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# Al-Ghazzali on social justice

## Guidelines for a new world order from an early medieval scholar

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### I. Introduction

Al-Ghazzali's humanism and his theory of state based on social justice make him a political and moral economist of the first order. It is testimony to his greatness that his ideas on good government, *Dawlat*, based on social justice, *ad'l*, penned a millennium ago, are still refreshing and relevant today when, as then, doubt and ignorance confuse visions of the future of society. Relatively unknown in the West, the thoughts of this medieval Muslim scholar can help construct a new world order in the twenty-first century based on global equity and social justice.

Ghazzali's ideas will be utilized below for a critical analysis of a discipline now in serious crisis: *economic development*. The crisis is the global unsustainability of a capitalist system constructed in the post-war period by western economics to accumulate wealth in the West through a trading process which, by effect if not by design, impoverishes much of the rest of the world. Post-war economic development prescriptions have failed to meet the initial promises of mass prosperity precisely because of their neglect of social justice, in particular of income distribution. The root cause here is the pro-capital bias of western economics. Eurocentric prescriptions ennoble a market system which conflicts with ecological and human sustainability (Mehmet, 1995). Now, with increasing calls for global governance for greater equity, Ghazzali's ideas on good government based on social justice have the potential of making a significant contribution towards a more sustainable world order.

The paper is organized in five parts. Following this Introduction, the next section will first sketch out an overview of Ghazzali's ideal state built on equity. Following this, will be an outline of the nature of crisis in development economics. Then in the following section there is a discussion of the challenge of global governance. The conclusion will return to Ghazzali to infer guidelines for reconstructing global equity in the twenty-first century.

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## II. Al-Ghazzali's ideal state: a synopsis of ethico-economics

Abu Hamid Muhammad al-Ghazzali (AD 1058-1111), was born and died in the city of Tus in the Khurassan region of Persia. His life coincided with the Abbasid Dynasty in Baghdad when the caliphate was in decline, although Muslim civilization and culture continued to flourish. Muslim education and knowledge, enriched by the discovery of ancient Greek rationalism, were unrivalled, and the Muslim world was the centre of world trade controlling trade routes to China, Southeast Asia and to the West. By Ghazzali's time, this world of high culture had already begun to show signs of internal division, caused by religious schism and cultism, threatening political and social instability (Fisher, 1979, pp. 76-101).

Al-Ghazzali devoted his life to the pursuit of knowledge, never satisfied with what he knew. He alternated between cycles of great intellectual activity and sufism. Indeed, Ghazzali suffered a number of crises of doubt in his life (McCarthy, 1980; Watt, 1953). One such crisis occurred while he was at the zenith of his fame as a professor and jurist in Baghdad, in AD 1095, when he experienced a nervous breakdown. Suddenly he began to doubt all that he had learned. The corruption and moral decay all around convinced him that he himself was destined for Hell. Announcing a pilgrimage to Mecca, he abandoned his post and family, and went on a secret journey to Damascus in search of his inner self seeking *uzlah*, solitude. For three years he remained incognito; he became a Sufi mystic. He re-emerged in Baghdad at the dawn of the new millennium convinced that he was "predestined by Allah to be one of the reformers of the religion ..." (Sjadzali, 1991, p. 51). During his life, but especially after his return, Ghazzali maintained a furious pace of intellectual activity, teaching and writing, but whenever possible returned to his native city of Tus for solitude and mysticism.

During his life Ghazzali produced no fewer than some 400 books in various fields of theology, jurisprudence, logic, philosophy, ethics as well as extensive commentaries on the Koran. It is not possible even to summarize his major works here. However, reference may be made to his 4-volume *Ihya Ulumuddin* (*Revival of Religious Sciences*) which was praised by contemporary and subsequent Muslim scholars as an immortal work that came closest to capturing the essence of Koranic knowledge. A central objective of Ghazzali in all his writings was the unity of knowledge, rooted in the Oneness of God, and reason (i.e. intellect plus free will) as the path for all moral concepts ultimately leading to the belief in God. This is remarkably similar to Kant (who lived some seven centuries after Ghazzali) for whom reason was the categorical imperative of freedom and free will. Kant, however, believed that a clear exposition of morality led to belief in God. In view of these similarities, it has been argued that "what Imam Ghazzali was to Islamic epistemology, Immanuel Kant was to occidental epistemology" (Choudhury, 1997).

Al-Ghazzali's concept of a unified knowledge is the source of his political theory. The core of this theory is humanism derived from a holistic, harmonious, well-ordered cosmos, created by God for a clear purpose: good

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government. Good government, is a divine gift, entrusted to a wise ruler, a monarch accountable to God “... to bring development and prosperity to the world through justice and equitable rule” (Bagley, 1964, p. 55). The opposite of this good government is a state of chaos and insecurity, similar to Hobbes’s natural state.

At the centre of Ghazzali’s ideal state is the individual with a spiritual as well as a social personality. Spirituality gave the individual inner strength through solitude and contemplation, often in mystical experience, as exemplified in Ghazzali’s own life. The individual’s social and material needs enabled complete living. As a social being in this temporal life the individual had basic needs, but their satisfaction demanded moderation and avoidance of excess. Respect for, and tolerance of others were essential requisites of virtuous living. In this temporal life, the individual was like a pilgrim on a journey seeking, although never quite achieving, perfection through virtuous living. (Perfection belongs to God.) In pre-Islamic Arabia, virtue meant courage in defending honour, as for example the tribe’s honour (Umaruddin, 1977, p. 50). After Islam, the concept of “individual-in-community” emerged based on a synthesis of ethics and economics.

The Islamic concept of “individual-in-community” sharply contrasts with the self-centred utility maximizer idealized in neoclassical economics in an unbounded, unsatiated quest for acquisition and accumulation. The neo-classical “economic man” is divorced from ethics; there is no concern for others. No such divorce is conceivable in Islam. Here, individual identity is a multi-layered manifestation, expanding and developing from the self through self in family, then in neighbourhood, and finally in *Ummah*, the global brotherhood of the faithful. In all actions, personal, economic, social and political, the individual must be guided by rights and duties to God (as in *Ibadah*), and others in interpersonal relations (as in *Muamalat*). Sharing, reciprocity and charity are essential requirements in demonstrating virtue in this life in preparation for the next following the individual’s ultimate accountability before the Creator on the day of final judgement. The individual’s real identity and permanent rewards are revealed on that occasion.

Ghazzali goes furthest among early Muslim thinkers in specifying the qualities of a good individual (Umaruddin, 1977, Parts III and IV). He contrasts virtues and vices, knowledge and ignorance, and details moral guidelines for ethical living. He specifies as the end of human action in this life an ethical system for virtuous living in accordance with God’s will, and subordinates the economic system as a means to that end. Ghazzali’s economic is based on private property and ownership, but economic relations are subject to self-imposed (voluntary) rules of moderation, honesty and integrity. However, Ghazzali is non-Hellenic and non-rationalist in standard Western terms. This important point bears some elaboration as it holds the potential key for understanding the failure of Eurocentric economic theorizing (to be discussed in detail presently).

In neoclassical economics, the only binding constraint on the consumer is the consumer's budget. In Ghazzali's Muslim state, "the individual-in-community" is subject to binding constraints of two kind. First, he must sacrifice part of his income for charity to acquire virtue. Second, he must internalize community preferences as a responsible member of society. Thus, conspicuous consumption, such as luxuries and extravagance, are to be avoided through self-restraint checked by individual intelligence. Similarly, producers and traders, as "individuals-in-community" are enjoined to produce community approved goods and avoid profiteering and other unfair trade practices.

Ghazzali's ethico-economic system is non-Christian, non-Hellenic and non-rationalist. It is not Christian because there is no Original Sin here. Every individual is inherently good, though quite capable of wrongdoing. The individual's goodness derives from the fact that he/she is created in God's image and endowed with intellect as God's unique gift to human beings. Intellect, coupled with judgement based on knowledge, is what differentiates humans from other creatures of God in the animal kingdom. Ghazzali is profoundly non-Hellenic and non-rationalist because his ethics and politics are rooted in the Oneness of God to which reason is inexorably tied, not in some natural order viewed merely as a subject or field of scientific observation.

Of central importance in Ghazzali's political discourse is the idea of the just monarch as a unique divine gift to enable good government. Thus, Ghazzali's state of nature is a harmonious state endowed with good government and basic material needs for a comfortable life. Here competitive economics do not exist. God has ensured adequate supplies of good things required for comfortable living. Excess accumulation of assets, savings, hoarding or stockpiling are to be avoided. Life in Ghazzali's state is not lonely, nasty, brutish and short as in Hobbes's. Nor is his individual anything like Rousseau's "noble savage" without civilization. Like these Western philosophers, Al-Ghazzali lived and wrote in a time of great political and civil unrest. Unlike them, however, he did not lose his confidence in the perfectibility of the individual through knowledge and wisdom guided by faith. Ghazzali himself experienced periods of doubt and chose mysticism for inner peace (Lazarus-Yafeh, 1975). He believed that knowledge was shakeable by doubt; indeed doubt was a necessary condition for new knowledge. His faith, however, remained unshaken.

Outwardly, as a teacher of social science, he yearned for stability, the key to which was good government based on reform (from within) and equity. His ideal state, shaped by Platonic ideals of justice and wisdom, is built on ethics. His masterpiece on political theory, *Counsel for Kings* (Bagley, 1964) constructs a state as a system of social justice. Good government is the rule of wisdom based on knowledge articulated by scholars advising a wise king "whose heart is an abode of justice" (Bagley, 1964, p. 90). Justice is the highest quality of a wise ruler as demonstrated by Ghazzali's citation of Aristotle's answer to Alexander's question whether courage or justice is higher: "If the king has ruled justly, he will not need courage" (Bagley, 1964, p.75). However, justice itself requires a careful and constant balancing of qualities "that have to be linked in

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pairs if they are rightly to be used: intelligence must be coupled with knowledge, wealth with gratitude, charity with kindness, effort with *Dawlat* (good government), when *Dawlat* comes, all the qualities must go with it." (Bagley, 1964, p. 97).

The paramount duty of *Dawlat* is to promote *ad'l*, social justice, "to bring development and prosperity to the world through justice and equitable rule" (Bagley, 1964, p. 55). The duty of wise rulers is "to develop the world ... because the greater the prosperity, the longer would be their rule and the more numerous would be their subjects ... " (Bagley, 1964, p. 56). Conversely, there is a direct correlation between injustice and under-development, for "just as the world is made prosperous through justice, so is it made desolate through injustice" (Bagley, 1964, p. 92). Indeed, "one hour of just government is better than sixty years of worship" (Bagley, 1964, pp. 71-2).

Ghazzali's ethical foundations for the state stand in sharp contrast with Western political theory from Machiavelli to Thomas Jefferson. There is not even a hint of Machiavellian opportunism in Ghazzali. Nor is there an inherent tension between the individual and the state as in Paine and Jefferson. Of course, Ghazzali's state is non-democratic; it is feudal and monarchical. Regime stability is, for Ghazzali, sacred because instability leads to chaos and anarchy. Political change must be reform from within, guided by knowledge, wisdom and justice.

Ghazzali's ideal state differs also from Plato's philosopher-king by a set of checks and balances. Two sets of checks and balances are formulated, one divine, the other secular. In the first case, the king's rule is a trusteeship from God to whom he is ultimately answerable. In secular, daily actions and decisions, the king is limited by advice from the learned scholars, *ulama*. Thus, Ghazzali approvingly quotes the sages when they stated: "The religion depends on the monarchy, the monarchy on the army, the army on supplies, supplies on prosperity, and prosperity on justice" (Bagley, 1964, p. 56 and footnote 1).

From Ghazzali to subsequent Muslim scholars, these checks and balances have formed the bedrock of traditional Islamic political theory. Known as the Circle of Equity, their most complete statement is found in Ibn Khaldun (AD 1332-1406), medieval Islam's last great scholar, and Khaldun's Ottoman protégés in the sixteenth century:

- There can be no royal authority without the military.
- There can be no military without wealth.
- The subjects produce the wealth.
- Justice preserves the subjects' loyalty to the sovereign.
- Justice requires harmony in the world.
- The world is a garden, its walls are the state.
- The Holy Law [shari'ah] orders the state.
- There is no support for the shari'ah except through royal authority (Fleischer, 1984, p. 49).

Not long after Ghazzali, Islamic intellectual development stopped to flourish as a result of the disastrous "Closing of the Gate of Ijtihad" in which Ghazzali himself played a negative role (Mehmet, 1994, pp. 60-1). This ended *ijtihad*,

critical inquiry and replaced it with blind repetition and rote learning (Rahman, 1982). While the “Gate of Knowledge” is still closed in many parts of the Muslim world, Ghazzali’s ideas on social justice, one millennium after they were written, remain a challenge for all well-meaning social scientists interested in global equity as we stand at the dawn of a new millennium.

This challenge is especially valid for Development Studies, a field of Western economics which rose into prominence in the post-war period with a wonderful and generous promise of global prosperity for all. However, now the field is facing a serious crisis of relevance and is in desperate need of refocus and reconstruction.

### **III. The rise and fall of development economics**

Development economics has come of age in the post-1945 period. It evolved as a branch of Western economics partly as a response to de-colonization but mainly as a discipline to meet the challenges of a new Third World, ranked behind the First (Capitalist) and Second (Communist) Worlds. In universities and colleges courses and textbooks aspired to teach students the economics of development (Gillis *et al.*, 1992; Hirschman, 1986; Meier, 1989; Todaro, 1981). Foreign aid programmes, especially in the aftermath of the Marshall Plan, provided ample career opportunities for students specializing in development economics. In the process, Western capitalism has been globalized.

Analytically, the central logic of Western economics is resource capture for profit-driven capitalism. Capture here is by means of capitalization (Mehmet, 1995, pp. 25-9). Over time, all non-capital resources are transformed into new forms of capital. This continuously expands the capital base of the economy, controlled by capitalists. Natural resources become ecological assets; educated labour is converted into human capital; knowledge, as the fourth factor of production, is viewed as intellectual property.

All this capture is for profit. Al-Ghazzali, for whom trade and commerce, (in the classical Greek sense), were a natural human activity carried out for the purpose of satisfying material needs of the household, would have favoured “a fair rate of return” on the entrepreneur’s capital. By the same token, he would have denounced Western profit-driven capitalism as profiteering. As such, Western capitalism would be contrary to the rules of fair dealing, justice and beneficence (Umaruddin, 1977, p. 240).

How does Western economics promote the capture and exploitation of global resources? We now deal with this question.

#### *The basic mainstream model*

So what is the basic Western ideal capitalist model? (This section is a condensed version of Mehmet (1995, pp. 15-22)). It is a cumulative, joint intellectual product, the work of many minds: this basic model of economic development is a profit-driven growth model with a dynamic and static version. Conceived in grand, universalistic terms, to be challenged below, it is useful to begin formally with the aid of ten equations to highlight the essence of the model:

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$I = dK = f(\pi)$	(1)	Al-Ghazzali on social justice
$\pi = TR - TC$	(2)	
$Q = F(K, N, L)$	(3)	

Equation (1) highlights the fact that the search for profit was the trigger in Western capitalism. But what exactly was profit? It remains something of a mysterious thing to this day with much confusion even among the greatest authorities, as illustrated below. Mathematically, profit,  $\pi$ , resulted from capital accumulation,  $dK$ , which occurred as investment,  $I$ , as a consequence of deliberate decision on the part of the investor. Therefore, the narrowly defined profit rate,  $\pi/K$ , was the investor's return, comparable to labour's or land's return. But, profit was also a reward, justified for risk taking, initiative and enterprise, and viewed as a residual return.

But what is the relationship of profit to the residual return? How does it differ, if any, from surplus value? Precisely how is it realized? There is much confusion in mainstream theory on these questions, even though in standard textbooks profit maximization is presented as the overriding objective of the rational entrepreneur matching rational consumer's maximization of satisfaction. But apparently, "it is sufficient to assume that entrepreneurs act as if they tried to maximize profits" (Ferguson and Gould, 1975, p. 221) implying that in reality they need not act as predicted by theory. For the famous English economist, Alfred Marshall, who taught at Cambridge around the turn of the twentieth century, profits were "normal" or "fair", set by custom in a given industry; and Marshall explicitly recognized the zero-sum relationship of profits and wages, hinting at the phenomenon of capitalization: "The greater part of the apparent profit is real wages disguised in the garb of profit" (Marshall, 1962, p. 506). However, Hicks, another noted British economist of the next generation after Marshall, preferred the term surplus to profit, calling it "that thing we supposed him (i.e. entrepreneur) trying to maximize" (Hicks, 1965, p. 197).

In standard textbooks (Henderson and Quandt, 1958, pp. 53-4), especially American and written in the Samuelsonian style with elementary calculus, profit is measured as the excess of total revenue,  $TR$ , over total cost of production,  $TC$ , as shown in equation (2) implying that profit is a residual, surplus value resulting from entrepreneur's control of production. But mainstream economics generally rejects the idea of surplus value usually associated with Marx.

Mathematically, this rejection is derived from the production function depicted in equation (3), which shows that the level of revenue and cost, and hence profit, depend on the volume of production,  $Q$ , which, in turn, is determined by technical input-output relationship specified in the production function.  $K$ ,  $N$ , and  $L$  are capital, land and labour, respectively, the three classic factors of production. These factors of production are all taken to be "separable" and independent of one another – an assumption which is untenable in dynamic terms giving rise to the phenomenon of capitalization (Mehmet, 1995, pp. 22-9).

In static terms, however, the “separability” assumption is crucial for market clearance. But market clearance is achieved at the cost of a remarkable degree of fuzziness surrounding profit in mainstream literature, a fuzziness which facilitates extraction of surplus in the Third World for and by mercantilist interests from the First World.

There is even more: At the bottom of this fuzziness lies a contradiction. To see it, it is necessary to detail revenues and costs in equation (2) further. Thus,

$$TR = pQ \quad (4)$$

and

$$TC = rK + hN + wL \quad (5)$$

The price,  $p$ , in equation (4) is determined in a competitive market according to Adam Smith’s “invisible hand”, and the coefficients  $r$ ,  $h$  and  $w$  are the unit prices (or marginal costs) of factors, similarly determined in competitive factor markets. If the system works ideally in accordance with perfect competition, these parameters would also represent marginal productivities of factors. In this competitive framework, with free entry and exit of firms, no profit could arise since total revenue, the value of output priced in equation (4), representing sum of value-added generated by factor productivity, would exactly equal factor payments in equation (5); in other words, no surplus value or residual could result (Henderson and Quandt, 1958, pp. 65-6). Hence, the first-order condition of equilibrium in perfect competition found in standard textbooks on economics:

$$\pi = 0 \quad (6)$$

The only way an actual, positive profit rate,  $\pi/Q$ , could occur is in a state of disequilibrium when markets fail to clear, or when market imperfections exist in the form of monopoly or monopsony whereby surplus value matches underpayment of factors of production.

#### *The flaws of the model*

We can now consider the internal flaws of the model. In fact, three principal axiomatic flaws are highlighted below.

The first is the remarkable result in equation (6). It reflects the fundamental contradiction of the textbook version of the capitalist ideal: that in a system dedicated to its pursuit, no profit, as residual or surplus and distinct from return on  $K$ , can be generated, except on such subjective or normative basis as “supernormal profit” or “fair rate of return”. Equilibrium prices are then viewed as “natural” or “fair” prices, with some profit rate tending to equalize among different industries. The ambiguities here are reminiscent of the medieval debate about “just price”. In short, capitalism, as ideal, is self-defeating on its own rules, unless those rules are violated as in monopoly and other market imperfections.

Take, for example, the ideal market solution, aggregated from market clearance, known as Pareto Optimum (Bator, 1957; Mishan, 1960; Scitovsky,



1952). Behaviourally constructed on rationality assumption, this ideal solution requires general equilibrium in factor and product markets to ensure welfare gain for at least one person with no loss to anyone else. Heuristically, it is an elegant theory; its basic flaw is that in reality it is impossible to achieve (Arrow, 1951; Little, 1957; Mishan, 1960) due to “externalities”, positive “transaction costs” and other “market failures”. Consequently, economic development can only be conducted suboptimally, subject to risks and uncertainties of a “second best” solution (Killick, 1981, pp. 18-20; Lipsey and Lancaster, 1957). Moreover, the rational behaviour assumption of the model, based on Western individualism, is a poor fit for the cross-cultural environments in developing countries where sharing, co-operation and moderation rather than individualism prevail. All in all, as a guide for policy and planning, the Pareto Optimum model turns out to be an empty box!

The above, however, is static, partial equilibrium analysis. If the model is dynamized, so that change over time in consumer tastes, technologies and factors of production are endogenized, the same result is derived but in a more complex manner. Thus, rewriting equation (2) as

$$\pi_t = TR_t - TC_t \quad (7)$$

would imply that profit can only be generated over time as windfall gains due to fluctuations and swings in market cycles caused by unplanned shortages and surplus. In short, profit or surplus value is realized as return on risk and uncertainty, and from such strategic decisions as speculative buying and selling, or from gambling-like dealing, during the adjustment process when markets fail. Keynes was full of contempt of this casino-style speculation on the London Stock Exchange and Wall Street, calling it “*laissez-faire* capitalism”, one of the great “contemporary evils” (Keynes, 1936, pp. 159-60).

The conclusion of zero profit under ideal conditions is inescapable. Herein lies the first axiomatic flaw in mainstream theory serving capitalism: classical and neoclassicists to this day, base their theories on the ideal norm of perfect competition, yet capitalism can only live and thrive in a world of market imperfections. Put differently, under its own axioms of perfect competition, capitalism is destined to remain trapped in a stationary mode, ultimately withering away for lack of new profits. In practice, however, positive, and indeed rising, profits are realized along the transition path of disequilibria, typically as a result of market power by oligopolies and cartels which can determine price and non-price terms of international trade. Typical examples include strategic stockpiling and inventory management and intra-firm transfer pricing long practised by Western multinational companies (Morgan, 1980; Yergin, 1993).

The second axiomatic flaw of the classical system stems from the ambiguity of short-run and long-run analysis. In theory, there is no (empirically) objective boundary separating the two. Therefore, only subjective or normative attributes are assigned to variability or accumulation of factors of production. Thus, in the undefined short run, classical theorists take capital and land as

fixed in supply, while labour is made the sole variable factor of production. Hence the classical labour value theory of production, equation (8), the backbone of such theories as the “iron law of wages”, “backward-sloping” supply curve, is hopelessly value-loaded.

$$Q = F^*(L) \tag{8}$$

$$D_l = f(\pi) \tag{9}$$

$$S_l = g(w) \tag{10}$$

Equations (9) and (10) represent the centre-piece of competitive labour market theory, in which labour demand,  $D_l$ , is profit-driven, while labour supply,  $S_l$ , is determined by the wage-rate or the price of human effort, which is usually the cost of food. If the worker’s productivity, the marginal product of labour, in equation (9) is paid in full to the wage-earner in equation (10), no profit arises. Thus, profit necessitates exploitation, i.e. underpayment of labour relative to its productivity. Herein lies the fundamental conflict between labour and capital, the adversarial core of capitalism. Mainstream labour market theories conceal exploitation of labour behind inadequate explanations for wage differentials between occupations or industries such as subjective “net advantages” or “psychic benefits” which, in empirical works, are typically ignored. However, in Third World labour markets, from those on industrial estates and export processing zones to those in “sweatshops”, it is these very “subjective” factors which “distort” and exploit labour creating discrimination, inequality and segmentation (Mehmet, 1971) or informality (de Soto, 1989; Hart, 1973). The mainstream market theory has almost entirely ignored labour market performance until very recently (Berry and Sobot, 1978; Manning and Fong, 1990).

The third axiomatic flaw in the mainstream market theory goes to the root of Eurocentricity. It arises from implicit definitions and meaning of key terms, such as “cost” and “benefit” (whose cost or benefit?), “factor of production” (owned or controlled by whom?) “surplus value” (generated how and accruing to whom?) and “rationality” (whose behaviour?). For classical economists these terms had only European meaning. The excess population in Malthus referred to European overcrowding; “vacant” lands in colonies were vacant only because they were populated by “savage” or “uncivilized nations”. Similarly, Ricardian rent applied to land shortage in Europe. Adam Smith’s “opulence” meant British prosperity. The origins of colonial cheap labour and land policies were legitimized, by subsequent theorists and policy makers alike, in the name of masters like Adam Smith, Malthus and Ricardo.

“Rational” behaviour, the basic assumption of utility theory, meant behaviour in conformity with the Protestant Ethic; when, for example, supply response in non-European environments collided with Western interests, it was labelled “irrational” as in the Backward-sloping Curve Hypothesis, totally ignoring cultural determinants of labour supply, e.g. family obligations. In all classical economists’ writings non-European peoples were always projected as

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“savage” or “primitive” without any culture and unworthy of development. Consequently, their resources (i.e. factors of production) were deemed to be in a kind of Hobbesian “state of nature”, in which life was not worth much anyway, so land was available for colonization cost-free. Thus, when non-resident ownership of resources is allowed in a Ricardian-type growth model, rapid growth of output, in particular surplus value drained away, may nevertheless impoverish local populations (Mehmet, 1983).

*Project evaluation methodology: the logic of monetization*

Economic development, in administrative and policy terms, can be reduced into a “project cycle” popularized by donor agencies, especially the World Bank. The core element of the project cycle is project financing, known as *ex ante* project evaluation, a cost-benefit appraisal of some investment project to determine, in advance, whether or not it is going to be worthwhile to implement, i.e. whether or not it will be profitable.

The profitability test is a systematic method of pricing resources using cost-benefit analysis (CBA). In private, cash-flow analyses of proposed investment projects, market prices are used. But in the more complicated social projects, justified in public interest, CBAs rely on shadow prices whereby market prices are adjusted by analysts to account for “market failures” (Little and Mirrlees, 1974; UNIDO, 1978).

What are these “market failures”? They are inherent tendencies of the Western capitalist markets to reflect social, as opposed to private, value. These markets may be efficient in reflecting private value in terms of self-centred, egoistic behaviour; they are unable to account for social value as in the case of a collectivity or community of individuals. Accordingly, Western capitalist economics subordinates equity for efficiency. In practical terms, “ideal” markets are efficient, not necessarily equitable.

In the Little and Mirrlees approach, closely identified with the World Bank, market failures are judged from the standpoint of international markets, as if these are cases of “perfect competition”. Thus, “accounting prices” or “border prices” are international prices. By contrast, domestic markets in developing countries are regarded as perverse and inefficient. Therefore, prices in these markets are too “distorted” to be used as indicators of social prices in evaluations of public investment projects. In the Little-Mirrlees approach, the US dollar is taken as the numeraire, the unit of account, while in the UNIDO approach, domestic prices are used, but the same distortions are held to be valid.

*Monopoly-monopsony exploitation in the international economy*

How valid are these shadow pricing techniques? The answer depends on the validity of the premiss that international markets are indeed cases of “perfect competition”.

The reality, of course, is different and clear. International markets are dominated by multinational corporations (MNCs), mostly Western, which have

emerged into prominence in the post-war period (Dunning, 1992). These MNCs are monopolies, monopsonies, and cartels. They control capital and technology. They dominate factor and product markets. As a result of this domination, they extract huge rents from the big spreads between costs they pay for resources in the Third World and revenue they earn from their sales in the First World. All this has been well documented from Hymer (1970) and Helleiner (1976) to the Dependency School (Wilbur, 1984) and, more recently, Barnett and Cavanagh (1994).

The pattern of monopoly-monopsony exploitation by multinational companies (MNCs) is manifold. The pattern is evident both in markets for natural as well as for human resources. For example, in the markets for natural resources hardwoods from tropical rainforests or fish from international waters have traditionally been regarded as “free goods” available in a state of nature, justifying zero shadow price in project evaluation. Markets for primary products reveal similar patterns as evidenced by the activities of oil and mining companies.

Similarly, now these same MNCs are exploiting labour markets in developing countries by avoiding or evading social security and labour standards. In such countries as Indonesia domestic elites actively collaborate with MNCs to extract huge rents from gate-keeping (Mehmet, 1994). On the global assembly lines, there is capital mobility, but no free movement of labour across national boundaries. In labour-surplus economies, women and children work for substandard wages, unprotected by social security or health and safety regulations. Often there are no worker rights or collective bargaining, and the case of migrant workers, especially women working as domestics, is especially dangerous and exploitative. Under these labour conditions, “free trade” becomes “unfair trade” while unregulated capital mobility promotes a “race to the bottom”.

These unfair practices in international trade get reflected in pricing techniques employed by MNCs enjoying monopoly-monopsony powers. Thus, thanks to transfer pricing, exportables from Third World may be grossly underpriced, while their importables are conversely overpriced. The degree of bias in these prices is a direct consequence of, and varies with, the monopoly-monopsony power of MNCs now dominating international trade.

Under these circumstances, monetizing environment or charging higher prices for natural resources, as recommended by some economists (Pearce *et al.*, 1989) will not alter the reality that Western capitalist economics works as an instrument of global inequity. The fundamental problem is that Western economics concentrates attention on efficiency and market relations, and it ignores social justice. Polanyi (1944), among others, long ago pointed out the inherent imbalance of economics. In the post-war period, when development economics emerged into a fully-fledged discipline, it has legitimized a global business system functioning to syphon wealth out of the rest of the world for concentration in capital-rich West. In microeconomic terms, conventional social CBA methodology amounts to little more than a methodological trick in the service of capitalist capture of global resources for capitalist profits. In

macroeconomic terms, structural adjustment programmes and privatization schemes work to increase foreign indebtedness and dependency in the developing world. The existing capitalist system functions as a mercantilist system, promoting wealth concentration in the West at the expense of local/indigenous people.

#### **IV. The challenge of global governance**

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What is the way out of this unfair status quo? Al-Ghazzali would have rejected any revolutionary change, since he considered disorder worse than injustice. Instead, he would have favoured orderly change, reform from within.

A recent comprehensive study offering a wide range of ideas and proposals for reform from within is the report by the Commission on Global Governance co-chaired by Ingvar Carlsson and Shridath Ramphal (1995): *Our Global Neighborhood*. Below is a sympathetic critique of this report.

The report is laudable in terms of its action agenda. Its call for strengthening the rule of law worldwide is commendable as is its emphasis on shared values and interdependence among peoples to promote international security. The report's criticism of the existing trade system, along the lines discussed earlier, and the existing United Nations (UN) system, is refreshing and quite realistic. The report proposes to eliminate several UN agencies, such as ECOSOC, UNIDO and UNCTAD which have become too inefficient to be useful, and it proposes the establishment of an Economic Security Council, paralleling the United Nations Security Council (UNSC), for collective management of the global economy.

The report's basic weakness is that it ignores the problem of legitimacy. It fails to acknowledge explicitly, although it is hinted indirectly, that there is no moral authority behind the existing international system. International security is dominated by the Big Five, i.e. permanent members of the UNSC; yet the Big Five account for over 90 per cent of the global arms trade. International economic system is dominated by richest countries represented in the G7 as an exclusive rich man's club. The UN Charter which begins with the ambitious reference to *we the people* falls on its face. The General Assembly is neither democratic, nor effective. The whole edifice is the by-product of the 1945 victor-vanquished mindset.

Several far-reaching reforms are desperately required for a rule-based system of good governance worldwide. The following three are indicative, not sufficient:

- First, at the global level, agreed international ethical codes and enforcement rules are essential to regulate international trade, get rid of neo-mercantilism and promote greater global equity. There must be global partnership in order to replace unilateralism with multilateralism in trade, aid, environment and human rights. An essential precondition of such global partnership has to be effective curbs on consumerism in the North to pay for ecological and developmental expenditures in the South.

- Second, macroeconomic policies need to be co-ordinated internationally through closer and effective North-South dialogue over transnational boundary problems in the fields of environment, technology, trade and development. Western economics has risen, and is now declining with, the Western idea of a Sovereign Nation-state as the latter erodes under the pressure of globalization and transboundary problems that demand internationally agreed actions and remedies. New communication technology is inching mankind towards the global village, although racism, injustice and violence, in rich and poor societies alike, make the road ahead far from peaceful and straight.
- Third, international fiscal policies are essential to finance global equity. Ecotaxes in the North and development levies on MNCs are the means to generate tax revenues for investment in environmental and developmental projects in the South towards global partnership and equity. In this context, it would be necessary to effect urgently needed radical reform for greater efficiency of the UN and international organizations. However, new and largely non-NGO channels, are needed as well for fiscal transfers from the North to the South in order to reach the needy target groups in the South directly for maximum effectiveness.

In sum, what is required is a new global code of ethics. The focus of global ethics can be constructed out of Ghazzali's ideals, not out of Machiavelli. Just as Ghazzali's ideal state would be based on social justice, so, too, the global village needs to be managed for global equity. Good global governance requires international dialogue and partnership. The foundation of such partnership is the legitimacy of multicultural consent leading to a rule-based international system managed multilaterally for effective regulation of world trade and sustainable development for global equity.

### **V. Conclusion**

Development economics should contribute to this goal of internationalism. Idealists like Ghazzali provide the vision of the future of global governance. Ghazzali believed in the force of human knowledge and reason to shape human behaviour for ethical living. True revolutionary change begins with proper education. Development economics desperately needs such a revolution to become ethico-economics.

More specifically, to be relevant in the future, development economics will need to deconstruct its Eurocentric premisses and mercantilist roots, and actually strive to serve global equity. The ultimate aim must be the creation of a sustainable world in which wealth distribution more closely approximates population distribution. As pointed out in the latest *Human Development Report* (UNDP, 1996), there is no automatic relationship between economic growth and human development, and, as a result the rich are getting richer while the poor get poorer.

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In more personal terms, the development economist needs to be inspired by the humanism of great thinkers like Al-Ghazzali and work towards the goal of integrating economics with ethics. Internationally, the challenge for the contemporary development economist is the promotion of global equity built on *de facto* shared prosperity for all stakeholders in a one world/global village. The principles for good governance for this task articulated by Al-Ghazzali 1,000 years ago (such as knowledge, justice, wisdom and tolerance) remain as valid today as the day they were written.

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