

ECONOMIC MODEL: LESSONS FROM MADINA

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In the name of Allah the Merciful, the Magnificent

ABSTRACT

This paper will discuss Madina al-Munawarah at the time of the first Muslim community as an economic model for mankind. The fundamental principle upon which we set our discussion is that: “the revival of Islam is the return to the ‘amal of ahl al-Madina.” Under this foundational principle, in order to eliminate our Riba economy needs to understand not just what is haram (riba), but to understand what is halal: what is the alternative model to riba. We also state that without a model it is impossible to create an alternative. Instead, without a model, we find ourselves simply making cosmetic changes to a capitalist model which is constructed upon riba.

Keywords: Islamic economics, Madina, guilds, markets, BRI, CPEC, caravanserais

INTRODUCTION

It is important to notice that during the entire 20th century the general position of the modernist Islamic movements was to reconcile Islam with Western capitalism, this was known as “islamisation”. This approach promised to make capitalism compliant to the Shariah, in reality what it did was to make the Shariah compliant to capitalism. It was not capitalism that was reformed by it was the Shariah that was reformed in order to fit into the current structures of capitalism. Thus we saw that from banks they invented Islamic banks, from insurance Islamic insurance, from Stock Exchange Islamic Stock Exchange, credit cards Islamic credit cards, etc. Needless to say this, it was not based on the template of Madina but on the template of New York.

This paper will focus on Pakistan as a location and reference as to how the model of Madina can make a return, its impact and potential to transform the economy. Without location, to speak about Shariah becomes an academic exercise that can easily become nihilistic. The new Prime Minister of Pakistan Imran Khan has declared repeatedly that the model of the “new Pakistan” will be the model of Madina. In this respect this paper is an answer to his request. I also believe that Madina is the answer to the economic and political problems of Pakistan and this paper is a contribution to understand what Madina has to offer. It is my intention that together with the blessings of the Prime Minister a “Madina Research Institute” will be set up in Lahore to give continuity to what this paper announces: the relevance, opportunity and importance of Madina as a template for the economy of Pakistan.

The idea of a Madina Research Institute is to bring the best scholars in the world to Pakistan to create new political and economic narratives that are project and problem-solving oriented using the model of Madina as a template. We intend to do it at the same time we embrace fullheartedly mechanisation and technology for our economy, and we intend to show how the eternal principles of Madina and technology can spouse to produce remarkable and ground-breaking transformations for our economy.

If Madina is our model we need to understand more about Madina. Our purpose is to try to understand Madina within Madina. This means, the conscious attempt to understand Madina without the precondition and prejudices of living and operating in our current capitalist economic model. We will

not try to find justification in Madina for our present behaviour, or try to install institutions in Madina that did not exist at the time, but rather open ourselves to examine Madina as something different, vibrant and challenging than what we know of economy today.

As a matter of introducing the reader to the subject I will cover just four topics:

1. Madina economics vs Islamic economics.
The difference between the two approaches to economics
2. The Business model of Madina
Examination of how business and the organisation of labour happened in Madina
3. The Welfare model of Madina
Exploration of how Madina solved the question of welfare
4. The Madina of Imran Khan
Basic guidelines of how to use Madina as template for Pakistan

1.- MADINA ECONOMICS VS ISLAMIC ECONOMICS

Return to Madina is the rediscovery of our real economic model. Madina is the template for such model. Our template is a breakaway from the capitalist Western template. Madina challenges the Riba-based economy of banking and fiat money. It also challenges the capitalist individualistic values and the ethics of the West. On the other hand, we have something new called the Islamic Economics, which is, in my view, just an extension of the Western capitalist model. This is an attempt at Islamisation of capitalism reminding us of some of the steps taken in not too distant a past. What results did these steps produce is all too evident to be specifically mentioned. The Islamic Economics in practice here is not to make capitalism compatible with the Shariah, but this Islamic Economics is meant to make the Shariah compatible with capitalism, to make the New York our model. It is the negation of Madina.

Only if we have the moral courage of moving out of our colonial inferiority complex, and the obsession with adapting to and copying the West, we may be able to recognise Madina. Removing the Western lens of prejudice would make us see that Madina was: public markets instead of supermarkets; gold dinar and silver dirham instead of promissory notes; caravan traders instead of shopkeepers; 'Qirad' instead of banking. While British exalted individualism under the Adam Smith's motto of 'greed is good', the economy of Madina empowered the community while recognising the individual. Thus fair-play (equal opportunity for everybody) stands over profit.

The economy of Madina was essentially a trading economy. Capitalism, on the other hand, is a financial economy, a debt-based economy. In capitalism even money is a debt: a false promissory note. It is a system of debt encompassing all businesses and all governments. The role of debt in Madina is minimal: money is a commodity (not a debt) and debt is discouraged in general. There is no possibility of a national debt: the absurd notion that every newborn Pakistani bears a debt created by another party. National debt has nothing to do with Madina, it is a Western tool of economic colonisation.

In practice, the model of Madina is based on public markets and caravanserais — that is the marketplace belongs to all the people (waqf), not private ownership. In capitalism, the market place disappears in favour of privately owned shops, malls and supermarkets. In practice, the model of Madina is based on guilds, that is, professional organisations that share both key assets (means of production) and liabilities (social credit) where competition and collaboration between the professionals is balanced. In capitalism, the mode of production is one owner with 1,000 employees, which is actually the model of the East India Company — the factory system.

When Hindustan and China were the richest countries in the world (before the East India Company destroyed us), they were based on guilds or biradaris (brotherhood based on profession and not castes). In fact, all pre-capitalist societies, including all Islamic societies since Madina, were based on guilds. Guilds and their regulations became forbidden under British law both in occupied-Hindustan

and occupied-Egypt. Before the British, guilds were the most powerful institutions, autonomous in decision-making and the backbone of the economy. Our present biradari system is a mere relic of it. Originally biradaris represented solidarity and brotherhood, which is opposite of capitalist factory system, which is based on shareholder profits that are based on monopoly and wage slavery of the masses.

Markets, caravanserais, guilds, dinar, dirham, caravans, qirad, shirkat, zakat, waqf are some of the Institutions of Madina. Using today's technology, we can replicate all these institutions in the digital world. Blockchain technology offers the best possibilities to introduce asset-based crypto-currencies, based on gold and silver; open markets create open trading platforms that can guarantee the possession as well as the ownerships of the goods, which is indispensable to creating Islamic trading. Most important part of the blockchain technology would be the creation of true Islamic Finance not based on collateral but on social credit, that can be validated and tokenized. These will represent the most important turning point on the transformation of the world economy. Madina represents the end of three evils of trading: Riba, unjust taxation and monopoly. Altogether the blockchain technology could be a perfect technology to integrate the economy of Madina with the digital world.

2.- THE BUSINESS MODEL OF MADINA

If Madina is the template for a new Pakistan, can Madina teach us about business models? Is there a Madinan business model? The answer is yes and yes. The Madinan model is the caravan model. The caravan is a guild of traders. This model lasted for hundreds of years among Andalusians, Ottomans and Mughals. Can this model be viable in Pakistan today? Yes. Can this model benefit all Pakistanis instead of just a few? Yes. Before we look into the details let us solve an underlying puzzle. Why we have not been able to see the model of Madina before?

The reason is that we were not looking at Madina as a model, we were looking at our existing models and we were trying to find justification or validation for them in Madina. This is how orientalists taught us to look 'down' at our history. Islam descended from being a living model to a mere ethical ornamentation to the self-evident (unquestionable) Western models. To understand Madina we have to look into what Madina per se has to offer.

Paradigm shift. When Microsoft launched Encarta in 1993, most people predicted that -with such a capitalist giant behind it- the success of the largest encyclopaedia in human history would be inevitable. Yet, from small beginnings a free and user-generated Wikipedia became larger than Encarta by 2001. By 2009 when Encarta announced its closure despite its 62,000 articles, the English Wikipedia had already exceeded 3.1 million articles. The giant was defeated. Then came Uber, a peer-to-peer ridesharing. Its triumph was as overwhelming as Wikipedia's. The impact in business modeling was so great that people started to talk about Uberisation. Concepts such as autonomy, devolving decision-making and infrastructure sharing became commonplace in business science. This was a paradigm shift.

The Caravan Model. Rasulallah, SAW, was a caravan trader (not just a trader). A caravan was a fraternity of traders, like the original craft-based biradari. Members shared resources -commonly owned as a waqf- on the basis of "everything-as-a-service". Members trusted and vouched for each other which led to a new groundbreaking conception of credit worthiness based on their socially recognized integrity. The caravan was based on solidarity but balanced with a healthy competition as individual traders.

By comparison a capitalist export company typically would consist of an owner and several hundred employees. The employees do their assigned jobs and decisions are centralised in the management. The management chooses what to buy and what to sell. If this model had existed in Madina, Rasulallah, SAW, would have been an employee of an export corporation instead of a caravan trader. In the caravan model, each trader makes its own decisions and manages its own risks. Decision-making evolves from uniformity to coordinated multiplicity. This results in greater efficiency. Historically the

caravan has proven as the most efficient system of trading ever. Measured against the overall benefits to society (rather than individual profit), efficiency-oriented models are clearly better than profit-oriented models: monopolies are profitable but harmful to society. Autonomy: members choose which caravan journey they wish to participate and how much they wish to participate. Openness: the caravan is an open network; the only condition to join the caravan was to prove your honesty and mastery of skills to your peers. The Caravan of Madina belonged to the people of Madina.

The principles of the Caravan model are worth understanding: cluster organisation and development, balance between collaboration and competition, autonomy of labour, social collateral or social credit-worthiness, open networks and training at work (apprenticeship). Furthermore, we must remember that this is the Sunnah of our beloved Prophet, SAW, and the best people in history, the people of Madina. This is our paradigm shift.

Where do we start? The practical horizon for the caravans is CPEC, in a larger vision is the Silk Route (BRI). There cannot be a Silk Route without caravans. To create caravans we need caravanserais, a section of the market reserved to foreign traders. There cannot be caravanserais without public market places. The larger objective is: building 25 new trade cities, around public markets and caravanserais in key strategic locations across Pakistan. A good strategy must have a well-defined scientific outlook and long-term vision. Then we can take the first steps: the first market, the first caravanserai, first caravan. A good example could be to establish a Lahore-Yiwu market place, between our Punjabi capital and the International Market-city of Yiwu in China. Both markets will create a caravanserai. Using reciprocal hosting: Lahore caravanserai will host Chinese traders, and the Yiwu caravanserai will host our Lahori traders. Thus the first caravan will be set.

The essence of the caravan is the guild. All pre-capitalist societies were based on guilds. From Europe to China, everywhere labor was organized in guilds since recorded times. European guilds for various reasons degenerated over time into cartels. Then accused of being a monopoly were legally abolished during the age of the liberal revolutions to give way to the capitalist factory system which alienated the organized labor force into a mass of helpless wage-earners. The guilds did not die of natural causes but they were murdered. Two reasons for the demise of the guilds: the birth of fractional reserve banking and the destruction of the public market.

Colonialism continued legally abolishing guilds wherever they found them in order to establish their own banking-driven private enterprises. In Egypt guilds and waqfs were legally outlawed shortly after the British conquest. In Bengal first, and then the rest of Hindustan, the systematic destruction of the traditional craft-biradari system was used to de-industrialized the entire subcontinent and to empower the East India Company's monopoly factory system. Ironically, the spoils of Hindustan (the richest nation on earth before the tragic fall of Bengal) paid for the industrial revolution in England. The ruthless British banking elite, not content with making miserable their own working class, exported banking capitalism like a plague to the world. In Europe the reaction to capitalism gave birth to socialism, which originally (before Marx) focused on the return to a communal based economy, an economy that cared about people. Britain responded by elevating their capitalist *riba* ideology to a pseudo-science called Economics. This fallacious doctrine allowed to rationalized spoliation, robbery, manipulation, starvation and wage-slavery to the emerging pro-British local elite. The indoctrination was so profound; that it has lasted up until today and still dominates our Pakistan educated elite. This manifest in our incapacity to analyze fractional reserve banking and central banking as an absolute denial of Islam, the proof of this is the never-ending case against *riba* that lies dormant in the Shariah Court in the hope that it is finally forgotten.

Capitalism is not a mode of production it is a corrupt mode of controlling the flow and creation of money that corrupts the mode of production. The guilds are the natural way of organizing labor and they represent the business model of all Islamic societies in the past. Islam encourages and promotes industrialization and mechanization as the means of improving human condition, but denies capitalism. Capitalism has tried ideologically mix machine and fractional reserve banking as a unique phenomenon. It is false. They are two distinctive matters. We want industrialized guilds leading

technological innovation, but we affirm as Allah says in the Quran: Allah and his Messenger have declared war on riba (harb min Allahi wa rasuli).

3.- THE WELFARE MODEL OF MADINA

Welfare is not an activity of governing but the purpose of governing. That is to say, not one, but ALL the activities of governing are motivated for the welfare of its people. Welfare is governing. Welfare is also wisdom. The welfare of a nation is the manifestation of wisdom of that nation. A wise nation is the one whose purpose is the welfare of its people.

One of our greatest scholars alive on the study of early Madina, Dr Asadullah Yates, in a paper entitled "Welfare in the Early Days of Islam" starts its illuminating dissertation with a ground-shifting statement: "the primary source of welfare is Allah taala Himself and His Messenger, may the peace and blessings of Allah be upon him." Welfare starts from Allah, Who grant us life in all its infinite details and its overwhelming complexity. By recognizing Allah as the primary source of welfare, then we can understand that mankind's welfare is only a secondary source. At our best, we are only tools of Allah's bounty and generosity. Allah sent us His Messenger (saw) as a mercy and as a model of mercy from one to another. And Madina is the accomplishment of Rasulullah's (saw) model of welfare granted upon the whole of mankind. Madina should be the model of welfare for Pakistan.

In order to avoid misunderstanding, I want to underline our departure from the administrative interpretation of welfare that we have inherited from colonial culture: welfare is not state care, and welfare is not charity organizations. Both constructs are artificial exploits, which barely cover up the tip of injustices, often supported by the same institutions and corporations that perpetrate or cause the injustice. Both constructs justify – therefore, preserve- the exploitative nature of a society built upon bigotry and theft such as it happens in the West and we have for too long, too readily imitated. That is not the welfare of Madina. Our welfare is foundational, rather than fortuitous, to our understanding of organised society.

I would focus only on two fundamental ideas about the Welfare of Madina: 'imarat (urban waqf) and zakat (welfare prescribed as obligatory worship). The 'imarat which literally means development or construction is today a forgotten concept. The Ottomans called it imaret, and it was the foundational urban unit upon which cities were developed. The Ottoman imaret was an urban complex consisting of mosque and public market, and often complemented with madrassa, library, hospital, hamam and hospice. All these institutions inside the 'imarat were waqf. The public market, although free to trade within it, generated enough revenue to cover the maintenance cost of the other institutions, which delivered their services for free or for a reduced fee.

The art of building new cities was the delicate understanding of the bonding of people into communities and unique urban planning. In early Islam new cities were formed around the mosque and market, that is to say, waqf was the center of the creation of new cities. Andalucians excelled in this art and successfully created numerous new cities in their European lands. No Andalucian city could be found without its central mosque together with the suq and the funduq (Arabic for caravanserai or the part of the market reserved for foreign traders). Following the same model all new Ottoman cities started to be built around an imaret as the central pillar of the city. Consequently, all new neighborhoods expansions in existing cities were also built around a central imaret.

The imaret is a unique model of welfare generated by urban design. It supplied through trading the largest number of jobs to the city, and also generated basic welfare services for free or almost free, especially health and education. Ibn Khaldun refers to the establishment of 'imarat as the means to distribution of wealth that allows "Islam and the Muslims to flourish" and indicates that the largest part of the treasury should be dedicated to this end of building and expanding the 'imarat. The public market building consisted of two distinctive zones: one was the trading area which was free- from-fees

for traders (as free as a mosque is to pray); and two was the service area which generated income based on the provision of logistic services to traders and amenities to consumers. The service area consisted of specially designed compartments and buildings attached to the main market area such as: long-term, short-term, and security types of merchandise storage, light workshops, professional offices and public amenities. As argued by the great historian Halil Inalcik, "in rebuilding ottoman cities and regenerating commerce and the economy the construction of imarets played a fundamental part."

The colonial British rulers allowed the mosques to continue but confiscated all the waqf system transforming them into source of income for themselves while destroying people's welfare. While no city of the past was built without the public market and its caravanserai (section of the public market reserved for foreign traders), today no Muslim cities after colonization have a public market nor caravanserai operating. The traditional markets once deprived of their waqf status, they became malls of private shops, and the caravanserais became shops or hotels. The private shops and later the supermarket, which did not exist in Madina or Muslim cities during Muslim rule, became the new cultural fashion during colonial and post-colonial times up until today.

Zakat is a form of worship. It is paired with salat in importance in the Qur'an: salat and zakat. One is no good without the other. Only in Islam this elevation of individual welfare to the level of worshipping is found. It tells us something very important. To care for other people is to care about Allah and vice versa. And for a Muslim is an obligation, the denial of which is seen as treason against Allah and against His community. The first Jihad of Islam was against the people who refuse the payment of zakat. Zakat is incumbent in all Muslims, all business and all mines within the known exceptions. We must not forget regarding this matter, the khums (one fifth) of all mineral production (gas, oil, coal, etc.) and the ushr.

Zakat is collected, not given. Zakat is not voluntary charity. It is an obligation. Our new government must appoint zakat collectors as required by the Shariah. These are highly ranked people from among the most honorable individuals directly answerable to the ruler. They operate like notaries. For transparency and efficiency the work of the collectors could be integrated in blockchain technology. Thus guaranteeing the incorruptibility of the records. This way our government could restore the trust with the people on this institution, by equally integrating the distribution of funds using blockchain records.

Zakat and the architectural waqfs represent a comprehensive system of welfare that do not depend on Government budget. It is the way of our tradition of Madina. It is the way forward.

4.- THE MADINA OF IMRAN KHAN

In the year 2048 the population of Pakistan will reach 300,000,000. That is 100 million more than today. In twenty years. That is the equivalent 25 new cities of 4 million inhabitants, that is, 25 cities twice the size of Rawalpindi. That is a lot. We are going to need a lot of houses, a lot of new economy and a lot of new jobs. Where are we going to find those jobs for our people?

If you ask our well intentioned experts from the public and private sector they will mumble solutions and half solutions around the mantra of new technologies, advance manufacturing, robotic industries, and the like. This discourse is hardly original. We have heard it in private talks, conferences and seminars everywhere. Our experts are echoing what is the current discourse of other experts around the world. There is a catch to all this talk, an elephant in the room. Technology increases productivity – which is great-, and therefore reduces the amount of required human labour. When it comes to the creation of jobs technology is the solution and the problem at the same time. Our experts are stuck, like all experts are stuck.

This article contends that the solution that so frustratingly escapes the talent of our world economic experts was found by none less than of our Prime Minister Imran Khan.

When Imran Khan in his victory speech spoke with the heart spoke the right thing. He spoke about

Madina and he spoke about care. Madina is the model for the new Pakistan. Madina contains the solutions we are looking for. To understand Madina, you need the heart, you need to love Madina. Without heart you will not understand Madina.

Rasulullah, S.A.W said: "9/10th of the risq (provision) comes from trading". Trading is the inexhaustible source of our future jobs. The tertiary sector of the economy is the key to our jobs. Trading is the king of services. The revival of trading is the revival of services. And if we do it the way of Madina, it will produce 90 percent of our present and future jobs. Here is the full argument.

The primary sector of our economy (agriculture) is already saturated. The secondary sector (industry) can expand but it will produce as many jobs as it loses to remain competitive. The tertiary sector of services is where we have to find the jobs. How? The answer is in Madina.

The central institution of Madina is the public market place. When Rasulullah, S.A.W went to Madina he made a mosque and a market almost on arrival. We know what a mosque is, but we have forgotten what the market of Madina is. If you travel to the Hijaz today, you will find the mosque but the market does not exist. It has been replaced by shops and malls. The original market of madina was a first come first serve open trading space. It was publically owned or waqf, like the mosques. Like the mosque it could not be privatised. The Market granted the right to trade to all the citizens. Big or small all traders were equal in the market place. A section of the market was reserved for foreign traders. That section was the caravanserai. The caravanserai was a invitation to the world to come and trade in Madina.

Islam from a social point of view was a commercial revolution. It expanded like a wind of liberation throughout the world creating the first true globalisation. From Spain to China it created a network of open markets and caravanserais that feed the necessities of traders organised in caravans. Islam liberated people, by liberating trading from its three sicknesses: riba, monopolies and unjust taxation. This formula of real free trading created the trading routes like the Silk Route.

The Silk Route has returned to Pakistan with CPEC. But CPEC has not yet become the turning point of our economy as we predicted. It will become the turning point if we add to the existing infrastructure the breath of Madina. That is CPEC plus caravanserais. That means the creation of 25 new cities along the corridor. Not industrial sites, not more malls. But 25 cities built around the central feature of caravanserais.

India is busy creating the Mumbai-Delhi Industrial Corridor, 24 new cities partly financed by Japan along the North-South infrastructure. We can do better than India, building 25 cities, but not just cities. Building 25 new Madinas. The Imran Khan's Madina is our solution.