CHAPTER FOUR

A PERSPECTIVE ON CAPITALISM

Introduction

The market economy, an outline of which was the subject matter of Chapter 3, has existed in a crude or refined form for millennia. But as it entered the modern epoch, spanning the past few centuries, it began to evolve into a unique form that eventually came to be known as capitalism. The epithet capitalism, though of a relatively recent origin, has gained such a currency that economics literature mostly does not even bother to make a distinction between the two, with the end result that market economy and capitalism have become synonymous. Perhaps there was no imperative to delve into this distinction; it seemingly would not have made much of a difference, one way or another, given the sociocultural milieu in which the discipline of economics gained increasing level of maturity in the second half of the nineteenth century. For our purpose, however, this distinction is pivotal for the reasons noted in Chapter 1, reasons that formed the basis of coverage in Chapter 3. The evolution of any institution naturally reflects the environment in which it evolves. Since the modern market economy was molded into its present form in the West, it could hardly fail to take on its hues. It was bound to reflect whatever homogeneity and diversity Western civilization had to offer the world, diversity in the sense that capitalism assumed many shades, and homogeneity in so far as all these shades had a certain number of common abiding features. One important focus of this chapter is to highlight that while capitalism is necessarily a market economy (though admittedly not of the pure variety—and indeed that fact becomes the second focus of this chapter), a market economy is not necessarily the same thing as capitalism. A market economy must possess certain additional characteristics, and thus also the attendant institutions—besides the ones noted in the previous chapter—to render it capitalist. In what follows, I intend to identify what in my view is an irreducible set of these additional characteristics, with a specific view to how
the discipline of economics came to terms with their gradual evolution—an evolution that embedded these characteristics in the structure of property rights in more or less all the countries of the world, albeit following the lead of the West. From the viewpoint of Islamic economics, economics ended up condoning, and even lending respectability to, this structure of property rights. (The commonly accepted stance that economics generally does not concern itself with the issue of what ought to be the property rights structure of a society is in reality not quite tenable, for there are instances—in the area of environment and international trade—where it has vigorously attempted to influence that structure. We may recall our discussion in the previous chapters to see the rationale behind the positions thus advocated). What is important in the context of the following exposition is that Islamic economists have failed to realize that a considerable part of what they would regard as the objectionable structure of property rights is actually vested in the government. The second focus of this chapter, therefore, is to show that what they are objecting to as far as capitalism is concerned flows more from the governmental interference in the economy rather than being an inherent feature of capitalism or a market economy. This fact becomes somewhat ironic in view of the enormous powers Islamic economists would readily vest in the government, as we will see in Chapters 6 and 7, and specifically in Chapter 10 in the context of material covered in the present chapter. We now turn to the first issue and in passing note here that an Islamic economy will depart from capitalism to the extent its own variants of these attendant institutions differ from those of capitalism.

This new set includes two characteristics: (i) the commoditization of money, which in turn facilitated the eventual instrumentalization of interest (though this was predicated on the prior existence of the institution of interest), and (ii) the institution of limited liability, with the caveat that the first of these institutions is the fundamental, the defining, institution of capitalism, while the second is an attendant institution, an institution that supports and complements it. The nature of this symbiotic relationship can be appreciated only when one recognizes that the institution of limited liability would not make any

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1 I would, however, like to point out that the institution of limited liability may exist in a market economy which is not capitalist in light of the liability that may arise in response to consumer protection laws. But then that is quite a different matter, and something that is not relevant to the discussion at hand.