ISLAMIC AND NEO-CONFUCIAN PERSPECTIVES ON THE NEW TRADITIONAL ECONOMY

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The human economy...is embedded and enmeshed in institutions, economic and non-economic...For religion or government may be as important for the structure and functioning of the economy as monetary institutions or the availability of tools and machines that lighten the toil of labor. (Karl Polanyi, 1957, 148)

Indeed, one of the ironies of the convergence of larger institutions since the end of the cold war is that people around the world are now even more conscious of the cultural differences that separate them. (Francis Fukuyama, 1996, 5)

INTRODUCTION

In The Great Transformation (1944), Karl Polanyi trichotomised economic systems as tradition, market, or command, a taxonomy that has passed into many introductory economics textbooks, even as its origins have been forgotten. For nearly half a century the Cold War saw a systemic conflict between the latter two, with most economists viewing the first as a backward and increasingly irrelevant category to be studied only by anthropologists. With the collapse of most of the command socialist economies, many now see the market system as the triumphant champion, inevitably moving to replace the remnants of the other two around the world.

However, even before the end of the Cold War resistance to both market and command emerged among some Third World nations, seeking to maintain cultural autonomy as well as political and economic independence from the Great Powers. For some this involved seeking a "Third Way" between market capitalism and command socialism, based on models that integrated elements of traditional national cultures. Most prominent was the movement to establish an Islamic economy, especially in Iran after 1979. Even after the breakup of the Soviet bloc, many of these nations have continued to assert their distinctiveness, now to maintain their autonomy against the apparently overwhelming power and influence of the U.S. model of market capitalism.


217
On the one hand, these economic systems represent an effort to draw upon traditional social and cultural elements of their societies, especially their traditional religions as in the case of Islamic Iran. On the other hand, in contrast to the usual view of traditional economies as being technologically primitive and backward, this emerging ideology in many Third World nations seeks to combine elements of traditionalism with modern technology and at least some integration into the world economy, although such integration is difficult. We have labeled such a combination of a traditional economy with the use of modern technology as the new traditional economy (Rosser and Rosser, 1986, Ch. 8).

Probably the two most prominent movements that might be identified with this system or ideology are Islamic economics and neo-Confucian economics, although others can be identified as well (Marty and Appleby, 1993). This paper compares these two approaches to the new traditional economy.

WHAT IS THE NEW TRADITIONAL ECONOMY?

The new traditional economy is modern or new in using modern technology while simultaneously resurrecting or preserving traditional social practices. Following Polanyi (1944), a traditional economy is one in which allocative decision making is fundamentally embedded within a larger socio-cultural structure or system. Now, economic decision-making in every society is so embedded at least to some degree. But in Polanyi's controversial view, prior to the industrial revolution the majority of economic decision-making was so embedded. Only with the industrial revolution did the market economic system fully escape from, and come to dominate, the feudal superstructure. A majority of economic decisions came to be made on economic grounds alone and the society and culture became embedded in the economy. Thus, the new traditional economy movement reflects a reaction against this disembodiment of "modern" economic systems and a desire to "re-embed" them while retaining their material benefits of high technology and productivity.

In his 1944 formulation, Polanyi distinguished three types of traditional economic systems: household, reciprocal, and redistributive, although he later modified these categories (Polanyi, 1957). In his original formulation Polanyi saw the household economy as the "primitive" and self-sufficient, following the philosophical tradition of Aristotle, Aquinas, and Marx. In this view it represents the purest form of the traditional economy, although Becker (1981) sees implicit market forces at play in the decision making of even such isolated family units. Later Polanyi (1957) accepted what most economic anthropologists argue: reciprocal exchange is the historically most primitive system, taking a ritual form within elaborate social or religious frameworks between closely knit tribal groups as in the kula trade of the Trobriand Islanders (Malinowski, 1922). Household economies generally have been more complex and technologically advanced than purely reciprocal ones (Stoddert, 1995a,b). The redistributive economy involves a central authority of some sort that redistributes goods, with the authoritarian Big Man and ancient empires being leading examples. In all of these societies is somehow "primitive" to the economy, with the latter being embedded in the former.

Given the emphasis on tribal groupings or on the household in many traditional economies, it is reasonable that many new traditional economies emphasize familial groupism. Most traditional religions strongly emphasize the important role of the family as the main social-economic unit, but this is often extended to the society as a whole. The worldwide Islamic community is the umma, from the Arabic word for mother, umm. In feudal systems the monarch was the parent figure, and such interpretations carry over even more broadly into Confucian systems. Relations between superiors and subordinates in organizations are those between parent and child; organizations are families.

This aspect becomes one of the most important ideological elements of the new traditional economy in its conflict with the global market economy. During the Cold War this could be interpreted as the basis of the potentially "Third Way" nature of these economies. They could have strongly developed market systems, thus gaining the virtues of that system. But their familial groupism and emphasis on caring for the poor reflect the communalist virtues of the command economies. Thus the new traditional economy was argued by its advocates to represent the best of both worlds.

In the context of the global triumph of the market system, it stands as a competing alternative for Third World nations seeking to avoid domination by the United States and other advanced market capitalist economies. The quasi-socialist element of the new traditional economy in its familial groupist orientation provides an element of the former competitor with market capitalism in a locally attractive form that can be the carrier of ongoing anti-colonial and anti-imperialist sentiments. This applies even when the traditional element is really an artificially made up system that does not reflect any actual previous practices of the society, an example being the demand by the Afghani Taliban that women receive no education, something not in traditional Islam.

Thus, the new traditional economy appears with its claim to combine disparate elements in a superior synthesis: the old with the new, the individual with the collective, the ethical with the practical. It harks back to a mythic past of proclaimed religious perfection, even if in a distorted or artificial way, while adapting to modern technology in a supposedly moral manner. The harmony of the family will be maintained even as market forces work their magic while constrained within a framework guaranteeing a humane and cooperative social order that cares for those in need, just as a family cares for its least fortunate.

As new traditionalism spreads as an ideology, it can become the foundation for international conflict. This conflict can occur between different new traditional systems as old religious hatreds re-emerge in Bosnia, the Middle East, India, and other places. It can also take the broader form of a conflict between the new traditional systems as a whole against the "westernizing" liberal market system as argued by Huntington (1996) in his theory of the "clash of civilizations," where arms shipments from China to Iran are seen in such a context.

On the other hand the new traditional economy faces numerous difficulties. One is its relationship with the world economy. Free trade and capital movements offer numerous advantages for growth, but also open the economy up to global market forces and cultural influences that can undermine the system. Another problem,
quite evident recently in some of the East Asian economies, is that familistic groupism can devolve into a corrupt "crony capitalism" that can become highly dysfunctional over time. Thus, the new traditional economy offers great appeal, but also faces serious challenges.

THE ISLAMIC NEW TRADITIONAL ECONOMY

More than any other world religion, Islam has generated something that resembles a complete economic model. At least a series of well-known and widely-accepted principles exist within Islam, even if there is considerable debate about their interpretation or actual implementation. That there is such a developed set of rules may reflect the fact that the Prophet Muhammad was the only pre-millennial major world religion to have been a practicing merchant.

Certain precepts are laid out in the Qur'an, which was written down by the Prophet Muhammad, and in his sayings known as the Hadith. Together these form the foundation for the Islamic legal code known as the Shari'a. It is the nearly universal demand by Islamic fundamentalists that Muslim societies be run according to the Shari'a. There are several different versions of this legal code (Schacht, 1964), although on economic questions they do not differ significantly. (Aghnides, 1916).

It is not our purpose here to examine in detail those various rules and precepts. However, we note that some of the most prominent are the forbidding of interest (riba), the advocacy of almsgiving (zakat), advocacy of profit-sharing (girad), and opposition to gambling (gharrar). Although interpretation differs somewhat among the legal codes, especially regarding almsgiving, it is among modern Islamic economists that differences of interpretation have been the greatest.

Indeed, although there were discussions of legal and even theoretical economic issues of Islamic economics in the past, notably by Ibn Khaldun in the fourteenth century (Issawi, 1987), it has only been since the mid-twentieth century that a formal Islamic economics has emerged that examines these traditional precepts using modern economic analysis. This began in Pakistan in the year of its independence with the publication in Urdu of a work by Maududi (1975) advocating Islamic economics as a general solution to the world's socio-economic problems. A substantial number of self-identified Islamic economists since have been of Pakistani origin, reflecting the combination of training in the British schools of economic thought and Pakistan's foundation as a Muslim state. In this regard Islamic economics is a creation of the modern world, an archetypal new traditional economic doctrine.

Unsurprisingly, Pakistan since the early 1980s has also been one of the main nations where a serious effort has been made to implement Islamic economics in practice, although the earliest nation to do so, and still probably the most prominent, was Iran after the replacement of the Shah's regime by the Islamic Republic in 1979. In both of these nations there has been an effort to implement Islamic banking as the only allowed form, abetted by most of the banks being nationalized in both countries and thus subject to government direction. However, Islamic banks now exist in over 60 nations, including many that are not majority Muslim such as the United States.

Anwar [1987] describes the variety of financing arrangements allowed by traditional Islamic legal codes. In principle with all of those the lender must somehow bear part of the risk of the investment, thereby making the payment for the loan into some variation of profit rather than interest. Thus, allowable types of loans range from those that are clearly profit-sharing or equity-involvement kinds of arrangements to others that move nearly resemblance traditional fixed-interest arrangements, such as buy-backs.

With buy-backs, the borrower sells the assets to the lender and then buys them back at a higher price. In principle the lender thus bears the risk of ownership and is sharing profits. However, in practice this ownership can be reduced to a few seconds during a single closing transaction, thus rendering the return to the lender virtually identical to interest, basically a subterfuge. Experience suggests that the mere profit-sharing arrangements have serious agency and moral hazard problems with borrowers understating their profits to their creditors. This has led to a major shift in practice to loans more strongly resembling fixed interest loans (Khan and Mirakhor, 1987; Anwar, 1992; Cornelisse and Steffelaar, 1995). However, that shift has been stronger in nations allowing only Islamic banking, suggesting that where people can freely choose Islamic banks the arrangements may resemble the religious ideal more closely since those choosing such banks are more committed to the values of the religion.

More broadly, it is unclear if the Islamic economy really represents a distinct kind of economic system rather than a mere variation of the market economy with some peculiar rules and institutional arrangements. Indeed, with regard to the old conflict between capitalism and socialism, Islamic economics does not take a definite position and there has been much debate among modern Islamic economists about this, with some arguing that it is more compatible with private property ownership [Naqvi, 1981] while others argue that it is more compatible with state or theocratic property ownership [Ali, 1975], although this latter position has retreated in recent years with the general global decline in support of socialism. The battle over this question was especially fierce in Iran, where initially after the 1979 revolution a more socialist approach was implemented, only to be replaced later by a more capitalist approach (Behdad, 1989; Bina and Zangeneh, 1992; Valibeit, 1996; Moghadam 1997).

With regard to the Islamic economic system, we are left with a paradox. On the one hand it is a very successful ideological movement, with almost every predominately Muslim nation in the world either attempting to implement an Islamic economy or facing a powerful opposition movement that advocates doing so. However, in those nations that have attempted to implement an Islamic economy, the effort has been essentially a top-down effort to impose the rules and practices on already existing, largely market capitalist economies. Broadly, especially with Islamic banking, the effort gets watered down and the system reverts to something resembling previous practice.
THE ECONOMICS OF NEO-CONFUCIANISM

The other major rising new traditional economic system, neo-Confucianism, presents a sharp contrast in many ways with the Islamic economic system. For one thing it does not contain a set of explicit commands or laws with regard to economic behavior. Rather, it represents a set of more generalized moral sentiments, originally expressed in the Anecdotes of Confucius and later adumbrated by various followers over many centuries. These sentiments became infused into Chinese culture in particular and spread out from that nation into neighboring ones as a part of the spread of Chinese cultural influence, often carried by ethnic Chinese who in many East Asian nations have long played significant roles in commerce. Korea and Japan are the most important nations with strong Confucianist traditions and few ethnic Chinese (Rosenzweig, 1991).

In its official imperial form in China, five principles were viewed as preeminent in Confucianism: benevolence (ren), righteousness (yi), propriety (li), wisdom (zhi), and faithfulness (xin). These rather vague precepts became interpreted as supporting a system of hierarchy in a society that assumed a mutual system of benevolence by superiors and respect by inferiors. This applied to the emperor and his subjects, who could in principle overthrow a non-benevolent emperor who lost the "Mandate of Heaven," as well as within families where the husband ruled his wife and children. Intersecting with and supporting this system of hierarchy, benevolence, and strong families was strong support for education as Confucians supported the establishment and maintenance of a meritocratic bureaucracy.

In terms of both ideology and practice in current East Asia, the implications of neo-Confucianism are seen as supporting relatively authoritarian state structures that may intervene to varying degrees in the economy, familial groupist attitudes that may extend beyond families themselves to larger groupings such as firms or the nation as a whole, high savings rates associated with the emphasis on strong families, and education. The latter two in particular are seen by many observers as underpinning the "East Asian Miracle" of rapid economic growth (Hwang, 1985). The familial groupism element is seen as lending itself to patterns of private-state cooperation and planning, which have led to "crony capitalism" corruption scandals and financial crises in some countries, as well as supposedly more harmonious labor-management relations in some countries.

More than with Islam, and reflecting the vagueness of its economic doctrines, neo-Confucianism can be seen as consistent with a variety of economic systems in terms of the standard categories of market capitalism versus command socialism. Thus nations currently advocating varieties of neo-Confucianism include very market capitalist, although politically authoritarian, Singapore and also the mostly market socialist People's Republic of China. Mao Zedong opposed Confucianism and identified Deng Xiaoping with it, an identification that was positively affirmed in Deng's later years as he was increasingly reasserted and neo-Confucianism was viewed as a useful offset to Western political and cultural influences emerging with the Dengist marketizing reforms within China's ongoing socialist system.

Historically in China the position of Confucianism with regard to markets and capitalist institutions varied over time. Under the Han dynasty Confucianism tended to support more laissez-faire policies in contrast with the Legalists who supported strong state control of the economy and society. In later periods, official Confucianism tended to oppose commerce and especially foreign trade, being contrasted with the more laissez-faire oriented views of Taoism (Zhang, 1991, Ch. 10). These views reached extreme forms in the almost completely autarkic societies of Choson Korea and Tokugawa Japan in the nineteenth century. This view of Confucianism as an anti-modern, anti-commercial religion remained predominant until Kahn (1978) began pointing out its potentially positive influence upon economic growth. Now the advocates of neo-Confucianism see it as supporting modern economic growth while simultaneously supporting anti-Western authoritarian political systems and cultures, the new traditional economy.

Many of the issues surrounding neo-Confucianism come to a head in Japan, arguably a planned market capitalist economy with significant new traditions. Japanese neo-Confucianism differs somewhat from that in other nations, being more diffused and "Japanified." But Japan has in recent decades exhibited high educational levels, high savings rates, reasonably harmonious labor-management relations (few strikes), and high levels of state-private cooperation. Until about 1990 these characteristics were associated with very high rates of economic growth, but since then, in contrast with most of the rest of East Asia until the crisis of the late 1990s, with a pattern of economic stagnation. Thus, Japan may represent both the advantages and the limits of the neo-Confucian economic system, the advantages of the above features now offset by the disadvantages arising from the corruption of "crony capitalism" and ossified state-private relations.

The new traditional elements of the Japanese economy are that it is a highly modern, technologically advanced economy, while at the same time the various practices that can be identified as neo-Confucian are deeply rooted in the society and can be seen at least partly embedding economic behavior in a Polanyian manner. Indeed, Japanese society has long melded selected outside influences with its own deeply rooted social and cultural practices (Reischauer, 1988). This was highlighted in the effort to integrate Western technology with Japanese after the Meiji Restoration of 1868, in the wake of the forced opening to external trade by Commodore Perry and his "black ships" in 1853, symbolized by the slogan, Wa-kon To-ou, "Japanese spirit and Western ability" (Morishima, 1982, 23).

The core traditional Japanese cultural characteristics that have carried through continuously derive from the notion of society as a household (ke) (Murakami, 1984), underpinning the familial groupism that in turn underpins behavior within firms and between firms and the state. The Japanese management style by consensus, the "J-mode," (Aoki, 1990) is seen as conforming to this pattern. In contrast with the Islamic economies, the neo-Confucian elements in Japan arguably arise from deeply rooted social and cultural characteristics rather than having been imposed from above to conform to a preset religious economic ideology.

However many of the characteristics associated with the Japanese economy have been imposed at relatively recent dates, albeit not for religious reasons. Thus, dis-
tivistic labor-management practices such as lifetime employment and seniority wages data from the World War II period when the government was concerned about worker morale for wartime production motives [Oksazaki, 1992]. Kojie [1987] argues that enterprise unions and the low rate of strikes is only a post-1960 phenomenon reflecting a defect of labor by management for a period of sharp conflict in the 1950s. And the high savings rate is only a post-World War II phenomenon, arguably reflecting specific tax policies [Balassa and Noland, 1988, 83].

Nevertheless, even if some of these practices are relatively recent in Japan, their successful adoption may have partly resulted from their coherence with the deeply rooted cultural characteristics of Japanese society and its brand of Confucianism. In that regard, they can indeed be seen as new traditional elements within the Japanese economy, arising from the interaction between its traditional society and the pressure to succeed in the modern world economy.

CONCLUSIONS

The new traditional economy is a system following the approach of Karl Polanyi that embeds economic behavior within a traditional culture, usually manifested as a traditional religion, while simultaneously using modern technology to achieve economic growth. It can be seen partly as an ideological movement seeking to assert the political, economic, and cultural autonomy of non-Western nations and societies against the power and influence of U.S.-style Western market capitalism. However, early versions of this ideology saw it as distinct from command socialism as well, a "Third Way," allegedly combining the efficiency virtues of market economies with the supportive communalism of socialist economies through familial groupings extended to the whole society.

The two most important such movements in the world today are Islamic economics and neo-Confucian economies. The former represents a more clear ideology in which specific economic behaviors, such as the forbidding of interest, are mandated to the faithful by the religion, with the advocates of the ideology seeking to impose these mandates on whole societies and to convert others to follow them as well. The latter has fewer specific behavioral mandates associated with it and more general cultural aspects underpinning its economic characteristics.

In terms of performance, the neo-Confucian system seems to have been more successful than the Islamic system, even though the latter may have more influence as an ideological system. This contrast may reflect specific aspects of its system, such as the emphasis on high education and high savings rates. But it may also reflect a stronger basis in existing socio-cultural practices in neo-Confucian societies in contrast to efforts to impose from above practices not already in place in such nations as Iran and Pakistan.

In any case, despite the strong appeal in many nations for such a system and all the publicity to the contrary, actual practices in many of these nations appear to be mostly a matter of smaller variations or modifications of largely market-oriented economic systems and practices. Thus, the new traditional economy may remain more significant as an ideological religious economic ideal rather than as an actual alternative economic system.