Integrated Structures Approach to Economic Development

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Abstract

Several major theories of development were contributed by famous economists over the post-world war II era. The Five Stages of Development by Rostow in the 1950s and 1960s, the Structural Changes by Lewis, the Patterns of Development by Chenery in the 1970s.All these classical theories were constructed on the base of a common assumption that the economic development process has always been launched from a traditional agricultural economy that was transformed into an industrial economy to attain countries development objectives. This paper criticizes classical theories of development for neglecting the model of development followed by the non-agricultural economy of the Islamic State established in the middle of the Arab peninsula about 550 (A.D.). The Islamic State was able to attain the lowest poverty rate ever known in economic history, moving from a small, poor, primitive economy to one of the greatest economic, political and military empires of the world, in less than 130 years. Through the integration of the diversified structures of the member nations economies, The Islamic Empire expanded to cover all Arabian Peninsula, Egypt, and the North Africa, and later on Syria was added after defeating the Byzantine army in 636 (A.D.), by 650 the Persian Empire was added too. Few years later the Islamic Empire boarders reached India, China, Spain, and Eastern Europe.

1. Introduction

Communities in most regions of the early age world have maintained their lives by a complete dependence on food sources gifted by the surrounding environment. The main economic activities were hunting, fishing and the collection of fruits and seeds from its natural sources. In latter ages and for the purpose of securing self-sufficiency of the growing human societies agriculture production and livestock breading become the dominant activities wherever the needed resources were available. Having this setting in mind, one may not wonder why the five classical as well as contemporary economic school of thought have interpreted economic development as a process of transforming the economy from traditional agricultural based economy to industrial modern economy.

Therefore; the main question of this paper is what roadmaps the classical theories have offer non-agricultural economies that may help them in achieving their development objectives? After this introduction, the second section of the paper will present a brief review of classical theories of development, the third section is a historical overview of the Islamic State, and the integrated structures model will be presented in section four, and section five offers summary and conclusion of the paper.

2. Classical and Contemporary theories of Development

In the 1950s and early 1960s Rostow's "Stags of Economic Growth" was the most popular theory of development. The paper presented Rostow's five economic growth stages, where at that time, per capita real income was the acceptable indicator of economic development. Depending on observations of the historical economic development of the developed world, Rostow presented five stages of development that all economies have to pass through out their process of development. Rostow believed that an economy starts form a primary stage of subsistence traditional agriculture, which develops gradually through the second stage called a pre-condition of "take-off". During this stage traditional agriculture transform into commercial agricultural by introducing some cash crops, more savings will be directed to investment in agricultural capital, technology and food processing industries proceeds, and productivity improvement will take place.

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Over the third stage called "the take-off stage" social mobility will turn into urbanization, more investment will be attracted toward modern manufacturing and service sectors where technological innovations become the main outcome of competition. The share of the modern sector will grow at a faster rate. Textiles usually become the leading industry in the take-off stage, which clearly shows the basic role of agricultural production in supporting the development process.

The fourth stage according to Rostow is called "Derive to Maturity", where the existing industries diversify their production, new industries gets established and more investment is driven towards consumer durables and domestic consumption. Private investment also invades public services establishing private health care facilities, education institutions, and transportation. The fifth stage is the "mass consumption" stage, where the manufacturing sector has the largest share of the economy, while the share of the agricultural sector diminishes over time in terms of population and income shares. Per capita income exceeds basic needs, attaining high standard of living and welfare of the majority.

According to Rostow theory, the necessary condition for development is the availability of enough savings to support real investment. Harrod-Domar interpreted this condition in the a mathematical model ($Y^G = s/k$), where Y^G is the growth rate of GDP, s is the saving rate and k is the capital output ratio, so, as the saving rate increases and more efficient use of capital becomes possible the economy can improve its rate of growth and attain higher level of development.

Both Rostow theory and Harrod-Domar model were criticized for considering availability of savings as the necessary condition for development, which was driven from past historical facts and the Marshal Law experience of European development after the Second World War. In developing countries, although savings is necessary for development, however, it is not a sufficient condition because these countries are mostly lacking physical, human, social, and legal infrastructures, which are prerequisites for successful investment for development.

Later on, two development schools of thought dominated; the Structural Changes and the International Dependence theories. The Structural Changes was represented by Lewis(1954) Two Sector Labor Surplus Model, and Chenery (1975) Patterns of Development.

Nobel laureate W. Arthur Lewis contributed to the theories of economic development by his famous basic paper on a two sector economy with a surplus of labor. Lewis model is a structural change model that differs from Rostow model in providing the mechanism that leads to changes in the economy structure and development. In this model, the two sectors are traditional agriculture sector and a growing modern manufacturing sector. The agricultural sector has a surplus of labor which is assumed to result in zero marginal productivity of labor, so labor migration to the modern sector is expected to have no effect on either production or labor wages in the agricultural sector. The modern manufacture sector is assumed to benefit from both the labor surplus attracted by the relatively higher industrial wages and also from real investments made by landlords' profit, as well as investment of industrial profits.

Investment in the manufacture sector was assumed to be enough to secure growth of the modern sector at such a rate that allows for the complete and continuous absorption of the labor surplus migrating from the agricultural sector. The second model of Structural Changes is "patterns of development" of Hollis B. Chenery, which was based on time series and cross-section empirical studies on countries passing through different stages of development. In addition to the classical theories of development, more recent theories have been published over the 1960s through the 1980s. Of the most popular of which "The International Dependence" that focused on the international relations between developed and developing countries, and "The counterrevolution Theory" which addresses economic liberalization and the adverse impacts of government interventions in developing countries. However, none of these modern theories have discussed the basic assumption of classic theories.

3. The Islamic State: A Historical Over View

Mecca is historically the holy capital city of Islam where a sacred shrine (Kabbah) foundations were raised by prophet Ibrahim and his son Ismail, and where profit of Islam, Mohammad (Peace be upon him) was born and launched his campaign of delivering his message to Mecca local community, about 550 (A.D.).Thirteen years later Mohammad (PA)followed by his companions migrated from Mecca to what is known today as Maddina, where the first Islamic State was established, and where the world first human rights rules were declared as "the constitution of Maddina" that gave the non-Muslims residents of Maddina the right to freedom of religion.

Examining the ecological conditions of the Mecca-Maddina region at that time, the soil was mostly sandy soil; very little rain during winter, with no rivers and scarce underground water for agricultural irrigation. In fact, as mentioned in Quran (Holy Book of Islam) Prophet Ibrahim prayed to God asking for his mercy as he settled his wife and son in a valley lacking any vegetation.

Unlike the abovementioned theories of development, the Islamic State traditional economy has a non-agricultural foundation; to the contrary it was an open economy that depended basically on tourism by believers of previous religions for pilgrimage to Kabba, the holy shrine of Mecca. In addition, the economy was also depending on foreign trade between the world's east and west. Although not qualified as agricultural or industrial economy, Arab merchants were able to play a major role as international trade mediators between the far-east and the west of the world.

The Arabian Peninsula became an important hub for international trade, caravans trade traffic used to pass through the peninsula desert carrying Eastern products from the Indian Ocean and China Sea in the east tore-export it to the Atlantic Ocean and the Mediterranean Sea in the west, in exchange of Western products to be re-exported to the far east.

3. *Economy of The Islamic Empire*

During the remaining ten years of Prophet Mohammad's life, his majesty hade stablished the new state on the bases of Islamic Shariaa (Islamic laws), with a main goal of spreading Islam peacefully to all mankind around the world. Following the guidance of God, Islam faith was not imposed on people by force but rather conveyed by wisdom, delicate and acceptable advice. The prophet had sent his representatives to most of the world rulers like Roman Kisser and Persian Emperor and others, inviting them to Islam and asking for freedom of faith for their people. Military force was only allowed to be used against rulers who denied their people the right to accept Islam. Those who rejected the invitation to Islam were granted the right to practice their own religion and to pay a Jeziah (a per head tax) in return for being protected and defended against any foreign aggression. Countries who accepted Islam became part of the new Islamic Empire in a confederation-like system, as the necessary condition for economic development. Under the third ruler following the death of the Prophet (PA), Caliph Omer Ebn Al-Khattab, Jerusalem have been opened by the Muslims and a famous pledge (Al Ohdah Al Omeriah) was signed and published by Caliph Omer that granted Christians and Jews residents the freedom of practicing their religion activities and maintaining their churches and synagogues.

4. *Integrated Structures Development*

Spreading Islam all over the world was the ultimate goal of the Islamic State. Government spending was financed by different types of Zakat (Islamic taxes); levied and collected according to the word of God (the holy book: Quran). Given the fixed Zakat rates defined by the Prophet, economic growth then was inevitable for the Islamic Empire to insure sustainable growth of Zakat revenues adequate to cover government spending on conveying Islam and to attain sustainable development.

Although the prophet (P.A.) hadn't been able to read or write, his majesty was gifted with enough wisdom through revelation from God. The prophet, following the explicit guidance of God concerning unity of Islamic nations, decided not to leave new Islamic nations politically and economically independent of each other. Instead, He chose a confederation-like structure that brought all Islamic nations in an ideal political and economic bloc based on the unity of faith.

The economy of the Islamic Empire was growing at a so fast rate ever heard about in the history of economics all over the world. Despite the unavailability of statistical records on these historical periods, a well-known fact of the Islamic history shows that in less than a hundred and thirty years, during the fifth Caliph (Omer Ebn Abdul-Aziz) time, average per capita income exceeded the subsistence level (Hadd Al-Kafaf) or the poverty line of that time. No poor individuals were found qualified for government income support at that time. The government then used instead to provide for marriage, pilgrimage, and health care. Therefore, one may conclude that according to the traditional indicators of development, the Islamic Empire has achieved a challenging level of economic development. Within less than three hundred year the Islamic Empire became one of the greatest military as well as economic and political powers of the world, a fact not surprising given the strong observable correlation between military and economic power around the world.

Given this history ofeconomic prosperity, the logical and significant question to be raised is what mechanism may have been behind these surprising achievements of the Islamic Empire? In fact, the new Islamic Empire at that time had a lot of socio-economic, political and military advantages over all competitors. The Islamic Empire had launched its development strategy on the construction of what is currently known as economic bloc.An outward looking strategy of development was adopted, that aimed at building a consolidated economic bloc amongst Muslim nations, by following an integrated structures approach. Integrating theeconomic structuresof that large number of member nations of the Empire had actually benefited a lot from the unity of faith, and from exploiting the diversified resource and production sectors, wide variations in climates of different regions, different human capital types and skills, freedom of trade movement between nations within the Empire, free labour and capital mobility, different types of technology and easiness of its transfer, a single currency, unified laws and regulations. The Empire gained the benefits of economies of scale made possible by the expanded size of its markets, and gained also the capacity to negotiate better international prices for its imports and exports.

The strength of such blocking strategy has been lately and after more than a thousand years discovered and being adopted only in the last two centuries by groups of nations to form different blocs like: The USA, the USSR, European Community, NAFTA, ASEAN, and Arab Economic Unity and the African Economic Community, and others, as contemporary economists have found it to be the most advantageous approach to economic prosperity. After the Othman Empire (last Islamic Empire) was defeated in the First World War, colonials have adopted a dismantling strategy against the Islamic empire, by turning the Othman Empire into fragmented large number of small separated colonies in order to control and exploit its resources and wealth for the sack of the colonial's interests. This experience provides strong evidence in support of the effectiveness of the integrated structures approach to development which proved to work in both directions in this case. As it can be used by developing countries as a successful approach to development, disintegration and fragmentation could also be used by dominant nations as a tool to weaken and control other countries, as the case of the past Soviet Union, Iraq, and as it is currently expected to happen in Syria, Yemen, Libya, and other countries.

5. *Summary and Conclusion*

Classical theories of development have all assumed a traditional agricultural economy as a launching setting that should be transformed into a modern industrial model through the development process. Unlike this traditional setting, the Islamic Empire initially started from a non-agricultural open economy that depended basically on foreign trade. By spreading Islam the Empire extended to form a confederation-like State that integrated a wide variety of member countries' economic structures, that become one of the most developed and powerful nations of the world at that time. All that development was achieved in less than two centuries. In conclusion, one may say that before at least a thousand years, The Islamic Empire have offered the world the most efficient development approach, missed by all previous theories of development, that is the Integrated Structures Development Approach.

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