



Why Islamic Institutions Function Best in The West*

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Abstract: The gist of this paper is that the once superb Islamic institutions of the past nowadays function best in the West but stagnate in their very birthplace. I argue that this is because pre-conditions referred to in this paper are not available in the latter. Ever since the 1960s, too much hope has been placed on Islamic finance with hardly any attention been paid to these pre-conditions. Unless this emphasis is radically altered, Islamic finance, no matter how well designed, would have only a marginal impact on the sustained economic growth of Islamic countries.

Keywords: Waqfs, Universities, Sustained economic growth, Islamic banks, Parliamentary democracy, Freedom of thought and its expression

JEL Classification: B11, B15, B31, I12, L31, N15, N23, N25, P48, Z12

Introduction

When after the Second World War exhausted western imperial powers finally had to grant their colonies independence, intellectuals in the newly independent Muslim countries hoped that Islamic financial institutions would play a preponderant role in economic development. Now that three quarters of a century have passed since then, it can be assessed whether these hopes has been fulfilled.

When economic development of Islamic countries is compared with others, one does not see an encouraging picture. Indeed, a quick comparison of some

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Islamic countries with, say, Ireland, a small western country that also became independent after the Second World War, is revealing. In 2018, when Ireland had a GNI/capita of 61,200 USD, Egypt had only 2,800\$, Pakistan had even less i.e. 1,590\$. Another comparison can be made with South Korea. In 1953 South Korea emerged from the Korean war, totally destroyed. When in 1987 it became democratic, its GNI/capita was about 3,480 USD. In 2018, it had reached 30.620 (World bank, 2020a). So, in short, economic development of Islamic countries has significantly lagged behind even a newly independent Western country like Ireland, and a war-torn South Korea. This is despite the recent findings that introduction of Islamic banking in 1963 has had positive impact on growth (Boukhatem and Moussa, 2018, pp. 244-245; Abduh and Chowdhury, 2012). Thus, despite such reports about their positive impact on economic growth Islamic financial institutions have obviously failed to trigger sustained and significant economic progress.

This pessimistic conclusion forces us to look into the global process of catching up. After analysing how some Asian countries have been catching up with the West ever since the 1950s, Thomas Piketty (2017, p. 91) has concluded that:

“The principal mechanism for convergence is the diffusion of knowledge. The poor catch up with the rich to the extent that they achieve the same level of technological know-how, skill and education. The pre-conditions to reaching to these same levels are massive investment in education, and a reform in the way finance is provided to the skilled and well-informed entrepreneurs as well as a legitimate government.”

In this paper, I will focus on four very important Islamic institutions: Islamic banks, *Mudaraba* partnerships (for financing the skilled and well-informed entrepreneurs), *Waqfs* and universities (for education and human capital formation).

Part One: Institutions

Islamic Banks and an Objective Critique

Most academicians and even some practitioners criticize Islamic banks for the structure of their investment portfolios. The general argument is that by ignoring *Mudaraba*, which was a profit and loss sharing instrument practiced by the Prophet, and focusing instead, on *Murabaha*, BBA (*Bai' Bithaman Ajil*) or *Tawarruq*, Islamic banks have failed on both economic and religious grounds. This failure is because,

1. They have imitated conventional finance, focused on trade financing and have failed to provide finance to “the skilled and well-informed high-tech entrepreneurs”. This is the point raised by Piketty above and a reform along the lines he has suggested has not taken place. This has led to a lack of dynamism in the economy, where entrepreneurs could not be financed.
2. They have focused on legal devices that obeyed the letter of the Islamic law but violated its spirit, and ignored the prophetic tradition.¹

Despite such criticism, Islamic banks continue to act along these lines. It is obvious that they will not change their investment strategies and provide finance for high-tech entrepreneurs.² So, the conclusion is that if we want to find out how to provide finance to high-tech entrepreneurs, who are the backbone of contemporary economic development, we need to look elsewhere, across the Atlantic Ocean all the way to California. Indeed, it is remarkable that venture capital as it is practiced in California is practically identical to the Islamic *Mudaraba*. This paradoxical conclusion is reached by comparing profit and loss distribution in both systems. In Islamic partnerships, profit is distributed between the capitalist (*rab al-mal*) and the agent (*mudarib*) according to mutual agreement. In venture capital the same happens as a result of equity financing. Put differently, the entrepreneur offers his shares at a certain price and the venture capitalist buys a certain amount of them as he sees fit. This is mutual agreement. When and if the entrepreneur generates profit, it is distributed according to the number of shares each partner has. As for loss, in Islamic partnerships loss follows capital. Since in *Mudaraba*, the entire capital is provided by the capitalist (*rab al-mal*), the entire pecuniary loss goes to him. The same occurs in venture capital if the entrepreneur does not succeed. When this happens, the entrepreneurial shares that the venture capitalist possesses become worthless. Since the entire capital had been provided by the venture capitalist against entrepreneur’s shares, with these shares now worthless, the entire

- 1 Consider the statement made by the late Saleh Kamel, the founder of the Al-Baraka Group when he received the IDB Prize in Islamic Banking: “I tell you truthfully and without pretense...that we went beyond choosing the “bank” label [in Islamic banking] to the point of adopting its central essence... Consequently, we failed to give our financial institutions any characteristics beyond simple financial intermediation. This is accomplished through Islamic banks’ favorite investment modes that are essentially a hybrid between loans and investment, which hybrid carries most of the characteristics of usurious loans...”. Quoted in El-Gamal (2003, p. 1).
- 2 Most recently, Al-Baraka Turk has initiated a venture capital fund to provide seed finance to young entrepreneurs with good ideas. Is this an exception or the beginning of a new era in Islamic finance? Only time can tell. <https://www.aa.com.tr/tr/sirkethaberleri/finans/albaraka-fintech-girisim-sermayesi-fonu-ilk-yatirimini-2-girisimciye-yapti/648903>. Accessed June 28, 2019.

pecuniary loss accrues to the venture capitalist just as in *Mudaraba* (Çizakça, 2011, pp. 249-276).

Waqfs

In the Islamic world throughout history, bulk of the very important social services, such as education and health, were financed voluntarily by non-governmental organizations and we have solid historical evidence for this. These organizations in the Islamic world are known as *waqfs*. Ottoman budgets reveal that indeed the Ottoman state expenditure was limited purely to military matters and all social services were financed, organized and maintained by the *waqfs*. This is absolutely important because, social services, particularly, health and education, constitute the most important components of human capital.³

Gary Becker (1994), a Nobel laureate in economics, has shown that 80% of the wealth of the USA and other highly developed countries is generated by human capital. So, *waqfs* which generated human capital for the Islamic world throughout history, assume great importance for contemporary economic development as well. But once again, those who wish to modernize Islamic *waqfs*, need to look across the Atlantic to the USA. This is because the greatest *waqfs* are there. Just one example should suffice: Bill and Melinda Gates Foundation has an endowed capital of 50 billion USD. There is no Islamic equivalent to this foundation even in the oil rich Middle East!

Universities

This brings us directly to universities. Throughout history, *waqfs* financed, established and maintained the most important *madrasas* (colleges), in the Islamic world. As late Fuat Sezgin (2003) has shown, between the eighth and the thirteenth centuries these *madrasas* made huge contributions to positive sciences. There is even powerful evidence that Merton College of Oxford University was established in the legal format of a *waqf* in 1264 (Gaudiosi, 1988). Last year Oxford was ranked as the top university in the world. By contrast, Al-Azhar, older than Oxford, was not even among the top 1000 universities.

3 For a detailed work on *waqfs* see; Çizakça (2000). On the Ottoman budgets see Barkan (1953) and Özvar (2006).

So, neither the *waqf* structure nor its age can determine the sustained academic quality of a university. Thus, there is a very clear need to modernize *waqf* universities in the Islamic world.⁴ But once again, those who wish to do this, need to look across the Atlantic Ocean, because the most successful and world class universities are in England and the USA. To sum up, the most successful *Mudaraba* application is in the USA, the richest *waqfs* are in the USA and the greatest *waqf* universities are in England and the USA.

At this point China comes to mind. Indeed, democratic West does not have a monopoly in generating massive and sustained growth. Non-democratic China's GNI/capita was 100 USD in 1967 and had reached 9,460 USD in 2018 (World bank, 2020b). To increase GNI/capita from 100 USD to almost 10.000 for 1.4 billion people is a huge success by any criterion. Notwithstanding this, however, China cannot act as a role model. It is a closed-in and *sui generis* civilizational state. Its institutional evolution has taken place under unique religious and cultural conditions that are very difficult to comprehend for others. Consider for instance that throughout Chinese history “no law guaranteeing individual ownership of property was instituted, but instead, practice of holding properties in names of ancestors and deities became paramount” (Faure, 2006, p. 93). Parties to a contract were lineages rather than individual persons. Property held by a temple devoted to the gods, as was the common practice in some parts of South China under the Song dynasty, propagated a multi-surname society bound together in temple alliances.

Waqf-like charitable foundations, the *Tang*, existed in China but they too were based on totally different principles of lineages and spirit tablets. Donations were made in order to install spirit tablets of ancestors in the lineage temple. This can hardly be relevant for Muslims who establish *waqfs* following the *ahadith* of Prophet Muhammad (Çizakça, 2000, p. 6).

So, in short, it is correct that China has achieved great success without democracy or even individual property. But its *sui generis* conditions render it irrelevant for the Islamic world, which is a branch, an extremely important one at that, of the Western civilization. We can now return, once again, to the main paradigm of this paper.

4 For a more detailed treatment of this topic see; Çizakça (2018). An improved version of this paper was submitted at the CIS-QFC Global Conference on Awqaf on December 4-6th, 2018 at the College of Islamic Studies, Hamad bin Khalifa University in Doha, Qatar. The paper is to be published in the conference proceedings. An earlier version is available at www.academia.edu/35870638/WAQF_AND_REFORMING_THE_HIGHER_EDUCATION. The essence of this reform should be based on autonomy, judicial personality and self government of both *waqfs* and universities.

So, again, why is it that the most successful contemporary applications of the most important classical Islamic institutions, *Mudaraba*, *waqfs* and universities, are in the West? Indeed, why there but not here? What pre-conditions does the West have that cause originally Islamic institutions to flourish there? What, indeed, are these pre-conditions, whose absence in the Islamic world causes these institutions to stagnate in their very birthplace? I argue that unless these pre-conditions are fulfilled, even the best designed financial system or institution would fail to flourish in the Islamic world.

Part Two: Pre-Conditions

The Democratic Package

Democracy constitutes one of the most important of these pre-conditions. Democracy however is not just elections, it can only function properly as a complete package. First of all, we must ask why democracy is so important and what evidence do we have for its importance? Striking evidence on this has been provided by Ahlmark (1998-99):

1. Democracies may attack non-democracies, but they do not fight wars among themselves. No democracy has ever fought another democracy since 1815. This reduces the number of potential enemies and therefore probability of war for democratic countries.
2. No famine has ever occurred in a democracy.
3. No democratic government has ever committed mass murder of its own people. By contrast, Soviet Union killed 62 million of its own citizens, China, 35 million, Nazi Germany, 21 million. It is difficult to give an exact number for Syria, as its dictator is busy killing its own citizens even as I am writing this paper.

To these observations of Ahlmark I would like to add:

- a. Democracy generates wealth.⁵

In short, democracy with all these achievements is a very important pre-condition for growth. This is so, because, obviously, no economic development can take

5 This claim is simple enough to test. The reader is invited to ask Google "richest countries in the world", then deduct such anomalies as small oil shaykhdoms and city-states. The resulting list will be predominated by democracies.

place in a country that is constantly at war, or suffering from famine, or killing its own citizens in millions. It is, to say the very least, because democracies avoid such disasters, that they generate wealth.

Democracy and Islam

At this point the following question comes to mind: why is it that democracy does not exist in the Islamic world? Is it because of some historical circumstances or is it because Islam rejects democracy? Recently democracy has been described as the “Shackled Leviathan” Acemoğlu and Robinson (2019, p. 27). For it to exist, first, a state strong enough to enforce laws and protect the country from foreign invasion is needed. Second and at the same time, this state must be controlled by the citizens. In the Middle Eurasia, all the great Islamic empires from the Umayyads to the Ottomans had strong states. But this was not so in Eastern Eurasia. During the seventeenth century, Banda islands (Indonesia) were governed by small and weak states, which had the potential to develop their “Shackled Leviathan” and therefore democracy. But because these were weak states, the Dutch East India Company was able to occupy and colonize these islands with ease. Although the Dutch were enjoying democracy back at home, they were not interested in introducing it. They simply wanted to enslave the locals in order to maximize production of spices and in the process massacred about 15,000 people. Thus, lack of democracy in Indonesia was caused directly by the democratic Netherlands (Acemoğlu and Robinson, 2012, pp. 248-249).⁶

In Middle Eurasia, the missing link was the lack of a system that enabled the population to control the powerful state. This is another *conditio sine qua non* for democracy. Because the power of the state always tends to increase, to keep it under control, the society needs to be mobilized and alert. It needs to increase its own power in tandem to match the growing power of the state. The most potent instrument the citizens have for this purpose is civil society institutions. In the Islamic world, *waqfs* were the most important civil society institution. From the eighteenth century onwards European imperialist powers played a great role in undermining *waqf* systems throughout the Islamic world and therefore destroyed any potential for democracy (Çizakça, 2000: 4).⁷ Thus not only the answer to the first

6 In Chapter 9 of this book Acemoğlu and Robinson provide detailed information about the negative impact of Western imperial powers, democratic at home but despotic overseas, upon West Africa.

7 When during the Crimean War Ottoman government requested a loan from its allies, England and France, they imposed the condition that the government should dismantle the *waqfs* Çizakça (2000, 80).

question above, i.e. impact of historical circumstances, is answered affirmatively but also the significant negative impact of Western democracies upon the potential of democracy in the Islamic world is acknowledged.

We can now focus on the question whether Islam rejects democracy. An affirmative answer to this question implies a major ‘transplant effect’ that would seriously impede any attempt to introduce democracy into Muslim countries (Berkowitz and *et.all*, 2003). Put differently, if Islam rejects democracy Muslims would never embrace it and any attempt to introduce it from above would be seriously impeded by the so-called “transplant effect”.

To answer this question, we need to study the Qur’an carefully. A good point to start would be the verse II:258, which can be interpreted as:

“No human being can have absolute power, which belongs only to God. God, moreover, does not give guidance to unjust rulers (who try to grab all power, because they are transgressors). And lacking divine guidance, they always go astray”.⁸

Another verse repeated 3 times in the Qur’an:

‘*al-amr bi’l-ma’ruf wa’l-nahy ‘an-al-munkar* (commanding right and forbidding wrong)’, is also highly relevant and can have powerful implications.⁹

Muslims have for centuries struggled to come to terms with this verse. They were particularly concerned with the possibility that “the wrong” can be committed by the powerful and if a weak person tried to order him to do right, it may cost him his life. When they put their fears before the Prophet, he introduced a gradation at three levels. This was further clarified by Imam Abu Hanife as follows: ‘Putting things right with the hand is for the authorities, with the tongue for the scholars and with the heart for the common people’ (Cook, 2003).

And upon this, a consensus was reached. In short, medieval Islamic scholars were aware that if rank and file tried to forbid wrong, there would be chaos in the society. But then what does ‘with the heart for common people’ imply for real life? What practical outcome could this statement have? To apply this dictum in real life, an institution is needed. This institution should:

8 I thank Khairunnisa Musari for drawing my attention to this verse.

9 III:104, III:110, VII:157, IX:71

1. Enable the masses to forbid wrong and command good with their hearts but in order to be effective also, from time to time, with their hands,
2. Enable every adult Muslim to fulfil this duty and
3. See to it that no one is hurt in the process.

I will argue here that all three of these conditions can only be fulfilled in a democracy. This is because democracy enables all adult Muslims, at least once every few years, to transform what they have been keeping in their hearts into powerful executive order. Any political leader, who had been doing wrong while in power, would be replaced by all adult Muslims without anyone getting hurt in the process. Thus democracy elevates common people who had been keeping their objections secretly in their hearts, into higher levels of authority at election time, when they can perform their duty of commanding good and forbidding wrong literally by hand, that is, by dropping a piece of paper by hand into the ballot box.

This is not all, consider another Qur'anic injunction, (3:159): 'Consult them (the companions) in the community affairs...'. This verse is considered as a direct command by God to the Prophet. Ibn Taymiyyah provided a powerful interpretation arguing that "God Most High, commanded the Prophet to consult the community despite the fact that he was the recipient of the divine revelation. This Qur'anic command is therefore all the more emphatic with regard to the subsequent generations of Muslims who no longer have the Prophet among them and so no longer have access to direct revelation" (Kamali, 2000, p. 41).

Consider this verse also: "They manage their affairs by mutual consultation" (42:38). It is well known that during the battles of Badr and the Trench, the Prophet asked for and acted upon the suggestions of his companions. He valued opinions of women as well as non-Arabs alike. When asked by his companions "what should we do, if after your demise, we are confronted with a situation about which we find nothing in the Qur'an or anything from you?". He replied that "Get together amongst my followers and place the matter before them for consultation. Do not make decisions on the opinions of any single person" (Khatab and Bouma, 2007, p. 35; Çizakça, 2011, pp. 276-293). The Prophet put his words into action by refusing to appoint his successor. As it is well-known, Abu Bakr, the first Caliph, was elected after a process of consultation. In short, consultation and election, the most important features of any democracy, are inseparable components of Islamic culture and religion. Substitution of election by dynastic succession that became the norm in the following centuries is a tragic aberration.

Here we need to have a brief look at the process of consultation and its evolution as well. At the time of the Prophet, his companions, a small group of people, were consulted. At the time of the four righteous caliphs the same was true.¹⁰ The great sultans/caliphs also consulted their companions but the system was not institutionalized. The consultation took place when the leader felt like it and only with the individuals he approved of. The personality of the ruler was crucial to the proper functioning of the system. If he was a tolerant person truly interested in the welfare of his people, he would welcome honest criticism. But if he was conceited and hubristic and did not hesitate to insult, his consultants would soon change, the righteous ones would exit and be replaced by worthless yes-men. The more such replacements, the less useful would consultation become. Finally, observing that consultation is of little value and merely reflects his own views anyway, the ruler may come to feel that it is a waste of time and stop consulting altogether. These dynamics are not unique to the Islamic world, they can happen in all absolutist regimes. Indeed, this is what happened in pre-revolutionary France, where the parliament remained closed for more than a century.¹¹

In short, the process by which consultation actually takes place is as important as the consultation itself. I will argue here that, once again, democracy provides the best form of consultation. This is because, it equips us with the most continuous and truly representative form of consultation. For in a democracy the ruler has no right or power to close down the parliament, where consultation takes place regularly. Representative because, it is in the democratically elected parliament that hundreds of representatives elected by the people express their opinions reflecting the views of their electorate and in fact give advice to the government.

In short, democracy is a very important pre-condition that would facilitate Islamic financial institutions. Moreover, for the reasons explained above, although originally invented in the West it is in perfect harmony with Islam. There is no doubt about this, because not only it immensely facilitates the application of the verse: ‘commanding right and forbidding wrong’, it also provides the most effective form of consultation.

But for the parliament to function effectively and facilitate consultation, there is another pre-condition: Freedom of thought and its expression. With-

10 At the time of Omar bin El-Hattab this group comprised the first immigrants, the “ansar” and governors. Nevevi (1993, III, p. 299).

11 When Louis XVI finally had to summon it in 1789, it was too late and the King was so out of touch with the realities that it led to an explosive revolution which eventually claimed his head.

out such freedom, parliamentary consultation simply cannot take place. That, freedom of thought and its expression is given utmost importance by Islam, can be deduced from another angle: *maqasid al-Shari'ah*, purposes of the Islamic jurisprudence.¹²

Democracy and the Maqasid

Fulfilling these purposes has been traditionally interpreted as the duty of a Muslim. But Al-Ghazali has subtly pointed out that it should not be so. He indirectly indicated that protecting the purposes of Islamic jurisprudence should be primarily the duty of the state. This is Al-Ghazali's transitivity argument which is best explained for the modern reader by Sabri Orman (2018). Accordingly, if an individual Muslim fails to protect one of the five purposes or universal values stated below, this is an intransitive act, which affects the individual and his/her close environment only. But if a state fails to do the same, that would be a transitive act and affect the whole society. Al-Ghazali argues that when choosing between two evils of the same rank, that is to say, failure to fulfil one of the purposes either by an individual Muslim or a state, avoiding the transitive one that affects the whole society should have the priority. It is therefore primarily the duty of the state to protect the purposes of the Shari'ah.

Another great scholar, Ibn Khaldun (1980), has also reached the same conclusion that protecting the purposes is actually the duty of the state. He reached this conclusion from the perspective of justice. To put it briefly, Ibn Khaldun argued that any person can fail to protect one of the purposes and commit a crime. This would be a crime but not necessarily injustice because, the person in question can be punished for his crime and justice be served. Injustice, however, occurs when the powerful, who "cannot be touched", commits the same crime. The logical conclusion is, once again, the same as Al-Ghazali's. Protecting the purposes of the Shari'ah by the state is far more important, because if the state fails to do so, injustice would occur.

If we follow Al-Ghazali and Ibn Khaldun, and consider the protection of the five purposes primarily as the duty of the state, rather than the individual, a remarkable re-interpretation becomes possible and the purposes (*maqasid*) are then transformed into the following universal values:

12 That Shari'ah and Islamic jurisprudence are not necessarily identical is well-known. But I will treat them here as such for the sake of clarity for Western readers not acquainted with or interested in such details.

1. The first purpose, protection of the mind, is transformed into freedom of thought and expression.
2. Protection of religion is transformed into freedom of worship for all (We might call this Islamic secularism).
3. Protection of property is transformed into full rule of law and property rights for all.
4. Protection of the self is transformed into human rights.
5. Protection of the future generations is transformed into provision of health and education for the future generations.

The above re-interpretation is a radical one and needs to be substantiated. Consider first, how protection of the mind is transformed into freedom of thought and its expression. If an individual Muslim drinks alcohol and becomes incapable of thinking rationally, from Al-Ghazali's perspective, this would be an intransitive act that affects only his immediate environment. From Ibn Khaldun's perspective, he can be easily punished for failing to protect his mind and justice would be served. Now, consider the more difficult case, the state failing to protect the mind. This would be a transitive act and affect the whole society. But how can the state fail to protect the mind of the whole society? This can happen if an action by the state renders the whole society incapable of thinking or expressing its thoughts. This would happen if the state imposes restrictions on freedom of thought and puts thought leaders of the society into prison and silences them. The result would be similar to an intoxicated individual who is incapable of thinking, except at an infinitely greater level comprising the whole society. *Ipsa facto*, the sin that an individual Muslim commits when consuming alcohol would be magnified infinitely in the case of a ruler who renders an entire society incapable of thinking by imprisoning its thought leaders. So, protection of the mind at macro level is the duty of the state and it can fulfil this duty by providing complete freedom of thought and eliminating all obstacles to its expression.

Consider now protection of religion. In the case of an individual Muslim, this is usually understood as the duty to participate in *jihad*, in order to protect religion. From the perspective of Al-Ghazali, this is an intransitive act with marginal transitive implication. That is to say, his failure to participate in *jihad*, constitutes a sin with limited impact on the society. From the perspective of Ibn Khaldun, such a person can easily be punished for his crime. As for the state failing to protect reli-

gion of the whole society, this is clearly more complicated. First of all, Al-Ghazali used the term *hifz al-din*, and not *hifz al-Islam*. From this we can deduce that not just Islam, but all religions and sects must be protected. This is the true and universal purpose of the *shari'ah* and it is the duty of the state to provide this protection. For all practical purposes, this can be called Islamic secularism, that is to say, secularism in the sense of universal freedom of worship. Once again, this is a transitive act that affects the entire society. From Ibn Khaldun's perspective, a state that fails to provide this protection, would commit a huge injustice. On the other hand, a state that effectively protects all religions and sects would perform a transitive act and affect the whole society positively.

The third purpose, *hifz al-mal*, or protection of property can also be both intransitive and transitive. The former refers to an individual Muslim protecting his property, if necessary, by force. If this protection is provided transitively by the state, we can refer to it with the more general term, property rights. Another universal concept, the rule of law, enters into the picture here. It is important that all citizens from the most powerful to the weakest are provided with full property rights. This is possible only if all citizens are subjected equally to the same laws, i.e. rule of law exists. The importance of this concept for economic development needs no further explanation.

The fourth purpose, protection of the self, is usually understood as an intransitive act in the form of prohibition of suicide. When the state is involved in the fulfilment of this duty, however, it becomes, once again, a transitive one and concerns the entire society. We can infer from this, the responsibility of the state to protect human rights of all citizens.

Finally, the fifth purpose, protection of the next generations, takes the form of prohibition of adultery at individual level. At state level, it can be envisaged as the responsibility of the state to provide education and health facilities for the generations to come.

Conclusion

Democracy, freedom of thought and its expression, freedom of worship for all religions and sects, property rights together with the rule of law, human rights and a modernized *waqf* system that provides excellent health and educational systems for future generations, are the pre-conditions for sustained economic development in Islamic countries.

The arguments put forward in this paper make it clear that these concepts are in perfect harmony with the basic teachings of Islam. Indeed, there is powerful evidence for this in the Qur'an as well as in other classical sources. There is therefore no *Shari'ah* impediment to apply these pre-conditions in the Islamic world.

If the once superb Islamic institutions of the past nowadays function best in the West but stagnate in their very birthplace, this is because the pre-conditions referred to in this paper are not available in the latter. Ever since the 1960s, too much hope has been placed on Islamic finance with hardly any attention been paid to the pre-conditions. Unless this emphasis is radically altered, Islamic finance, no matter how well designed, would have only marginal impact on the sustained economic growth of Islamic countries.

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