

The Law of Consistency and Socio-Economic Development

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The paper intends to give support to the statement that there is no world-view other than the unity of the divine law of Tawhid in the Qur'an which can properly explain in a cognizant and formal manner the differential socio-economic development experience in the world today. To this end the world empirical phenomena will be divided in two groups: the physical phenomena which are the subject of the physical sciences and the human phenomena which are the subject of the social sciences. It may appear at first sight that these phenomena are guided by different natural laws. On deeper investigation and at the most fundamental level, however, it is seen that they are guided by the same divine law, the law of consistency. While the discussion will include ideas about the physical phenomena, the emphasis of the paper will be on the human phenomena, specifically on the economy, finance and development. Based upon the general applicability of the law of consistency in human societies in the contemporary world and in historical time, it is strongly recommended that Muslim countries review their development strategies to make them more in line with the basic values of syariah economics.

1. Introduction

Muslims generally recognize the fact that their societies are trailing the western countries in socio-economic development. Why this is so is not very clear. Is there a basic natural law that has been broken by these Muslim countries so that they are lagging behind ?

My answer to this question is that these lagging Muslim countries have not lagged behind because of lack of natural resources. Nor have they lagged because of the lack of capable people to manage their development. Instead they have lagged because they have chosen to neglect a very basic natural law in managing their socio-economic

development, the law of consistency. This means that the technologies that have been applied to develop their economies have not been consistent with their basic beliefs as Muslims. There has been an incongruence between basic beliefs and intents on the one hand with operational paradigm actually used to manage the development efforts on the other. The operational policies actually employed by and large are those based on neoclassical economics. The cardinal values of neoclassical economics are individualism and materialism which are contrary to the values in the Islamic religion. This incongruence leads to inefficiency and ineffectiveness in the allocation and use of scarce resources. Therefore they are lagging.

2. Methodology and Data

In this paper, I will first make a review about the law of consistency and ask the question whether the consistency one sees in physical phenomena is also to be found in social phenomena. The upshot of this review will be to suggest that there is in fact such consistency. Next, I will review the differential socio-economic experiences in the world to-day especially between the developed western countries and the Muslim developing economies. I will suggest that the Muslim countries have been lagging because there has been incongruence between the technologies they have chosen with their basic beliefs as Muslims. This is followed by a more detailed study of Indonesia, as the largest Muslim country in the world, with 87 % of its presently approximately 228 million total population being Muslims. The developed western countries on the other hand have had no such incongruence. They therefore have succeeded.

The data that I use about the state of development of the Muslim countries and the developed economies are those from the Human Development Report of the UNDP 2007/2008. The data do not report about spiritual development. But to the extent that the data are accurate, to my mind, one may use them for comparative purposes in human development in a given period of time. The paper is written on the assumption that the main issue facing humanity to-day, especially with regard to Muslim countries is to overcome the basic problems of poverty and injustice.

3. The Law of Consistency

According to one exposition “Matter and energy obey a limited number of rules that describe their behavior; these were termed ‘natural laws’ in a significant US court decision that helped define science from a legal perspective. A scientific explanation better be consistent with natural law, or it won’t get very far within the scientific community (assuming the community is paying attention)” (Timmer, 2006.) The law of gravity discovered by Newton in 1687 is an example of a rule that governs the behavior of falling matter. “Newton held that every particle of matter in the universe attracts every other particle with a force that is proportional to the product of their masses and inversely proportional to the square of the distance between them. Mathematically this is expressed by the formula

$F = G \frac{m_1 m_2}{d^2}$: where F =force of attraction, G =universal gravitational constant whose value depends on the units chosen to express it and m_1, m_2 are the masses. (The *New Encyclopaedia Britannica*, Volume 5, 1991, pp. 435-6).

A very important quality of the rule of the behavior of matter as embedded in the law described by Newton is its consistency. Everywhere on earth, whether in America, Europe, Asia or Africa, the force of attraction of the earth’s gravity on an object will be equally strong as long as the distance of the same object from the surface of the earth remains the same. So, if one drops a textbook of 400 pages from a table in a classroom in Berkeley, California, for example, it will fall to the floor in the same time period if one were to drop the same textbook from a table of the same height in Jakarta. Another important characteristic of the rule of behavior is its generality in that it applies to all kinds of objects irrespective of their color, shape or function. What is important is its mass and distance from the surface of the earth. As long as these are the same, the force of attraction will be the same, whatever the object. With the development of the science of relativity, one needs to qualify the classical conclusion that the statement is true within a range of speed in which the objects are involved. But for the very practical purpose I have in mind, that is consistency in physical behavior, the classical law of mechanics as enunciated by Newton seems to be sufficient. “Notice that at low speeds and weak gravitational fields,

general and special relativity reduce to Newtonian physics, i.e. everyday experience”. (Schneider & Amy, 2008)

Another example of consistency in behavior of physical phenomena is exemplified by the law governing the behavior of energy or thermodynamics. “The science of thermodynamics is based on two fundamental laws. The first law of thermodynamics says that energy can be neither created nor destroyed. Thus, during a chemical or physical process, the total energy of a system and its surroundings remains constant.....In any process, a system may gain or lose energy, but any change in the energy of a system is accompanied by a corresponding energy in the surroundings. When you sit in a cold room, for example, your body loses heat energy, but this heat loss results in an equal heat gain by your surroundings. ... The second law says that there is a general tendency toward disorder or randomness in the universe. This disorder is known as entropy. All processes proceed in such a way that the amount of entropy in the universe increases. “ (Johnson,1983, pp. 111-112).

Although the amount of entropy increases, the amount of energy remains the same. For example, if there are two cylinders separated by a valve; one cylinder is empty but the other one is full of gas. If the valve is opened, the gas moves from the full cylinder to the empty cylinder. There is an increase in entropy. But the amount of gas energy in the two cylinders remains the same. Hence there is a very high level of consistency shown by the laws of thermodynamics.

But what has the laws of thermodynamics to do with living things ? “ ... living things must obtain energy to counter the general tendency toward increasing entropy in the universe. Maintaining life is like walking in a fast- flowing river. It takes work just to stand still facing upstream in the current and even more work to move upstream. Life is possible in a universe in which entropy is increasing, but it takes a lot of energy to do the work necessary to live.” (*Ibid.*, p.113).

But where does the energy come from? The living organism has to import it. “Thus, living systems, maintaining themselves in a steady state, can avoid the increase of entropy, and may even develop towards states of increased order and organization”. (Bertalanffy, 1968, p. 41).

What can one learn about change and its management from the physical laws of nature as exemplified by the workings of the classical law of falling matter and the laws of thermodynamics ? One is informed that these laws are the will of The Creator and they are imbedded in nature. The imbedded will affect the outside world. Change in the outside world is thus brought about by the imbedded inner will of The Creator in the physical entities. Change does not come from the outside to the inside but from the inside to the outside.

4. Social Behavior and The Second Law of Thermodynamics.

From the example of the operation of the Second Law of Thermodynamics in individual human living thing, it stands to reason to ask whether The Second Law also applies to the behavior of a group of human beings such as a nation or a country. Intuitively The Second Law does apply. After all the population of the world is still increasing, as is the population in each country in the developing world. Furthermore the aspirations of the people of the world for a better life are also still increasing. This is especially true for developing economies following their independence from colonial rule. The increasing population and the desire for a better life are in a very important sense sources of increased disorder or entropy in these human societies. At the same time there is a need for a new equilibrium. There is a need for more food to feed the increasing population. There is a need for more infrastructures of all sorts to supply services in transportation, in health and education, in housing, and all other necessities of life. In terms of The Second Law of Thermodynamics one may say there is a need to control the great entropy of underdevelopment to uplift a less developed economy to a state of less entropy of a developed economy, to create a new equilibrium. The less developed country being an open system has to have energy injected into it to bring about increased and more desirable order. The energy injected will be in the form of human will properly translated into strategies and actions.

5. The Basic Law of Social Behavior: Consistency With National Objectives.

The basic question here is what kind of efforts needs to be undertaken to exercise control over the great entropy embodied in underdevelopment? How can The Second Law help us answer this question?

It needs to be noted that, whereas in the case of individual human living thing, the rules of behavior governing the various chemical and other processes within the human body have been programmed in some fashion, to achieve a certain objective, which one may say to be the organic growth of a healthy human life. For example, eating too much fatty food will increase the physical size of the body too much and too fast. Such growth will interfere with the proper functioning of the human heart. What kind of food and how much food to eat have to be *in accord* with the rules governing basic chemical and other nutritional processes within the human body so that healthy living may be created. Humans will need to find these rules and that is the reason why the medical profession becomes very important. This profession will tell us the processes within the human body and the implication of such knowledge for our eating behavior *consistent* with the requirements of these processes so that one can lead a healthier life at least biologically.

In the case of the behavior of a group of human beings such as a country, there are no pre-programmed rules of how to control the great entropy associated with underdevelopment to create a more developed society of less entropy. Humans need to invent those rules so that they can achieve their social or group aims. What should those rules be? The law of gravity discovered by Newton and The Second Law of Thermodynamics, however, put a very basic restriction that whatever efforts are undertaken to reign on the great entropy associated with underdevelopment, these efforts must be *consistent* with the aims to be achieved with these efforts. The rules of behavior must be consistent with the objectives to be achieved. The objectives and their attendant ideas will furnish the basic beliefs of the country. The rules of behavior, in the form policies and strategies, will be the technologies. The basic beliefs and the technologies have to be congruent with each other. One therefore may enunciate a basic social law of behavior. *The law says that the social behavior of a group of people such as a nation must be*

consistent with the nation's objectives; otherwise the objectives will not be realized.

I call it a law because it may be considered to be the counterpart of physical laws of behavior, specifically The Second Law of Thermodynamics. Furthermore, such congruence has been found to be true with regard to the achievement of different civilizations in history. The ancient Egyptians or the pharaohs had the basic belief that life after death is more important than life on earth. They therefore struggled to make preparations for life after death. "For a lifetime pharaohs would carefully hoard possessions to carry with them on their journey into eternal life as the pharaoh would make the same journey into eternal life....Their ideology of being interested in the distant future and being uninterested in the individual was as important to their long-term success as the mud of the river Nile."

(Thurow, 1996, p.13). The Romans, according to an ancient military observer, Vegetius " The Romans were less prolific than the Gauls, shorter than the Germans, weaker than the Spanish, not as rich or astute as the Africans, inferior to the Greeks in technology and in reason applied to human affairs. What they had was the ability to get organized and a vocation for domination" (Thurow, 1996, p. 15) "... China invented all of the technologies necessary to have the industrial revolution hundreds of years before it occurred in Europe. But "China did not have the right ideologies." (Thurow, 1996, p.15). So the revolution did not occur.

These experiences from history suggest that a country or a people not only need to have an ideology but that ideology needs to be correctly translated to effect external events. Alternatively, external events need to be understood in terms of the ideology of the people or absence thereof.

There is in fact nothing new about the relation between inner beliefs and external events. The Qur'an has said so more than 1400 years ago. "Verily never will Allah change the condition Of a people until they Change what is in themselves". (The Holy Qur'an, Surah 13:11). The need for inner beliefs and external events to be consistent may be considered to be an important instance that there is no world-view other than the unity of the divine law of Tawhid in the Qur'an which can

properly explain in the differential socio-economic development experience in the world today.

6. Differential Human Development Achievements Between Islamic Countries and Western Countries..

There has been widespread recognition among Muslims that they have not achieved as well as they should in socio-economic development compared to the more developed western countries and compared to the Qura'nic injunction that they are the best of peoples evolved for mankind, enjoining what is right and forbidding what is wrong and believing in Allah. This recognition is reflected, for example, in the answer of Dr. Iman Youssef Chebli, PhD, Chairman of World Islamic Mission Association to a question asked by a reporter from an Indonesian daily newspaper *Republika*. At the end of the conference, held in Libya 27-30 October 2008, the Chairman was asked by the reporter as follows " The retrogress experienced by the Muslim *umah* in the last few centuries, is this due to the failure of *dakwah* ? " The answer given by the Chairman was "Yes, I think so. One of the factors that have made the Muslim *umah* weak is the problem of education. There has been a kind of weakness in the area of education." Another question asked to the Chairman in the interview was "What is the biggest challenge faced by the Islamic community in this era of globalization?" The answer was "The biggest challenge is how make the Islamic community return to the real teachings of the Islamic religion". (*Tabloid Republika*, 2008, p. 5).

What the Chairman has said is fully corroborated by the facts. I will quote from an earlier study that I have made about the subject, with the data updated, as follows: "No Muslim country in the world, large or small, has ever achieved anything near what is achieved by the industrialized non-Muslim countries in terms of human development index or technology achievement. An important indication of this achievement, although far from perfect, is the human development index developed by the United Nation Development Program (UNDP). The highest human development index achieved by an Islamic country, according to the Human Development Report 2007/2008, was 30 by Brunei Darussalam out of 177 countries in the world. Larger Muslim countries like Malaysia, Saudi Arabia, Turkey, Indonesia, Pakistan and

Bangladesh are left far behind The last three are respectively number 107, 136 and 140. Position number one in human development index was achieved by Iceland (UNDP , p.254). The relatively low position in human development index reflects lower achievement in health and education. In Pakistan, for example, life expectancy at birth was 64.6 years versus 81.5 in Iceland, combined gross enrolment ratio was 40.0 % versus 95.4 % in Iceland and GDP per capita of US \$ 2370 versus US \$ 36 510 in Iceland (UNDP, p.254). A large number of Muslims are mired in grinding poverty with income below US\$ 1 per day. Using US\$ 1 per day per capita as the poverty line, in the period 1990-2005, 7.5 % of the population in Indonesia, 3.1 % in Egypt, 17.0 % in Pakistan and 41.3 % in Bangladesh were below the poverty line. When the poverty line is increased to US\$ 2, the proportion of the population below the poverty line increases substantially, with Malaysia 9.3 %, Turkey 18.7 %, Indonesia 52.4 %, Pakistan 73.6 % and Bangladesh 84.0 % (UNDP., p.254). The prospects for the future are not bright. In Asia and the Pacific region, for example, according to the ADB-UNDP-UNESCAP report entitled "*The Millennium Development Goal, Progress Report in Asia and the Pacific*", Indonesia together with Pakistan and Bangladesh are projected to fail to achieve their medium development goals of halving their poverty incidence by 2015."(Hasibuan 1, 2006)

7. The Case of Islamic Developing Economies: Case Study Indonesia

To find out why Muslim countries have not fared as well as they should, I studied in more detail the case of Indonesia and for this I have documented some basic long term facts about Indonesian development. A government report says that "In 25 years economic growth of Indonesia has been on average 6.8 %".(Republic of Indonesia,1994). The same report says that "the value of total exports increased 43 times from US\$ 872 million in 1968 to about US\$ 37.2 billion in 1993/94. Foreign loans increased from US\$ 266 million in 1968 to about US\$ 5,9 billion in 1993/94, and foreign investment (net) increased from US 10 million in 1968 to about US \$ 2 billion in 1993/94." Indonesia has been categorized as a miracle economy.

(The World bank, 1993). Yet other government sources especially the central bureau of statistics have documented various negative aspects of

the development process. Open unemployment has increased from 1.7 % of the labor force in 1980 to about 8.5 % at present. Underemployment remains at a high level at 36.5 % in 1980, 36.6 % in 1990, and 36.9 % in 1995, 36.7 % in 2000 and 32.2 % in 2004. There has been a very wide gap in the production capacity of small and medium enterprises on the one hand and large enterprises on the other. In 2003, for example, official government sources indicate that 42.4 million units or 99.9 % of all enterprises produced 56.7 % the GDP at that time providing 79.0 million of employment while 0.1 % of enterprises produced 43.3 % of the GDP and 0.5 % of total employment. As may expected, investment has been disproportionately allocated to the labor absorbing sectors of the economy. In The Vth Five Year Development Plan, 1989/90-1993/94, for example, agriculture received an allocation of only 2.98 % of the total investment of Rp. 334.4 trillion while it employs 48.15 % of the labor force totaling 82 million. Such a misallocation of investment resources is at the base of the consistently low total factor productivity of the economy and its low competitive capability in the various areas of socio-economic activities. More tellingly is the phenomenal rise in various kinds of criminal activities including corruption. In the years before the change of regime in 1998, and with a base 1985=100, the number inmates in jails committing various crimes increased to 110.5 in 1993, 110.5 in 1994, 116.0 in 1995, 112.3 in 1996 and 108.8 in 1997. With regard to giving kickbacks (*penyuapan*), which is a form of corruption, the index numbers were 76.5 in 1993, 100.0 in 1994, 129.4 in 1995, 535.3 in 1996 and 352.9 in 1997. (Hasibuan 2, 2008, pp.4-13).

Why is it that Indonesia failed to live up to the Qur'anic expectation ? One may say that Indonesia has failed because she has adopted the wrong strategy of development that is she has followed the precepts of neoclassical economics. These precepts are contrary to the basic values of the Islamic religion. First, these strategies focus heavily on achieving materialistic objectives in terms of economic growth. Such focus on materialistic objective in the form of high economic growth has resulted in increasing unemployment and poverty and other negative consequences such as corruption.

Such reliance on materialistic objective is anathema to the Islamic world view which requires that human beings be developed in a holistic manner, not only the materialistic dimension but also the spiritual

dimension and the dimension of human brotherhood. Second, the strategies adopted for the implementation of the development plans is based upon an individualistic paradigm, which assumes that the totality is equal to the sum of the individual parts. Each department or program is to be managed independently on its own. The summation of the success of each of the various departments or programs is assumed to be equal the success of the totality. In practice such an organization becomes the breeding ground for Arrow's paradoxes to flourish and stifles coordination with the result that operationally there is a very high level of ineffectiveness and inefficiency. The two management paradigms together promote the third management paradigm, i.e., the view of man as machines to be bossed around and not as full human beings with full potential for the development of their human capital, spiritual capital, social capital and cultural capital. Such a view of man is contradictory to the Islamic view of man as a slave and servant of Allah and as His vicegerent on earth. Collectively the three management paradigms have resulted not only in failure to achieve sustainable long-term socio-economic development objectives but also in very high cost of financial capital and natural resources. More fundamentally, even if the materialistic objective of economic growth is achieved, it will not be in a position translate the spiritual advancement so required by the Islamic religion. The promotion of human brotherhood in the society tends to be nullified, with right and wrong, good and bad all tend to be determined by materialistic gain and loss. (This part is a paraphrase of a part of the study previously quoted).

So an examination of the long term experience in socioeconomic development effort in Indonesia has revealed that Indonesia in fact has adopted an inappropriate strategy. It is inappropriate because there is incongruence between the belief system of the population and the technology actually adopted in socioeconomic development. The belief system is based on Islamic values. The social technology adopted in development is based on secular neoclassical system of thought. "Societies flourish when beliefs and technologies are congruent; decline when the inevitable changes in beliefs and technologies become incongruent. This reality can be seen by looking at successful societies in the past—many of them built on very different values and operating very different technologies from those that exist today. But they all needed this congruence if they were to succeed." (Thurow, 1996, p. 12).

More recently I have examined Law No 25, 2004 about the system of development planning in Indonesia and Law No.17, 2007 about the long term development plan, 2005-2025 of the country. Both of these laws faithfully reflect the neoclassical economic principles of materialism and individualism. The more detailed examination of the laws has been reported in a bulletin of the Department of Economics, Al Azhar University Indonesia. (Hasibuan 3, 2008). Both of these laws underscore the incongruence between belief system and technologies adopted in Indonesian development. The consequent basic failure is no surprise. The medium term development plan of 2004-2009, has so far been wanting in the achievement of its targets of either the average growth of 6.6 % per year or of reducing the open unemployment rate from 9.9 % in 2005 to 5.1 % in 2009. The unemployment rate in 2008 is 8,5 % (Feb.) while the growth rates are 6.2 % in 2008 and a projected 3.5 % in 2009. (*The Economist*, November 22-28, 2008, p. 101).

More importantly Indonesia, as a nation has not been consistent with the basic intent of the ideals which has been enshrined in the preamble of the 1945 constitution. Consequently, the country has failed to achieve what the constitution says the country should achieve and that is to realize Belief in The One God, a just and humane humanity, the unity of the country, the practice of consultation or “*musyawarah*” and social justice for all Indonesians. Consequently if Indonesia wants to realize her ideals as embodied in its constitution it has to abandon the individualistic and materialistic paradigms and adopt modes of organization and management, which are consistent with the teachings of the Islamic religion.

8. Four Fundamental Ideas of Adam Smith

The Muslim countries as represented by Indonesia, have lagged behind in terms of socioeconomic development because their development policies have not been consistent with the development paradigm as required by their basic intents. By the same reasoning one may ask have the western countries followed through their basic intents in their development efforts consistently. The answer is yes because the western developed economies have adopted development and other policies which are fundamentally consistent with their basic intents as represented by four fundamental ideas of Adam Smith. These ideas are

followed through in neoclassical economics as a pool of knowledge to guide policies and actions in western developed economies.

Professor Edwin R.A. Seligman of Columbia University ascribed two fundamental ideas contained in Adam Smith's book *The Wealth of Nations*. The two fundamental ideas of *The Wealth of Nations* are self-interest and natural liberty. Quoting from the book, Prof. Seligman says: Self-interest:

“ It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their own advantage.” (Smith, 1960, p. vii). Natural liberty: *“ All systems, either of preference or restraint, therefore, being thus completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord. Every man, as soon as he does not violate the laws of justice, is left perfectly free to pursue his own interests in his own way, and to bring both his industry and his capital with those of any other man or order of men”*. (Smith, p.ix). On the subject of freedom, Prof. Seligman concludes *“Laissez faire, laissez passer* is the key which unlocks all economic puzzles. The “be quiet “system, as Bentham calls it, is the sole panacea of human ills, the only hope of social regeneration. Give free play to the natural laws of liberty and equality, and prosperity will shine in all its refulgence on the expanse of national life.”

But upon reading the book I came across a passage which I think is of great significance. The self interest to be pursued in a climate of freedom of enterprise consists mainly materialistic in nature. In practical life at this time as in the time of Adam Smith, this materialistic aspect is represented by money. “To grow rich is to get money; and wealth and money, in short, are , in common language , considered in every respect synonymous”.

(Smith, p. 376). Such concern with materialistic aspect alone is further emphasized in the fact that, as Seligman put it, “ But what he was concerned with in *The Wealth of Nations* was an analysis of the economic situation and a consideration of the motives and conditions

that make for wealth, rather than for the wider conception of welfare in general.”

(Smith, pp.vii-viii)”. I would concur with this judgment of Prof. Seligman that Adam Smith separated economics as a field of inquiry from those of other fields affecting welfare such as morality. Adam Smith has written another book “*Theory of Moral Sentiments* in which he posits the doctrine of sympathy as the real bond between human beings”. But this doctrine of sympathy is not weaved into the economics of *The Wealth of Nations*. This separation is an important aspect of methodology not only in the development of economics as a science but also in policy making and implementation. The methodology I mean is the positive methodology which was later to be further elaborated by Comte through his six volume books *Cours de philosophie positive*, published between 1830 to 1842

(Encyclopaedia Britannica, 1991, Volume 27, p. 369) These then are the four cardinal ideas affecting the development of economics and economies since the *The Wealth of Nations* was written in 1776: individualism, materialism, freedom, and positivism. These are the basic underlying socioeconomic policies in the western countries, and in fact in much of the world. Capitalism as a system is based on these. Consistent with what is written in *The Wealth of Nations*, by individualism in this further development means operationally, the tendency to emphasize individual interest and activities as opposed to group interest and activities. (Catholic Encyclopaedia). By materialism here is meant what all materialists mean by it that all things are physical in nature.

(Moser, 1991). By freedom here is meant that a person is free to do what he deems necessary to promote his interest in the economic, social, political and cultural fields as long as those actions are in accord with existing laws of the land. It is also the freedom as conceived by Thomas Paine “ And God said, Let us make man in our own image. In the image of God created be him; male and female created he them.” (Paine, 1921, p. 43)

But in what sense are the western developed economies consistent in their behavior with the four basic values? The consistency is to be found

in at least three fundamental areas: socio-economic policies, the activities of the intellectuals and education. Despite the variation in the practice of capitalism in the different developed economies, these policies have been based on the same fundamental principles. The main objective to be pursued with socioeconomic policies is above all to maximize the growth in material wealth as measured by Gross Domestic Product. To promote such growth, the population is encouraged to practice the habit of high consumption. Freedom of consumption is the hallmark of western societies. To promote growth, a banking system based on interest, fiat money and minimum reserve ratio is established. To promote growth, laws and other social policies are created so that firms are encouraged to invest and maximize returns on their capital investment. The rule of law and social stability is to be established so that investment and consumption activities may proceed unhindered. Military power is promoted not only for the purpose of safeguarding internal peace but also as a means for foreign conquest in one form or another. History testifies to the statement that the power to dominate other countries and societies is a very important component of foreign policy of western developed economies since Adam Smith wrote his book *The Wealth of Nations*. In modern times, this domination is effected through an international monetary system using the dollar as its base. The domination and influence of other countries and societies will help create the necessary conditions for continued GDP growth and high consumption domestically. All the laws and policies are to be made with secular principles, with agreements solely among human beings and with the object of improving life on this earth alone.

9. Economics Since Adam Smith: No Change in Fundamental Ideas.

Since Adam Smith wrote his book *The Wealth of Nations*, there have been continuous activities of intellectuals to improve upon the basic principles, theoretically as well as in the practice of policies. There have also been a lot of attacks on neoclassical economics. Economics has become more specialized and mathematical in its exposition and is separated from political economy as originally written by Adam Smith. Having said all these, however, I would subscribe to the idea that economists generally consider economics to be alive and well. "The first thing to be said about this development is that one should avoid gaining the impression from it that science is recognizably in a critical state. In

fact, in the eyes of the vast majority of its practitioners, looked upon as a scientific discipline pure and simple it seems to be in a generally healthy condition.” (Roll, 1978, p. 604). Such conclusion is surely supported by the long line of comments and even criticisms bearing on the ideas of Adam Smith.

In the *classical economics of Adam Smith* it is thought that there is an autonomy and self-regulation, in the processes of wealth, in the operation of prices, rents, interest, and wages. General equilibrium occurs automatically. If there is unemployment or over-production, it is an abnormal and temporary situation. The normal situation is general equilibrium. (Djojohadikoesoemo, 1991, pp.26-52)

This view of automatic equilibrium is further elaborated by the neoclassical economists of the first generation. The classical economists emphasize supply as the determinant of price and employment. The neoclassical economists of the first generation, Alfred Marshall among others, emphasize the problems of demand and that price is a combination of supply and demand factors. Demand depends on the utility of the products as perceived by the consumers. Utility is dependent upon psychological evaluation of consumers. Exchange also involves transaction of labor, materials and capital. With all these however condition of automatic equilibrium will prevail.

In later years there has been a correction on the nature of competition.

“Competition may be constructive or destructive: even when constructive it is less beneficent than co-operation.” (Marshall, 1950, pp. 1-13) Competition is not only of the perfect type. It is also imperfect and monopolistic. Edward Chamberlain and Joan Robinson among others are the writers who wrote on imperfect and monopolistic competition.

(Wrenn,et.al., 2008). Perfect competition of the classics and imperfect competition of the neoclassics appear to exist simultaneously in the economy. Pure competition is the basis for general equilibrium in the economy. In reality both types of competition exist. There are various types of markets. For the same product there is competition based upon differentiation. (Djojohadikoesoemo, pp. 100-108). The works of these

authors are important because they bring us nearer to reality. But the basic ideas of materialism and individualism are not changed by the writings in imperfect competition. The idea of monopoly further emphasizes the 'animal spirit' of entrepreneurs seeking greater profits at the expense of the public.

The micro thinking of neoclassics does not help in providing solutions to the problems of unemployment in the 1930s.

Essentially what Keynes said is that there is no automatic process that supply creates its own demand. This absence of automatic adjustment occurs in the labor as well as in the capital markets. In the labor market a rise or fall in the real wage due to a rise or fall in the product price will result in decline or rise in employment. This is what the classics say. Keynes says, that when aggregate demand increases and prices increase relative to money wages, and with employment increasing, it is difficult for workers to demand corresponding increase in real wage. Furthermore, in wage negotiations, it is normal for labor to fight for money wage and not real wage. Marginal cost of labor is determined by money wage and not real wage. So there is a breakdown in the classical thesis that the supply of labor is a function of real wage as its main determinant. In reality there is a lot of underemployment of resources in the society so that there are various types of equilibrium. But the most important equilibrium is that of full-employment equilibrium.

In the capital markets too, there is no automatic adjustment to bring about full-employment investment. Investment depends on the operation of three variables all of which will determine aggregate demand: the propensity to consume, the rate of interest, and the marginal efficiency of capital. According to Keynes, the rate of interest is the amount that needs to be paid to money holders to release (i.e. to overcome their liquidity preference) their funds for investment. But such released funds need not automatically lead to real investment. Interest is not the price that automatically brings together an equilibrium between the supply of savings and demand for it in investment. Real investment depends on the marginal efficiency of capital. The expected return from investment may be such that although the rate of interest has been low, real investment does not occur. If investment does not occur and there is a lot of loanable funds in the society resulting from high savings, then

effective demand will not increase. Instead it may decrease. There will be unemployment. When unemployment increases, the government will need to intervene directly. The government will also need to intervene to regulate the interest rate and the money supply. The interest rate will affect the marginal efficiency of capital and therefore investment. Keynes is quoted to have said "...I agree that our methods of control are unlikely to be sufficiently delicate or sufficiently powerful to maintain continuous full employment...I should probably relax my expansionist measures a little before technical full employment had actually been achieved." (Skidelsky, 1992, p. 603).

There are other situations when the government needs to intervene in the economy. For example, when there is over-investment in the economy, as is happening at the moment in the housing sector in the American economy, leading to bank failures and credit crunch and recession, the government needs to find ways to promote the flow of credits again to revive the economy.

The call for government intervention in the economy in order to keep employment at high level is a big blow to the idea of laissez faire. Prosperity will shine not because " natural laws of liberty and equality " are given free play, but because they are not given free play. However, it must be noted that "free" is certainly relative. The present market system in all the capitalist world is certainly free compared to communist system of Stalin or Mao Tse Tung.

Briefly then, over the last 230 years or so since Adam Smith wrote his book, there have been very alive intellectual activities on the part of scholars to provide corrections or qualifications to some of the basic ideas of neoclassical economics. These activities play very important role to keep the capitalist system dynamically functional in accord with the fundamental ideas. The perpetuation of these ideas is furthermore enhanced through their teachings in economic curriculums in universities. The text books used, such as the *Macroeconomics* of Dornbusch and Fischer (Dornbusch and Fischer, 1990) are the active promoters of these ideas. There are other schools of thought in economics, but the dominant school is neoclassical economics. "There can be no doubt that the neoclassical school of economics is the dominant school of economics in the western world. University courses that major in economics are overwhelmingly grounded on neoclassical

principles, especially for microeconomics. In fact, the orthodox economist would regard the type of economics taught as being definitive, rather than as belonging to a particular school among alternative equally valid schools.” (Mair and Miller, p. 71). One may conclude that the basic nature of economics as expressed in modern day capitalism as well as in university teaching is the one to be found in neoclassical economics.

10. Five Basic Elements of Consistency

One may ask, in what meaning is there consistency between basic beliefs and the technologies employed by a society? One may identify five fundamental elements in basic beliefs on the one hand and technologies employed on the other. By technology here I mean the strategies, policies and actions taken by the human agents to effect change in the external environment in order to realize the objectives the human agents have in mind. The five fundamental elements are belief in God, belief in the purpose of human existence, moral beliefs and ethics, scientific development, and strategies, policies and actions (Hasibuan 4, 2000, pp. 26-28). These five fundamental elements are interconnected. In western countries, belief in God lies strictly within the private domain and does not possess any organic element with public policy. This is generally the case with secular societies of western countries where, as Dr. Anas Zarqa has put it “ Humanity is the ultimate reality, and the significance and ultimate aims of this life, if any, ought to be sought within life itself and not beyond it.” (Kurshid, 1980/1400 H., p. 10) Here the purpose of human existence is simply to maximize pleasure and minimize pain. Morality and the ethics of right and wrong will be solely based on such world-view. So also is scientific development including, most importantly for our purpose, the development of neoclassical economics. Here the approach used is that of positivism, “the form of empiricism that bases all knowledge on perceptual experience and not on intuition or revelation”. (Google Web definition). Based on neoclassical economics, the strategies, policies, and actions to maximize growth (and profits in enterprises) will be undertaken. So there is relatively complete congruence of the first four components of basic beliefs with the fifth that is the technologies that have been adopted. It is also in this sense that Muslim countries in general have not been consistent as was elaborated previously.

11. Conclusions

The conclusions of the study may now be simply put; that there is need to be consistent in physical behavior as well as in social behavior if the respective objectives in each sphere are to be achieved. In the physical realm this consistency is programmed by The Creator. In the social realm it is humans, through properly exercising their will, who have to create this consistency between their beliefs and external actions. In the case of Muslim developing economies there has not been such consistency with the result that these economies have failed to achieve what they should be achieving as Muslims. The western countries have largely been successful to maintain consistency between the basic beliefs as originally laid down by Adam Smith. So they have had a high measure of success in their socioeconomic development as measured by their standards. The differential achievements between Muslim societies and western societies are to be explained by the differential capability of each to be consistent with their respective beliefs with regard to socioeconomic development. These conclusions have clear implications for Muslim developing economies.

12. Implications for Muslim Developing Economies.

A strong recommendation can now be justifiably made that Muslim economies have to abandon the basic strategy of their development based on the principles of neoclassical economics. These principles are materialism and individualism. These economies have to articulate their home grown concepts of development in terms of the operational paradigm of syariah or Islamic economics. This means that the Muslim countries have to redefine the methodology of their development strategies, the substance of the strategy, its mode of implementation, and the measures of success, to accord with the values and methodology of syariah economics. Indonesia has painfully realized that to effect the development of her people in accordance with *Pancasila* or The Five Principles, she has to rely operationally on the syariah paradigm. The neoclassical paradigm which has been adopted since her independence more than 63 years ago have failed to deliver the promise of independence of prosperity and social justice. She is now grappling with this paradigmatic change, under a President who seems to be sympathetic to the need for change. Muslim intellectuals, in and outside

government, have a large task of articulating, in a policy oriented way, the various components constituting the basic beliefs and strategy in terms of values of the Islamic religion. For example, we need operational substitutes of economic growth and maximum profits as measures of institutional success, substitutes based on the *maqasid syariah* such as discussed by Misanam, et. al in their Islamic economics textbook (Misanam, et. al., 2008). We do not want to always go on practicing a monetary system, interest free though it is, based upon fiat money and reserve requirements as it is now. We need syariah economics textbooks with a Qur'anic orientation methodologically to help effect a peaceful change from the conventional neoclassical system to syariah system. Each Muslim country needs to have its own text book. This is a practical way to rid ourselves from being forever “trapped in a feigned kind of neo-liberal and neoclassical doctrinaire” as aptly put by Choudhury. (Choudhury, 2005, p. 1). There is a large concerted mission job that needs be done among us and our brothers who are still very keen and steeped with neoclassical economics and among politicians. It will be very productive if international Muslim mission organizations such as World Islamic Call Society and World Islamic Mission Association join hands to spread the messages that are the subject of this paper. As Muslims we should all join hands to usher in our long due contribution to human prosperity and justice in the modern age, reflecting the basic belief that Islam is a boon and a savior to all nature and humanity. *Wallahu'alam bish shawab.*

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