



Sezai Karakoc,

İslam Toplumunun Ekonomik Strüktürü

(The Economic Structure of the Islamic Society)

Istanbul: Dirilis Publications, 2010, 60 pages

Reviewer: Murat A. Yulek*

Introduction

This is a review essay on Sezai Karakoc's treatise *İslam Toplumunun Ekonomik Strüktürü* (*The Economic Structure of the Islamic Society*) that was first published in 1967 in Turkish by Ötüken Neşriyat. Subsequently, more than ten editions were published in the same language by Diriliş Yayınları. It is generally acknowledged to be among the most important works written in the Republican era on the economic philosophy of Islam authored by a non-academic.

After the dissolution of the USSR, some announced the end of history and the victory of capitalistic ideas (Fukuyama, 2006). This was followed by (renewed) criticism of the capitalistic process after the collapse of markets in 2008 (Piketty, 2014). In the

* The author would like to thank Cengiz Kallek, Umer Chapra, Yusuf Balci and Omer Akyildiz for their comments on the earlier versions of this paper. Any mistakes in the interpretation of Karakoc's ideas belong solely to the author.

@ Prof. Dr., Ostim Technical University, Ankara. murat.yulek@ostimteknik.edu.tr

20th century, the intellectual ebbs and flows in economic thought have continued to range between the two poles of economic liberalism and socialism.

On the other hand, why Islamic countries are poorer than others is a recurring subject in comparative economics. In earlier centuries, the economic structure of Islamic countries, along with physical and human infrastructure as well as science and technology, progressed rapidly. Long before the Renaissance, medieval universities sprang up in today's Syria, Iran, Iraq, Turkey, Tunisia, Egypt, and Afghanistan, among others. Scientific and experimental research in medical, mathematical and physical sciences formed the basis of European scientific development after the Renaissance. In medieval times, long range commercial and financial activities, as well as company forms (what later formed the basis of Italian company types in the middle ages), and financial tools such as hawala (funds transfer), bills of exchange, ijarah (leasing), and modaraba (venture capital) were developed in Islamic countries (Udovitch, 1967; 2011; 2013). These led to a quite efficient economic structure (Shatzmiller, 2011). However, in subsequent centuries, the economies of Muslim countries increasingly fell behind their European counterparts (Kuran, 2003; 2012).

This forms the background to Karakoc's treatise of 1967. The reasons for this rather late review are twofold. Firstly, the treatise includes interpretations worth noting and discusses various aspects of Islamic economic philosophy that Karakoc considers to be a unique system superior to capitalism and socialism in terms of societal welfare. Secondly, in Turkey, most scholarly work on Islam has been written in the Turkish language. This prevents the dissemination and discussion of ideas in wider circles of international scholarship. Karakoc's treatise is one such work that has not been translated into any other language.

Sezai Karakoc is one of the most prominent Turkish poets and thinkers of the Turkish Republican era. His work is, however, not limited to poetry. He is an economist by profession, not a theologian. After working in the Ministry of Finance for a short period, Karakoc left government service and started a fulltime career of writing essays and poetry at the end of the 1960s. He has been publishing his works through a publishing house he established, *Diriliş Yayinlari* (Resurrection Publications), since then. His literary works –but not his economic works— have been discussed in numerous studies.

The treatise, a very concise one with a total of 60 small-sized pages, consists of seven sections. The first section is a general introduction and includes a brief exposition of the main ideas. The last section presents a very short economic his-

tory of Islam. The remaining five sections take up the theoretical underpinnings of the economic philosophy of Islam, production and consumption, property rights, private enterprise and the role of the state in the economy. This review analyzes the ideas presented in the latter five sections.

In the treatise, which was written in colorful and allegorical language, Karakoc opted to interpret the philosophy of economics in Islam in a comparative framework with economic liberalism and socialism¹. At the time the book was first published, socialism was obviously a prominent doctrine, notably through its practice in the USSR, with impressive growth rates². In subsequent editions of the treatise, Karakoc kept using socialism and economic liberalism as doctrinal benchmarks in his explanation of the philosophy of economics in Islam, although socialism had lost its importance by the 1990s.

With this background, the following section will lay out the main ideas covered in the treatise. The final section will conclude the essay with a summary of ideas.

The Economic Structure of the Islamic Society: Main Points of the Treatise

Economics, from Theory to Practice

Karakoc starts by stating that, contrary to the basic inherent assumption in both socialism and economic liberalism, economics is not taken to constitute “the background” of all social events and relationships. To Karakoc, both socialism and liberalism are extreme and seriously misleading abstractions of the “truth;” the latter meaning the way that human beings and the basis for the social interactions among them are created. Both socialism and liberalism *impose* a misleading *doctrinal character* on the human being, *homoeconomicus*, rather than describing correctly the very original character of the human being. Karakoc believes that the description of the human being by both Smith and Marx is similar in nature to descriptions by novelists, describing fictitious individuals and society: “Like any other artist, a novelist is rather interested in ‘creating’ ‘new’ human beings and societies based on his perceptions of the truth that he observes.” He implies that starting with these wrong behavioral premises leads to inappropriate prescriptions on the part

1 Contrary to what is propounded by the title of the treatise, Karakoc does not discuss the institutional economic structure in Islam.

2 Karakoc clearly pointed to the ultimate doom of socialism in practice at the time (1960s), when the Soviet Union appeared economically very mighty to many.

of these doctrines. To the contrary, Karakoc argues, a prophet sees the essence of creatures in the “light of the creative power of the Creator,” and the description of the human by a prophet is authentic.

To Karakoc, although such doctrines may dominate the intellectual/practical arena for a while, they are ultimately bound to disappear, giving way to new doctrines that again seek the “ultimate truth.” In other words, Karakoc sees these man-made doctrines as “doomed to fade away.”

Karakoc describes liberalism and communism/Marxism as vague or nebulous collections of principles with contradictions among themselves. Capitalism and socialism³, on the other hand, are each a practical outcome of, respectively, liberalism and communism; they are particular economic structures that resulted from their doctrinal/theoretical basis. However, these actual economic structures end up being diametrically opposite to their very theoretical underpinnings.

For example, while Marxism emphasizes equality, it effectively ended up making the entire human society subservient to material(ism). Similarly, while economic liberalism centred around freedom of labour, enterprise and the like, capitalism ended up primarily with large enterprises and reduced the area of free competition. Karakoc also emphasized that capitalism has also given way to considerable exploitation of several nations by other nations at a scale unprecedented in the history of mankind. Thus, Karakoc claims, inherently, these doctrines are unable to give birth to contributive actual economic structures that will reflect, with fidelity, their doctrinal principles in practice. In other words, his interpretation is that these doctrines are sterile in terms of sustained societal welfare.

The uniqueness of Islam, according to Karakoc, is that Islam neither contains a nebulous (and often internally contradictory) collection of pure principles like liberalism and socialism, nor does it dictate a “frozen” practical economic structure like capitalism and socialism. Islam includes within itself, principles, as well as seeds of flexible, applicable and beneficial structures that do not lead to economic exploitation of large masses as liberalism and socialism do. Thus, according to him, economic aspects of Islam entail a set of clear principles (such as *zakah*) that do not contradict each other and are applicable to all times and human societies. But with these principles governing in the background, the ensuing practical institutional structures may differ from one society to another and from one point in time to another.

3 Karakoc uses the term “socialism” for the practical system that was in place in the USSR.

Consumption and Production

Karakoc argues that in capitalism the human being is of secondary importance; capitalism is, firstly, about technology, mass production and growth of production. For growth of production, however, the constraint is consumption. That is why production follows consumption in capitalism, not vice versa. In practice, growth in consumption has boosted production, which raised incomes and thus triggered consumption again. This self-feeding mechanism has turned into a vicious circle.

In socialism, a reverse problem occurs. Socialism, in fact, starts from a problem related to consumption, that of unequal consumption resulting from the income inequality in capitalism. From the outset, all attention is then focused on production. While consumption and production feed themselves into an ever-mounting spiral in capitalism, in socialism even the necessary minimal link between consumption and production is destroyed⁴. This has led to the well-known problem of the free ride, shirking or passive work boycott in production in socialism⁵.

In Islamic theology, economics is not an independent social area enveloping other social areas. It is a subset of the greater social area that is bounded from outside, but free from within. The outside bound comes from Islamic institutions that simultaneously encompass different social sub-areas. For example, *zakah* is, at the same time, a religious, an economic and a social institution. The banning of *riba*, which appears at first sight as a pure financial prohibition “has extensions to the personal and social areas, such as lenders being advised to abstain from benefiting from the shadow of the borrower’s house.” These “supra-economic” forces, which impose behavioural constraints on economic agents, help keep a continuous balance between consumption and production; consumption and production neither precipitate nor hamper each other. As such, Islam subjects the economy to the human being and the society rather than the opposite. It does not reduce the human being to a consumption-robot and also avoids paralyzing the economic order by totally limiting consumption and production.

4 Karakoc gives a compelling illustration here. He compares capitalism to a cart that is pulled by two ever accelerating horses (consumption and production) and socialism to a cart being pulled by the horses in opposite directions, ultimately tearing apart the cart.

5 Karakoc argues that in a society where the link between consumption and production is destroyed, as in the case of socialism, the economy is doomed. He wrote these lines first in 1967, when the Soviet system was considered successful by many.

Property Rights, Right of Inheritance and Right of Private Enterprise

Karakoc argues that, in capitalism, owning a property or a good makes the human being a kind of 'god' to that thing; nobody other than the 'owner,' including the cosmic god of Christianity, is supposed to have an authority over that thing. And this 'absolute owner' does not have a responsibility for better utilization of that thing. In a way, human beings are supposed to compete/fight over things, the winner obtaining the right to "own" declaring himself a kind of god. The "things" do not have a right to decline this ownership or have a say in the way they are being utilized. The fate of the "things" is then to be determined by the human beings. Thus, ownership becomes an absolute authority in deciding on the fate of things. Poorer, (non-capitalist) human beings not owning 'things,' are degraded; in a way, they are inferior beings. They, then, start to be seen by the others as "things." In other words, such people become associated with slaves. In socialism, on the other hand, the human being is degraded vis-à-vis the things, in that no human being is given the right to own the things except by owning them collectively.

All in all, whereas capitalism has deified some individuals, socialism has deified things. While the society has been sacrificed for the individual in capitalism, the opposite has been the case of socialism. In Islam, both the human being and the (non-human) things "belong" to God in absolute terms. The right of ownership that the human beings possess (which is legally enforced), in fact, is a power delegated by the Creator. Therefore, property rights do not bestow upon the human being a boundless and arbitrary authority over the property in question. And this principle extends beyond the area that is controllable by society, unlike capitalism. The property has rights against the human being as well. This right is to be utilized in the right (and best/optimal where applicable) way to benefit the owner and/or the society for legitimate purposes. For example, the use of a simple stone to damage oneself or others is classified as *Zulm*, which will require a punishment in the hereafter. Therefore, while exercising ownership rights, the human being is to abide by the rules and principles of the ultimate owner for both himself/herself and the object that he/she "owns." While property rights are well enforced in Islam, the right to own comes with societal responsibilities. It is worth noting that these ideas preceded by two decades the sustainability debate that officially started with the Brundlandt Report (1987).

The right of inheritance is the natural continuation of the property rights after one's death. One's family has the immediate right of ownership of property after

the death of the owner; that is, before society and other people. While the right of inheritance is a consequence of the principle of property rights, the right of private enterprise is its precursor and the dynamic behind property rights.

The Role of the State

What if the property rights are not utilized in the right way for individual or societal purposes? Then, the government will have the authority, as well as the responsibility, to intervene.

Karakoc argues that in an Islamic framework, the individual and the state are not in constant confrontation as in capitalism, because in essence both have common goals and codes of conduct. Both are fed from the same source of virtue. However, the state is not a passive economic agent in the Islamic framework, as it does not have to accord unlimited economic decision rights to individuals at all times. Even if it cannot limit basic individual rights, it can limit the exercise of various rights in the interest of society when necessary.⁶

In this, Karakoc argues that the Muslim society does not assume that each of its members will continuously act with good will and abide by the ethical/behavioural principles of Islam. Secondly, the market processes are not to be taken as self-governing for the ultimate benefit of society, which is the underlying assumption in economic liberalism.

Labour – Capital Dilemma and Riba

Karakoc emphasizes that capital in its essence is accumulated past labour. It is “stale” labour as opposed to “fresh/non-capitalized” labour. Labour is individually fragmented, while capital is a sum of a set of such fragmented units over time and created by various individuals. Capitalism disrespects labour by letting capital dominate labour. Paradoxically, socialism also disrespects labour by considering capital, which is accumulated (“stale”) labour, as illegitimate. Karakoc argues that this, in fact, is a denial of labour.

Karakoc argues that income (and thus value) in Islam is based on labour whatever its form. Income through capital is legitimate only if it combines with labour. Thus, respecting both “stale” and “fresh” labour, Islam effectively respects both forms of labour. It eliminates the artificial confrontation between labour and

6 Traffic lights limit the individual rights but ultimately serve social welfare.

capital by considering capital to have legitimacy only by its joining with labour in an enterprise. It is not legitimate for capital to earn revenue only by itself. Neither is hoarding legitimate.

Concluding Notes

The main tenet of the Karakoc's treatise is that Islam has a unique economic philosophy. He attempts to expose this uniqueness by way of comparison with economic liberalism and socialism.

Karakoc is careful not to use the expression "Islamic economics" in the treatise. As in the title of the treatise, he uses the expression "economic structure of the Islamic society" when he needs to point to the practical aspects. That indicates his understanding that the practical economic structures will emanate from the society and the internal and external conditions that the society faces, while Islam will provide the basic principles around which this structure will evolve.

It can be inferred that he believes that different versions of "Islamic" economic structures may emerge at different times or in different societies based on the surrounding conditions, and they will all be "Islamic" so long as they are centred around these Islamic economic-cum-social principles.

Karakoc is one of the earlier Muslim scholars to employ the two main criticisms of liberalism and socialism: for taking economics as the main and almost only social area and for giving a distorted description of the nature and character of the human being. Thus, he indirectly points to the fundamental deficiency in modern microeconomic theory, which is based on a utilitarianism and which, in turn, has the well-known uni-dimensional, narrow and ultimately misleading description of the "true" human character. He argues that Islamic principles applied to the sphere of economics provide built-in behavioural guides/constraints that prevent both the self-feeding mechanism between consumption and production and the complete de-coupling of them, thus keeping the economy on a middle track.

Property rights, together with the right of enterprise and inheritance, are well established in Islam, but the human being does not have an "absolute" power over his possessions. In addition to formal legal arrangements, behavioural and moral limits or guidelines will regulate, formally and informally, the way the property rights are exercised individually in practice.

Karakoc develops a convenient interpretation and formulation regarding the prohibition of *riba*. Building on the idea that capital is, in fact, accumulated labour

(over past time and possibly by various individuals), he explains how liberalism disrespects “fresh” labour by letting accumulated past labour (which has assumed, by now, gigantic proportions compared to “fresh” and fragmented individual labour) dominate the latter. Similarly, on the other extreme, he explains how socialism disrespects past labour—which is still a form of labour—by declaring it illegal. He maintains that the balance between these two types of labour is preserved by the Islamic principle of prohibition of *riba*.

References

- Fukuyama, F. (2006). *The end of history and the last man*. New York: Simon and Schuster.
- Karakoc, S. (1967) *The economic structure of the Islamic society*. Istanbul: Diriliş Yayinlari.
- Kuran, T. (2003). The Islamic commercial crisis: institutional roots of economic underdevelopment in the Middle East. *The Journal of Economic History*, 63(2), 414-446.
- Kuran, T. (2012). *The long divergence: How Islamic law held back the Middle East*. Princeton NJ: Princeton University Press.
- Piketty, T. (2014). *Capital in the 21st Century*. Trans. Arthur Goldhammer. Cambridge: Harvard University Press.
- Shatzmiller, M. (2011). Economic performance and economic growth in the early Islamic world. *Journal of the Economic and Social History of the Orient*, 54(2), 132-184.
- Udovitch, A. L. (1962). At the origins of the western commenda: Islam, Israel, Byzantium? *Speculum*, 37(2), 198-207.
- Udovitch, A. L. (1967). Credit as a means of investment in medieval Islamic trade. *Journal of the American Oriental Society*, 87(3), 260-264.
- Udovitch, A. L. (2011). *Partnership and profit in medieval Islam*. Princeton NJ: Princeton University Press.