharar*).

This was followed by Section III, the “Sharī‘ah Market Model,” in which the “classical *ṣūq*” was characterized, and its “social embeddedness” highlighted (within the context of the jurists’ concept of justice and its underlying *tawbīdī* philosophy of harmony) in terms of their normative contract of *Bayā* (sale/exchange) and its variants. As well, the actual *modus operandi* of the classical *ṣūq*, its legal framework, and policy institutions (notably *ibitisāb*) were sketched so as to reveal a *tawbīdī* doctrine of perfectly competitive markets and pricing, which are deemed “efficient” in the estimation of modern
economic theory. Section IV, “Business Partnership and Finance,” then addressed the all-important question of business association (vis à vis the deployment of human and non-human resources) within the parameters of the above-mentioned concept of justice. It briefly described the three basic forms of business association (sharikāt) formulated by the classical jurists (namely, mufāwada, ʿinān, and mudāraba/qirād), and expounded the innovative, differentiated, and flexible set of legal instruments they had supplied for facilitating the efficient collaboration between human and financial/capital resources in commerce, industry, and agriculture. As well, the related macroeconomic mechanism of financial intermediation was briefly reviewed to show how the jurists’ formulations, which allowed flexible mingling of associational (mudāraba/sharika) contracts, had facilitated the emergence of the classical banking institutions of Islam (al-jāhābidha) and the first state/central bank (jabābidhat al-hadra) in history.

In the main, I have argued that — in theory — the economic system crafted by the classical fuqaha was essentially a “perfectly competitive market system,” albeit with a difference; a difference that stemmed from their tawbūdī philosophy of social harmony, which motivated their doctrine of economic justice. Thus, by contrast with Adam Smith and his philosophy of self-love, the motive force of his “invisible hand,” which animates and orchestrates the “unembedded” competitive markets of modern capitalism, the classical fuqaha had attempted (by their bayʿ model) to “re-embed” the competitive sīqṣ of classical Islam into the community (Umma), locally and beyond.101

In this article, I concerned myself primarily with typifying the institutions and workings of this fiqhi sīq system, and shied away from the “ism” question of comparative economic systems:102 a complex question that some specialists like Pryor did not find “profitable to focus on.”103 Nevertheless, the market system I have typified is compatible both with capitalism and “market socialism.”104 Indeed other scholars attempted to interpret the classical Islamic system in terms of these modern categories, especially that of capitalism.105 Thus, examining the question from a Weberian viewpoint, Rodinson for instance concluded that the “merchants of the Muslim Empire conformed perfectly to Weber’s criteria for capitalistic activity.”106 Adopting the same perspective, albeit with a Neo-Orientalist bent, Labib found that “Islamic capitalism was mainly a commercial and consumer-credit capitalism,” rendering it as “Oriental Capitalism.”107 Again, Rodinson examined the question using a Marxian conceptual framework, and concluded that “the Muslim . . . capitalistic sector . . . was apparently the most extensive and highly developed in history . . . until the sixteenth century.”108

In contrast, others, including some MaudūḍiConomists, emphasize the socialistic/egalitarian strand in Islamic doctrine and history to argue for an
“Islamic Socialism,” but historical studies in this area are meager (to the best of my knowledge). 109 An interesting line of research in this direction is the historical experience of the sunnā‘ (producers of manufactured goods) and whether their “professional corporations” (asnāf) constituted a form of “guild socialism.” 110

Finally, the preceding (modern) interpretations of the economic system of classical Islam, among others, are all interesting and plausible, each commanding an element of truth, some more so than others. This judgment may suggest a different “type,” one that combines these elements in a manner that is truer to the “animus” of that economy, and to its historical, cultural, and technological setting. 111 But, alas, the search for this “type” goes beyond the objective of this article.

Endnotes

1. A slightly different version of this article was read at the 34th Annual Conference of the Association of Muslim Social Scientists held at Temple University, Philadelphia, Pa. (30 September–2 October, 2005), at the Institute of Islamic Studies, McGill University, Montreal, Canada (22 November, 2005) in the Institute’s Visiting Lecturer program, and at the 38th International Congress of Asian and North African Studies, held in Ankara, Turkey (10–15 September, 2007). I value the clarifying and encouraging comments received at these fora. I am particularly grateful for those of Wael B. Hallaq of McGill University, and owe much to his path-breaking work on usul al-fiqh as well as his scientific dedication to de-Orientalizing Islamic legal theory and history. Naturally, the conventional disclaimer applies.


10. The resulting Shari’ah discourses are considered, “from the point of view of logical perfection, one of the most brilliant essays of human reasoning,” according to the eminent Orientalist scholar Gibb, *Mohammedanism: An Historical Survey*, 62.
14. On the centrality of these two concepts in the Mu’tazila theory, see Gimaret, “Mu’tazila,” 790–791. Applied by the main schools, this juristic approach was the hallmark of the Hanafis, especially in dealing with conflicts between *qiyyas* and economic imperatives. The term *taubîdî* is used here in its *kalâmî* sense, ‘ilm al-taubîdî (Science of Unity) being synonymous with *kalâm*, Islam’s philosophical/dialectical theology.


20. This basic point, an old object of contention in Orientalist literature, was examined and conclusively affirmed in recent scholarship, notably by Maxime Rodinson, *Islam and Capitalism*, Translator Brian Pearce (Austin: University of Texas Press, 1978), especially chs. 2–4.


26. Saleh, *Unlawful Gain and Legitimate Profit in Islamic Law*, 13. There seems to be some disagreement on whether the category involved is “species” (*naw*) or “genus” (*jins*). The literature in English often employs “species”; see for instance Coulson, *A History of Islamic Law*, 79; and Schacht, *An Introduction to Islamic Law*, 145. In Arabic, however, al-Fanjari, “On the Licitness of Interest on Bank Deposits,” 158–159, argues for employing the term *jins* The main (Arabic) hadith text, which he quotes (156), uses the plural of “genus” (*قَوْنَاء*).

27. The intricacies of these differences are catalogued (in English) by Saleh, *Unlawful Gain and Legitimate Profit in Islamic Law*, ch. 1, but only for the Sunni schools; see also al-Fanjari, “On the Licitness of Interest on Bank Deposits,” 153–170.

28. This is in contrast with the *fadl/buyū‘* riba*, which is characterized as Riba khafī* (hidden) and is occasioned by a sale/exchange transaction; see al-Fanjari, “On the Licitness of Interest on Bank Deposits,” 156.


31. On the juristic elaborations of this position (and its variations among the Sunni schools) towards loans (*qard*), see Saleh, *Unlawful Gain and Legitimate Profit in Islamic Law*, ch. 2.


Prophet. In particular, it is defined in *al-Sabīfah*, the Constitution of Medina, to include the Muslims, Christians, Jews, and pagans who agreed to its provisions with the Prophet in the two *bay'ās* (constitutional conferences) of *'aqabab*. Amended after the Immigration, the *Sabīfah* was preserved by Ibn Ishaq, a biographer of the Prophet, and consists of 47 provisions which regulate the rights and duties of the various constituencies. See W. M. Watt, *Muhammad At Medina* (London: Oxford University Press, 1956), ch. 7, for an English translation of the Arabic document, its signification, and historical context.

34. For a summary of the Islamic vision of moral exchange (in Qur'ān, Sunna, and ethical works), see Bosworth, Heffening and Shatzmiller, “Tidjāra,” 466–469, and Bernard, “Mu’āmalāt,” 255–257. Refer also to notes (40) below, and (21), (22), and (24) above.


40. The Islamic quest for harmony is evident in the concept of Umma as a Community guided by the ideals of justice, fraternité and cooperation; as it is also evident in the institutions of zakat and *sadaqa* which cement those ideals (refer to notes 21, 22, 24 and 33 above). The same quest for harmony again manifests itself in the juristic doctrines of *ijma‘* and *ikhtilaf* (explained above) as well as the rendering of *kalām* (Islam’s philosophical theology) as *ilm al-tawḥīd*, “The Science of Unity”; see Gardet, “Ilm al-Kalām”, 1141–1150.


48. This typification is based on the references in note (45), and that given by Bianquis et al., “Sūk,” 788–789. The model continued to exist in a modernized form in parts of the Muslim World, notably Morocco; see for instance the meticulous ethnographic study of Sefrou by C. Geertz. “Suq: The Bazaar Economy in Sefrou,” in C. Geertz, H. Geertz, and L. Rosen, *Meaning and Order in a Moroccan Society* (Cambridge: Cambridge University Press, 1979), 123–313, who gives a detailed account of its evolution during the 20th Century, with emphasis on the *sūq*’s cultural/social embeddedness.


52. Udovitch, “Islamic Law and the Social Context of Exchange in the Medieval Middle East,” 459, restates Polayni’s economic/anthropological concept of “social embeddedness” by concluding that the classical jurists saw in the *sūq* “a kind of microcosm of society as a whole and the religious and ethical values by which it was supposed to live.” Udovitch, however, does not refer to Polanyi but is ostensibly influenced by the work of the cultural/economic anthropologist C. Geertz, “Local Knowledge: Fact and Law in Comparative Perspective,” in C. Geertz *Local Knowledge: Further Essays in Interpretive Anthropology* (New York: Basic Books, 2000), 167–234, which motivated his own study. For in his Moroccan study, “Suq: The Bazaar Economy in Sefrou,” Geertz, who does not use Polanyi’s term either, does illustrate it thoroughly, and states that: “if one is going to indulge in [characterizing whole civilizations in terms of one of their leading institutions] it is for the Middle East and North Africa the bazaar . . . ” (123).


for ‘knowing’ and this abhorrence for ‘ignorance’ in economic exchange is both a requirement of Islamic law, an inherent principle . . . , and a reflection of the day-to-day transactions in the market place.”


59. On the “stylized” pattern and movements of those prices, see Bosworth et al., “Tidjāra,” 472, who also note (469) the fact that these patterns and movements were observed and analyzed by Muslim theorists such as al-Dimashqi and Ibn Khaldūn. Ibn Khaldūn, The Muqaddimah: An Introduction to History, 276–278, in particular analyzed the pattern of prices and their movements (implicitly) using a model not unlike that of modern economics, over six centuries ago. On the superior economy of classical Islam and its business institutions, see Udovitch, Partnership and Profit in Medieval Islam, especially ch. VII.


61. This estimate, which is made via a parable (in Ghazāli’s Iḥyā) that is given in Rodinson, Islam and Capitalism, 112.

63. It is reported that — upon entering Mecca — the Prophet appointed Sa'id b. al-\'as to serve as Mecca’s ‘amīl ‘alā al-sūq; meanwhile in his city state of Medina, women also served as ‘amīla ‘alā al-sūq, see Bianquis et al., “Sūq”, 787.

64. Called also sābib al-sūq and wāli al-sūq, the institution was renamed about the time of Caliph al-Ma’mūn (d. 218/833) as part of the Islamicization process engineered by the Mu’tazila school under the ‘Abbasid. However, the old name continued in the Maghrib and Spain as they remained under Ummayad rule.

65. The expanded mandate was justified by the Qur’ānic verse 9:71 (variations of which are given in 7:157, 31:17, 9:112, and 22:41), and although the terms bīsba/muhtasib do not occur in the Qur’ān, the cognates of these terms, which connote accounting/calculation, recur repeatedly; see the verse listing of Abdel-Baqi, Al-Mu’jam Al-Mufahras Li Alfāz Al-Qur’ān Al-Kareem, 200–201. For a brief history of this evolution, see Cl. Cahen, M. Talbi, R. Mantran, A. K. S. Lambton and A. S. Bazmee Ansari, “Hisba,” Encyclopaedia of Islam, New Edition, Vol. III (1986): 487.


67. On the legal status and qualifications of the classical muhtasib and his associates, see Cahen et al., “Hisba,” 487–488.


69. Refer to note (17) above.


71. This generalization is based on detailed scrutiny of a variety of sources, notably Udovitch, Partnership and Profit in Medieval Islam, and Saleh, Unlawful Gain and Legitimate Profit in Islamic Law; ch. 4.

72. Inadmissible on the basis of qiyyās, this Hanafi version was justified by istībsān reasoning, based on the Prophet who was reported to say: “Enter into partnerships by reciprocity (fāwidū), for it is most conducive to prosperity”; quoted in Udovitch, Partnership and Profit in Medieval Islam, 43. Besides Udovitch, Partnership and Profit in Medieval Islam, chs. III and V, see also Latham, “Mufāwada,” 310–312, on the position of other schools. It is notable that its principles and the Prophet’s term fāwidū, both conjure the Polanyi et al., Trade and Market in the Early Empires: Economics in History and Theory, ch. 13, concept of “reciprocity,” especially as they base business association on amāna and kafāla.

73. In this direction, the partners are also free to enter other types of business relations/contracts with outside parties, including ‘a’īrīya loans, deposits, pledges, and ibdā‘; see Udovitch, Partnership and Profit in Medieval Islam, 97–118. Described by Udovitch, Partnership and Profit in Medieval Islam, 101–104, ibdā‘ was a common “informal commercial cooperation or Quasi-agency” whereby a business person authorizes another to take over part of his capital to perform a business task for him as a favor without
return. Amounting to an informal mudāraba (without a profit share), this common Islamic practice illustrates again Polanyi’s concept of “reciprocity” mentioned above.

74. On the Hanafi ‘inān, see Udovitch, Partnership and Profit in Medieval Islam, ch. IV; and see ch. V on the Mālikī version. See also Saleh, Unlawful Gain and Legitimate Profit in Islamic Law, 92–94, on the positions of other schools.

75. As in the case of mufāwada, the ‘inān partner can engage in loan, deposit, pledge, and ibdā’ transactions, among others; Udovitch, Partnership and Profit in Medieval Islam, 139–140.

76. On this defining notion of khalt, see Izzi Dien, “Sharika,” 349, and Udovitch, Partnership and Profit in Medieval Islam, 51–64. I use the term “common/corporate capital” here to signify the outcome of khalt, a concept that Udovitch, Partnership and Profit in Medieval Islam, variously calls “joint capital” (51–64) and “social capital” (171). While “joint capital” is adequate, it does not convey the full meaning of the concept; whereas the term “social capital” commands a distinctly different meaning in recent economic thinking and terminology; refer to note (79) below.

77. The complexity was compounded when other goods were contributed as investment. On these explorations, see the account given in Udovitch, Partnership and Profit in Medieval Islam, 48–64 and 147–157.

78. On the Hanafi and Mālikī versions of this type of partnership, see Udovitch, Partnership and Profit in Medieval Islam, 65–76, 159–163; also accepted by Hanbalis, it was rejected by the Shāfi‘īs (p. 66); see also Izzi Dien, “Sharika,” 348, on this. And on the concept and analysis of “human capital” in modern economics, see S. Rosen “Human Capital,” The New Palgrave: A Dictionary of Economics, Vol. 2 (1987): 681–690.


80. Tradition reports that his wife-to-be Khadija was rabb al-mal; and that leading Companions participated in mudāraba partnerships as well; Udovitch, Partnership and Profit in Medieval Islam, 172. Not surprisingly then, it was justified by Sunna, ijmā’, and qiyās (by the Shāfi‘īs) as well as “the practical grounds of its economic function in society”; Udovitch, Partnership and Profit in Medieval Islam, 175–176.

81. This basic structure applies to all fiqh Schools, yet in its formulation and elaboration, the Hanafi version “emerges as at once the most comprehensive, practical, and flexible form,” as Udovitch, Partnership and Profit in Medieval Islam, 176, puts it.


These include all variants of the bay‘ contracts/transactions (detailed above) as well as ibdā‘, deposits, and pledges, among others; Udovitch, *Partnership and Profit in Medieval Islam*, 204ff.


On the distinction between the “limited” and “unlimited” mandate in Hanafi law (and on the more restricted Mālikī and Shi‘ī Qirad), see Udovitch, *Partnership and Profit in Medieval Islam*, 204–215.

On the licitness and modalities of these complexities, and on the Hanafi jurists acute analysis in configuring the profit/risk shares therein, see Udovitch, *Partnership and Profit in Medieval Islam*, 225–233.


A similar development occurred in Egypt with the growth of the Fātimid empire, as the weight of economic and political power gradually shifted from Baghdad to Cairo. A case in point is the karīmī business class, which emerged in the eleventh century, and continued to prosper under the Ayyūbid and Mamlūk sultans until the fifteenth century. Centered in Cairo, the karīmī merchants and financiers managed to mobilize huge amounts of financial resources through their special type of trading and banking houses, which operated on a global scale that ranged — at their peak — from the Maghrib to China. See Labib, “Capitalism in Medieval Islam,” 79–96, and S. Y. Labib, “Kārīmī,” *Encyclopaedia of Islam*, New Edition, Vol. IV (1990): 640–643, on this development.


This location of the bank was suggested in Fischel, “The Origin of Banking in Mediaeval Islam: A contribution to the economic history of the Jews of Baghdad in the tenth century (parts I–IV),” 350.

On the nature and duration of this “partnership,” see Fischel, “The Origin of Banking in Mediaeval Islam: A contribution to the economic history of the Jews of Baghdad in the tenth century (parts I–IV),” 349–352, and on the operations and activities
of this official banking house, see Fischel, “The Origin of Banking in Mediaeval Islam: A contribution to the economic history of the Jews of Baghdad in the tenth century (parts V–),” 571–591. The operations described by Fischel — it is noted — do not seem to cover the full range of modern central banking, nor should they, given the different type of economy this first central bank served, especially its tri-metallic monetary system. And as indicated in Goodhart, “Central Banking,” 385–387, this lesser central banking mandate was typical of the later-to-emerge state/central banks of Europe, although some of the more modern central bank functions were assumed by other classical institutions of Islamic economic governance, notably Dâar al-Darb (Minting House) and Bayt al-Mâl (Treasury House), among others; on these classical institutions, see A. S. Ehrenkreutz, H. Inalcik and J. Burton-Page, “Dar al-Darb,” *Encyclopaedia of Islam*, New Edition, Vol. II (1983): 117–121, N. J. Coulson and Cl. Cahen, “Bayt al-Mâl,” *Encyclopaedia of Islam*, New Edition, Vol. I (1986): 1141–1147.


98. This figure is reported in Dar and Presley, “Lack of Profit Loss Sharing in Islamic Banking: Management and Control Imbalances,” 1.


101. I use the term ‘re-embed’ because, as Rodinson in his *Islam and Capitalism*, 28, puts it: “The society in which Islam was born . . . was already a centre of capitalistic trade . . . It was indeed an ‘unembedded’ economy.”


103. Pryor, “The Islamic Economic System,” 219–221, reached this conclusion in his attempt to characterize the “Islamic economic system” in the writings of MaudûdiConomists.

105. This should not be surprising in view of the rationalist orientation of Islamic thought at the time, which is comparable to the situation later in Europe when modern capitalism rose. On the problematic nature of the “meaning of capitalism” in modern economic literature, see F. C. Lane, “Introductory Note,” “Meanings of Capitalism,” *Journal of Economic History*, Vol. 29 (1969): 1–12.


109. Often this kind of argument is based on re-interpreting certain Qur’anic verses (e.g. 41:10) on the nature of ownership (of the means of production) as well as the historical experiences of “socialist figures” (e.g. Abu Dharr al-Ghifari) and the Ismaili sect (especially the Qarmatians), among others.


111. Additional elements of this “type” are the jurists doctrine of distributive justice (alluded to in note (22) above) and the classical fiscal regime (in theory and practice), and the role of the institution of *Awqaf/hubus* as a form of community ownership, among others.