home by Marx himself, and grew up with a rich understanding of the capitalist system which would allow her to play an important part in the future of the British labor movement[38]

For Karl Marx, the basic determining factor of human history is economics. According to him, humans - even from their earliest beginnings - are not motivated by grand ideas but instead by material concerns, like the need to eat and survive. This is the basic premise of a materialist view of history. At the beginning, people worked together in unity and it wasn't so bad. But eventually, humans developed agriculture and the concept of private property. These two facts created a division of labor and a separation of classes based upon power and wealth. This, in turn, created the social conflict which drives society. All of this is made worse by capitalism which only increases the disparity between the wealthy classes and the labor classes. Confrontation between them is unavoidable because those classes are driven by historical forces beyond anyone's control. Capitalism also creates one new misery: exploitation of surplus value. For Marx, an ideal economic system would involve exchanges of equal value for equal value, where value is determined simply by the amount of work put into whatever is being produced. Capitalism interrupts this ideal by introducing a profit motive - a desire to produce an uneven exchange of lesser value for greater value. Profit is ultimately derived from the surplus value produced by workers in factories. [39]

A laborer might produce enough value to feed his family in two hours of work, but he keeps at the job for a full day - in Marx's time, that might be 12 or 14 hours. Those extra hours represent the surplus value produced by the worker. The owner of the factory did nothing to earn this, but exploits it nevertheless and keeps the difference as profit. In this context, Communism thus has two goals: First it is supposed to explain these realities to people unaware of them; second it is supposed to call people in the labor classes to prepare for the confrontation and revolution. This emphasis on action rather than mere philosophical musings is a crucial point in Marx's program. As he wrote in his famous Theses on Feuerbach 'The philosophers have only interpreted the world, in various ways; the point, however, is to change it. [40]

Marx has broadly distinguished four different stages through which the society has passed. These are primitive communism, slavery, feudalism and capitalism. The stage of primitive communism is characterized by a classless society. The means of production are socially owned. If there was any division of labour, it was limited to family. In course of time pastoral habits developed. People learnt how to tame animals. People learnt weaving and rudimentary forms of mining developed. All these led to the development of exchange. With the change in the forces of production, there was a great increase in the demand for labour, to carry on the new productive activities. This could not be satisfied under the existing form of economic society. The widening field of production brought slavery into existence. In other words, primitive communism was changed into slavery. Marx was of the view that capitalism was destined to face disintegration ultimately. Marx believed that capitalism contained the seeds of its own destruction. He held that capitalism will disintegrate because of its inherent conflicts and contradictions [41]

Keynesian Economics

Keynesian economists broadly follow the main macro-economic ideas of British economist John Maynard Keynes. Keynes is widely regarded as the most important economist of the 20th Century, despite falling out of favour during the 1970s and 1980s following the rise of new classical economics. In essence, Keynesian economists are sceptical that, if left alone, free markets will inevitably move towards a full employment equilibrium. They Keynesian approach is interventionist, coming from a belief that the self-interest which governs micro-economic behaviour does not always lead to long run macroeconomic development or short run macro-economic stability. Keynesian economics is essentially a theory of aggregate demand, and how best to manipulate it through macro-economic policy [42]

With the recent economic crisis, there has been much talk of John Maynard Keynes and his economics. Keynes figured out the causes of the Great Depression and in doing so revolutionized the field of economics. According to Keynes, classical economics (basically that summarized by Alfred Marshall, including Ricardo, Mill, Edgeworth, and Pigou) addresses only a special case of the economy, while his is a more general theory. The classical theory of employment says the labor market is just another market: people get paid what they make and people only work if they get paid enough to make it worth it. Since it seemed unlikely that society had run out of money-making jobs, it was assumed that unemployment was caused either by people not knowing where the jobs were (frictional unemployment) or insisting on being paid more than they could make (voluntary unemployment). The classicals believed in Say's Law which state that supply creates its own demand. If there are people around willing to work, jobs will spring up to make use of them. If people are unemployed, it must be because they're refusing to take the job. [43]

Keynesian economics is the view that in the short run, output is influenced by aggregate demand (total spending in the economy). In the Keynesian view, aggregate demand does not necessarily equal the productive capacity of the economy. Keynes contrasted his approach to the 'classical' economics that preceded his book. Keynesian economists argue that private sector decisions sometimes lead to inefficient macroeconomic outcomes. So it requires active policy (fiscal policy) by the government, in order to stabilize output over the business cycle. Keynesian economics advocates a mixed economy – predominantly private sector, but with a role for government intervention during recessions. The advent of the global financial crisis in 2008 has caused resurgence in Keynesian thought. Prior to the publication of Keynes's General Theory, mainstream economic thought was that the economy existed in a state of general equilibrium. This perception is reflected in Say's Law. Keynes's theory was significant because it reversed the mainstream thought of the time and brought about a greater awareness that problems such as unemployment are not a product of laziness, but the result of a structural inadequacy in the economic system. He argued that there was no guarantee that the goods that individuals produce would be met with demand and unemployment was a natural consequence. He saw the economy as unable to maintain itself at full employment and believed that it was necessary for the government to step in and put under-utilised savings to work through government spending. Keynesians therefore advocate an active stabilization policy to reduce the amplitude of the business cycle. According to the theory, government spending can be used to increase aggregate demand, thus increasing economic activity, reducing unemployment and deflation. [44]

John Maynard Keynes

John Maynard Keynes was an English economist and is the author of "The General Theory of Employment, Interest and Money" (1936). As a result of the influence of this work, he became the most influential economist of the twentieth century. Written during the height of the depression, it offered a new explanation of the depression and the unemployment that plagued it. Keynes' new theory probably also appealed to economists because it provided an alternative to the traditionally held view that unemployment can and should be eliminated by a drop in wage rates. Keynes new theory conveyed a politically much more pleasant solution to the problem of unemployment. According to Keynes, the solution to unemployment was a growth in government spending. The particular form of government spending advocated by Keynes was for the government to purposely adopt a policy of budget deficits which he called "fiscal policy." To arrive at this seemingly simple conclusion, Keynes developed a highly complex argumentation brimming with new economic terms and concepts of his own devising, such as "multipliers," "consumption and saving functions," "the marginal efficiency of capital," "liquidity preference," "I-S curve," and many others. The essence of Keynes' theory, however, involves a shift from classical economics' concern with the production of wealth to a concern with the consumption of wealth. According to Keynes, Say's Law is not true; that is, supply does not create its own demand. Rather, according to Keynes, supply is capable of outstripping demand, with the result that goods remain unsold, and production and employment are correspondingly cut back. As a result, the solution to unemployment, according to Keynes, is not to reduce wages and prices, as the Classicals advocated, but to increase consumption through the spending of money by the government. [45]

8. Response from The Muslim World

The formation of Islamic economics was a reaction to Western penetration of the Islamic world in the modern era. Beginning in the middle of the nineteenth century, several Western countries established their own banks in order to support their commercial activities. For example, the British Empire established the Imperial Ottoman Bank (1856) in the territory of the Ottoman dynasty and the Imperial Bank of Persia (1889) in the territory of the Qajar dynasty. The establishment of such Western banks, which charged interest, was a grave problem for Muslim intellectuals. Since the rise of Islam in the seventh century, the doctrine of Islam has prohibited any transactions including *riba*. In the context of Islamic jurisprudence, the concept of *riba* is generally considered to imply some sort of inequality and defined as some sort of banking interest in the modern context. Muslim intellectuals focused on the relationship between this implication of *riba* and the function of interest in the Western banking operations, and questioned whether transactions with interest were forbidden due to the *riba* factor.

This problem was discussed not only in the context of interest-based wholesale finance for industrial modernization, but also interest-bearing retail finance such as fixed deposits. For example, during the early stages of the Anglo-Egyptian Condominium (1899-1955) the Post Office Savings Bank in Sudan provided a special service that allowed depositors to reject the interest on their accounts. [46] As another example, Rashid Rida, the editor-in-chief of Al Manar magazine, reported that when the Egyptian government introduced interest-bearing postal savings, called *Sanduq al-Tawfir*, in the first decade of the twentieth century, more than three thousand depositors rejected the interest. [47]

Another damaging consequence of the attempt by economists to emulate the physical sciences in the West has been a general failure to appreciate the possibilities and potential for change and transformation in human beings. Human beings are free to choose in ways not determined by their past. Studying the laws of motion for societies requires that this possibility be denied. In many of the social sciences, the importance of human agency and the potential for changes in cultural and group behaviour are recognized. However, these contemporary trends have not had any impact in economics. The idea that there are natural laws governing economics, which is at the heart of modern Western economic theory, has had grave consequences. Shouldering responsibility for enjoining the good and prohibiting the evil, and for working to transform human beings from a materialist to a spiritual perspective, is fundamental to the message of Islam. This creates a great gap between Islamic and Western views on economics [48]

The birth of Islamic economics as we know it today can be dated to the early twentieth century. The needs of liberation movements gave a distinct shape to Islamic thought all over the Islamic world. It was necessary to argue that Islam required Muslims to struggle for freedom, and that it offered a better way of life than the dominant Western systems of capitalism and communism. This forced Muslim thinkers to delineate and distinguish Islamic socio-political and economic systems. Although these issues have been discussed by many Muslim thinkers, two major figures devoted substantial energy and time to developing the basis and defending the need for a distinct Islamic economic system, Mohammad Baqir Al-Sadr in his book "Our Economy" [49] and Sayyid Abul A'la Maududi [50] in numerous books and articles. Chapra [51] summarises this historical background and the views of Maududi, and gives citations to the latter's numerous works. Chapra also remarks on the courage it took to formulate an Islamic system and defend it against the dominant and apparently tremendously successful Western systems in the early twentieth century. The founders of Islamic economics (Al-Sadr & Maududi) agree that the focus of Islam is on human and spiritual development, and the purpose of an economic system is to promote justice and equity. Both believed that applications of Islamic laws and guiding principles in the economic sphere would bring advances in human welfare and be superior to Western systems for handling economic affairs, which promote only material welfare.

In the post-colonial era, Muslims have (differing degrees of) freedom to handle their economic affairs. Western methods of organizing economic affairs and Western institutions are often in conflict with Islamic laws and, more fundamentally, Islamic concepts of socio-political and economic organization. Efforts to transform these organizations and institutions have led to both theoretical and practical developments in Islamic economics. In states where Muslims have had political power and live in sufficient numbers, fully or partially Islamic systems have resulted. In other situations, Muslims have used private and market-oriented means rather than government policies to create economic institutions in conformity with Islamic law. These three situations (fully Islamic governments, a mixture of secular and Islamic institutions, and purely private market based Islamic institutions) have led to the establishment of different types of economic institutions [52]

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