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Muhammad as a Businessman: Early Islam and the Birth of Capitalism

Govornik: Benedikt Koehler

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> In this episode of "The Story of Money," hosts Robin Wigglesworth and Gillian Tett interview economist Benedikt Koehler about his book "Early Islam and the Birth of Capitalism," arguing that the Prophet Muhammad was a successful businessman whose market reforms and business ethics helped shape early Islamic commercial success and may have influenced European capitalism.

SAŽETAK

The podcast explores the commercial life of the Prophet Muhammad, beginning with his early career as a caravan trader, his marriage to the wealthy merchant Khadija, and his family's business innovations such as the Ilaf agreements. It details how Muhammad's experience as a merchant informed his later economic policies in Medina, where he established a tax-free market, refused to cap prices during a famine, and introduced welfare obligations like zakat. The conversation also examines the ban on interest in Islam and its emphasis on risk-sharing and equity financing, contrasting this with debt-based systems. Koehler argues that Islamic business practices, including partnerships (qirat), and concepts like risk, tariff, and trust (waqf) influenced European commercial institutions such as the Venetian commenda. The hosts discuss the historical context of Arabia as a decentralized, Hayekian world of tribes and trade, and the role of the ummah in building trust. The episode also covers the disruption of the Islamic golden age by Vasco da Gama and Columbus, and the subsequent decline of Middle Eastern trade dominance. Throughout, the hosts debate the extent of direct influence, with Wigglesworth expressing skepticism about copying and Tett highlighting cultural exchange. Koehler responds to the reception of his ideas in the Muslim world and reflects on Muhammad's modest lifestyle despite his wealth. The episode concludes with thoughts on mutual respect and the continuing relevance of Islamic finance.

KLJUČNE PORUKE

> The Prophet Muhammad was a successful businessman who came from a prestigious but poor family and worked as a caravan trader before becoming a prophet.

> His great-grandfather Hashim created the Ilaf, a win-win agreement with Bedouins that allowed safe passage for caravans in exchange for goods, which Muhammad later mentioned.

> Muhammad's wife Khadija was a wealthy merchant who financed his trading ventures; women in pre-Islamic Arabia commonly had property rights and were active in business.

> After migrating to Medina, Muhammad established a tax-free market and refused to cap prices during a famine, saying "Prices are in the hand of God," promoting price deregulation.

> He introduced zakat, a 2.5% wealth tax for welfare, and emphasized fair trading rules enforced by a market supervisor (muhtasib), banning monopolies and insider trading.

> Islamic finance bans interest but promotes risk-sharing and equity financing, as seen in qirat partnerships that resemble venture capital.

> Words like risk, tariff, traffic, and douane, as well as the concept of trusts (waqf), have Arabic origins and influenced European commerce.

> The Islamic golden age declined after Vasco da Gama and Columbus opened new sea routes, disrupting the overland trade that had enriched the Islamic world.

ČLANAK

He had started out in life — he came from a very good family, but he had absolutely nothing. By the time he was in midlife, he was a successful businessman and could have continued coasting that way. He had this calling, and becoming a prophet was a terrible challenge for him.

Today on "The Story of Money": did you know that one of the world's great religions was founded not by a saint, per se, but by a businessman? Yep. He was an international trader, he set up a commodities market, and he became quite wealthy along the way. And if you're wondering who we're talking about, well, the answer is the Prophet **Muhammad**.

So, to tell this very counterintuitive story, we are joined by Benedikt Koehler. Benedikt, welcome to the show.

Well, thank you for inviting me.

One reason we wanted to talk to you is because you bring a really unusual perspective to this subject. You know, you're a fellow at the Institute of Economic Affairs, which is the famously free-market think tank in London. So presumably you describe yourself not just as a capitalist, but a libertarian too.

Well, and a reader of the work of Friedrich von Hayek, and Hayek said governments aren't all that necessary for economies to prosper. And having read Hayek, and looking at early Islamic history, I just felt the story of early **Islam** is the story of Hayek in Arabia.

Yeah, Hayek of Arabia — that sounds like a great film. I'd watch that. In any case, today we're going to be talking about the story of Muhammad the capitalist, Muhammad the merchant. Here on "The Story of Money," with me, Robin Wheelsworth.

And me, Gillian Tett.

What happens next in "The Story of Money"?

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Benedikt, you have a fascinating backstory as well, right? You wrote a book called "Early Islam and the Birth of **Capitalism**" that argues that we in the West have actually learned and imported a lot of early capitalist financial ideas from the Muslim world. But you started out as a financier in the city of London. So can you tell us a little bit how a German banker ended up writing about Islam and finance?

Well, I was interested in the history of banking, and I discovered that one of the founders of Deutsche Bank was also a founder of the German Liberal Party. And I thought, that's an interesting story, and wrote his biography. And after that, somebody tipped me off: "By the way, if you're looking for a topic, did you know Muhammad, before he was a prophet, he was a merchant? Maybe there's something in it." And so for the last 15 years, I've been looking at economics of religion.

Well, that's fascinating. But it's also quite surprising, because there's a big school of study around the idea that Protestant Christianity influenced ideas of capitalism. But people don't normally talk about the Islamic world in association with capitalism, partly because the religion is famous for banning interest payments, isn't it?

It is famous for banning interest payments, just like Judaism and Christianity. But what's different about Islam is that it's a religion that is centered on the personality of its founder, on Muhammad. And in my view, he was really a supply-side economist of world historical importance. And that's my theme.

Well, I have to say, Benedikt, that I'm a little bit personally skeptical of the thesis that Western capitalism was influenced directly by Islamic capitalism. But I do love **Islamic finance**. It was my first job in financial journalism, in fact. And it's just a fantastic topic. So I'm really looking forward to seeing if you can win me over by the end of today.

Well, I'll make my best effort. Thanks.

The Wedding in Mecca

So we're going to start our story with a wedding. The year is 595 CE, Common Era. So the venue is the Arabian market town of Mecca, and it's bringing together two figures in that town's business community. So we're going to start with the groom, the hero of our story, who is, of course, Muhammad himself. Benedikt, can you tell us a little bit about the young Muhammad who's about to get married at the time?

Well, Muhammad came from a family that was high level, high prestige, was an elite family. But his own life was very, very hard, and he knew from very early on he'd have to pay his way in life. And the reason was that his father was a caravan merchant. But unfortunately, his father died on a caravan mission, didn't come home in time for his own birth. So he was an orphan. And he was raised first by his grandfather, and then when the grandfather died, by his uncle, Abu Talib. And Abu Talib took in hand to give the young boy a professional background, and he wanted to train him up to be a caravan merchant, which is what everybody in the family did.

Well, that's always a good start for anybody. But what exactly was caravan trading in those days? What did it mean?

Well, caravan trading was the business model of people in Mecca. Mecca is, and Arabia generally is, not a place where you'll make money and make a living out of agriculture. What they had to do was to find a way to make a living by intermediating trade, taking goods from one part of the world, from Asia or Arabia, and taking it to another part of the world. So they were very, very cosmopolitan and very international-minded. And they knew they could make a lot of money transporting high-value goods — the higher the value, the better — stuff like gold, or spices, or silk. But they also knew that they were running tremendous risks, as Muhammad knew from experience, because his father died on a caravan venture.

The Scale of the Caravans

And I gather like 2,000 to 3,000 camels involved in this, going such vast distances at the time, which is a lot of camels.

Well, yeah, that's a big caravan. That's not like a small poxy one. That's like an entourage. A juggernaut. A caravan juggernaut. What is the collective noun for camels? I don't know. A grumpiness of camels? I don't know. You know, and the interesting thing about organizing 2,000 or 3,000 camels is that you have to organize the people who own those camels, and you have to organize the people who are going to supply those camels with goods. So there were lots and lots of people involved in this. It's what you'd call vertical integration across the whole production of the economy of Mecca, which went on for several months until, on a specific date, they'd leave. And they were carrying things like pearls and incense and spices and leather and gold and silver.

Hashim's Win-Win Model and the Ilaf

Caravan trade was high value, and therefore pretty risky to cross by themselves with all the bandits out and about. With all the bandits out and things, they thought, why should we leave all this trade to the people coming from Mecca? This is where Muhammad's family comes in, because he had a great-grandfather by the name of Hashim. And Hashim had an idea. He approached lots of the Bedouins who were guarding the routes that they were traveling through and told them: listen, instead of you trying to raid us and us hiring guards to protect us from you, why don't you just leave us some of your goods? We'll take them along on our trip, and on the way back, we'll settle. So Hashim created a win-win situation where before there was a lose-lose situation. That was one of the ways they felt that trade is a good idea, and it's the business model that brings prosperity to everybody who's involved. And that business model was called Ilaf. And the Ilaf is mentioned by Hashim's great-grandson, Muhammad, who became a prophet.

Arabia in the 6th Century: A Hayekian World of Tribes

Can you tell us a bit more about the backdrop here? So this is 6th-century Arabia, essentially the middle of the desert. What kind of world were these sort of big, massive caravan trades happening in? What was the political situation in Arabia at the time? Well, the astonishing thing about Arabia is that they never appeared on the radar of the big empires that would have loved to take them over. But they never managed to subjugate Arabs. So Arabs, if they had one thing in common, is that they didn't like foreigners taking over their lands. But if there's another thing they didn't like, it's any of the Arabs taking over their lands either. So they were really a Hayekian world. There were private agreements between all these tribes, and they met for one reason at regular intervals. They'd go on pilgrimage to Mecca and worship their individual deities. They were polytheists, and they were tolerant of any devotion whatsoever. So they met regularly in Mecca, and Mecca was a safe space for them to worship, and then also to do trade, but also to team up and do business and go on caravans. So religion and cross-border trade went hand in hand. That was the Meccan business model. But they were never part of an empire, and that's one of the things the Arabs were very proud of. Nobody ever managed to take us over.

Khadija: Wealthy Merchant and Muhammad's Lucky Break

So that's really fascinating, that mix between religion and cross-border commerce, as you say. Because that doesn't really fit the regular view of religion in many other parts of the world. But I'm curious—so that was Muhammad. What about the person he was marrying at the wedding, Khadija? Khadija was Muhammad's lucky break in many ways. He would never have been introduced to Khadija, who was a high-net-worth individual of the time. She was a wealthy merchant at the time. She was not only very wealthy, she was also a woman who was very wealthy. So if you didn't go on caravans yourself, but if you picked the right kind of caravan manager, you'd invest in their caravan venture, and you'd split the profits on their return. And she made a substantial fortune that way. So she was wealthy. And she sponsored Muhammad when he started out in the caravan business, and eventually they got married. And it was, by all accounts, a very happy marriage. She died 25 years later. But he always had very fond memories of Khadija. And one of the things that's really surprising was she was actually 15 years older than him, wasn't she? So she was not only his boss, not only his investor, but she was also his senior in so many ways. Jillian, I know she was senior, but I don't know how much older she was. But she was older, and she had children before. So how usual was it? You said women being active in business in sort of 6th-century Arabia. How common was it? What kind of situation did they have at the time?

Women in Business in Pre-Islamic Arabia

Well, it's so unusual for women to be involved in business in most countries in most centuries, isn't it? But it wasn't unusual in Arabia. And I think I already mentioned his great-grandfather, Hashim. He had a wife, Salma. She too was an independent trader, and she traded on her own account. So in Arabia back in those days, it was common for women to have property rights of their own, but also to be active in business. After Muhammad died, his widows needed to be provided for, and they went to the Caliph, who offered them a pension. And the widows went back to the Caliph and said, "Sorry, but that's not enough. We'd like more." Wow. In divorces, women back then could get their dowries back even. Yes, correct. Yeah. Extraordinary.

Caravan Financing: Venture Capital and Qirat

So we have Khadija, who is essentially financing Muhammad, and is already experienced at that. But when we say she was financing Muhammad, I mean, how exactly were caravans in those days, with all those camels, you know, floating about? How were they actually financed? Because they didn't have banks in those days, did they? No, they didn't. And what you've got to do, Jillian, if you're going to be a caravan trader and you've got some wonderful things that you're going to produce and deliver and take from Mecca to Gaza, well, firstly, you have to produce those things. And to do those things, you have some bills to pay in the meantime. And you have to pay for your raw materials. And you have to pay for all the time that you're traveling and for all the time that you're returning. So there's a long lead time between investing and finding out whether you've made a profit. And for that, you need somebody to provide you with upfront capital. And that's what the very wealthy Meccans knew how to do. So that was caravan financing, which was, if I could use that term, it was like venture capital. But the word they actually used was qirat, wasn't it? Partnership. Which is one of the things that was copied then later on in Europe.

Islam's Ban on Interest and the Promotion of Risk-Taking

But so Islam famously bans the charging of interest. And as you pointed out earlier, all the Abrahamic religions do or have at some point. But obviously, it's so much of a stronger injunction in Islam. Is that tied somehow to this sort of this venture capital style caravan financing that was prevalent at the time? You're right. Absolutely right, Robin, in pointing out it's not unique for Islam to ban lending at interest, because so did Israelites, so did Christians. So if you had a money program inviting Moses, Jesus, and Muhammad and said, "Talk about lending at interest," you wouldn't have a discussion going, because they were all on the same page. But in Muhammad's case, he had not only the stage for lending at interest, but at people who lend at interest. If you read the Quran, there's some inflammatory language about individuals who were lending at interest. But what's different about Islam is that it promotes risk-taking and risk investing.

Business Practices Endorsed by Religion

And that means that in Islam, you have business practices that are not simply tolerated, but are actually endorsed, promoted, and encouraged by religion. And that's one of the reasons Islam became a catalyst for capitalist practices.

The Wedding of Muhammad and Khadija

So let's go back to our story, which is this extraordinary wedding: Muhammad and his wife, Khadija. It's a good match, a love match. Muhammad remains devoted to her until her death 25 years later. But it's also a good commercial match, because business goes very well for them. So I guess it might be a case of happily ever after, except that 15 years into their marriage, something happens that changes everything.

The Call to Prophethood and Its Impact on Business

Muhammad goes off to meditate in a cave, as people sometimes did back then. You know, I'd like to do occasionally myself. And whilst there, he had a terrifying but awe-inspiring encounter with a mysterious and powerful being. And this is the archangel Gabriel, who reveals the word of God to him—the first verses of what would eventually become the Quran. And this is the moment that launches Muhammad's new life as a prophet. Now, we know this is a very important moment for people of faith, the Islamic faith. But in the podcast, we're actually going to focus primarily on Muhammad's business career. So tell us what happens next, Benedict.

Well, what he did was he went straight home and told Khadija about the fact that he was a prophet, he had this calling, and he was going to go ahead with this. And Khadija—and this was a big moment in her life, she must have known this spells trouble—and she backed him. She was unquestioning and unflinching in her support for him. Because what happened when he started to preach monotheism—remember, Mecca is a city which lives on polytheism and lots of people coming there and paying their respects to their individual deities—the business elite were not going to like this. And they told him, and they told Khadija, "Well, listen, you're welcome to have your religion. We'll just add it to all the other ones that are here." And Muhammad said, "No, we're not. We're going to eliminate all the other religions that are here, because my religion is the one that's going to replace them." So it was terrible for their business. So people started to cut them out, not only Muhammad and Khadija, but everybody related to them. And things got very, very tense. So tense, in fact, that Muhammad had to leave the city.

Exile to Medina and Economic Challenges

Now, Khadija, during that period, died of natural causes. And just a few years earlier, he was a man of our town and had a wonderful life, living comfortably. And becoming a prophet was a terrible challenge for him, business-wise as well as personally. Being bereft of Khadija and his guardian uncle, Abu Talib, died around the same time. And he had to set out to Medina, all on his own. And this is the year 622, right? The year when Muhammad is finally exiled from Mecca to Medina. Essentially, he has to relocate his entire life and is banned of followers then. And he only has a few followers around him. And they don't have much more money than he does, which was very, very little. I mean, could you set up a caravan trading operations in Medina at all? Or was it a completely different type of town at the time?

Market Reforms and Economic Innovations

Well, Robin, this is where the supply-side economist comes in. Because what he did was two things. Actually, I want to start out telling you about one thing that he didn't do. He didn't set up a government office, and he didn't build a palace. He never wanted a high infrastructure, state infrastructure. He set up a mosque. That's everybody knows that. But he set up a second institution. That's the one that we're interested in right now. He set up another market. And he set up that market. And when he inaugurated it, he said, "This is your market, and there will be no tax on it." So he had a pretty clear idea. Wow. A clear idea of fiscal incentives, because there were four markets in Medina already. So he knew about how to compete with business models. See, undercut by doing zero tax on his market, he undercut the other markets. Right. But the second thing, which I think is really the remarkable achievement and broke with all economic thinking of the time, there was a famine. And when there was a famine, prices for groceries shoot up. And when people go to the government and say, "Do something, cap prices." And Muhammad, who could be pretty single-minded, as I think has come across by now, on this occasion, he said, "Well, I'm not going to oblige." And the quote is, "Prices are in the hand of God." So he said, "That's not part of the remit of a prophet." So he introduced price deregulation in the market of Medina. And that is something that no political leader or religious leader until that time had ever done before in the Middle East, and probably not anywhere else. So that was the second big thing that he did.

Philanthropy, Zakat, and Fair Trading

But that was slightly ameliorated, wasn't it, by two other things, as I recall it. One was he was very strong in philanthropy and a kind of wealth tax, if you like. I mean, it's not really a wealth tax, but he asked everyone to pay zakat, which is 2.5% tax of finances safety net. And he also developed the idea of murakat, which is basically the, you know, philanthropy being a good thing for the brotherhood to help reduce the gap between rich and poor. I mean, that must have helped, didn't it?

Well, Gillian, I'm so glad you mentioned this, because this is what people have against capitalism. They say, "Well, if you're a guy who deregulates prices, if you're a guy who undercuts taxes, what's going to happen to all the people who aren't thriving and succeeding?" You know, capitalism is a heartless environment. But in Muhammad's case, it's exactly the opposite. He said there should be provision for poor people, and we're going to impose that as a requirement on everybody who's a Muslim. So it's the provision of welfare, but not by what government, not by authorities. You, everybody, yourself, should contribute to welfare. And that's a very libertarian idea. Absolutely. I mean, of course, the other thing he also said is, as I understand it, you know, really echoing Adam Smith's book, The Theory of Moral Sentiments, he was very keen to create fair trading rules, whereby you actually had a common framework of trust around the market. How did that work? Trust was very important. And some of the guidelines that they have in early Islamic legislation are so interesting to read if you have the time. Let's, for example, imagine you're setting up a business and you're setting up managers. Now, Muslims never had a problem setting up and funding a business along with somebody who was, for example, a Christian. No problem whatsoever. But they had a problem hiring somebody who was a Christian.

Supply Chains and the Market Supervisor

The reason was that if a manager is a Christian, he might be buying and selling things that a Muslim would not want him to handle — for example, alcohol or pork. So Islamic business ethics were very concerned about supply chains and about making sure they were ethical at every stage of the production process. That was part of Islamic legislation.

They also had a market regulator. He believed that prices are set by the hand of God, or that certain things have to be left in the hands of the divine. But you do need humans to make sure the rules are being adhered to. That was the position of the muhtasib, the market supervisor. If he did not like you, that was the end of your career. You would not show up tomorrow — "We don't like you here." The muhtasib had to make sure that everybody complied with fair trading. There were rules, for example, against monopolies. If you are in a town that is expecting caravans to come in, it is not a bad idea to send out your scouts to meet them before they arrive, buy up all the goods you know are in high demand, and corner the market. That practice was banned. It was regarded as irreligious. So a muhtasib had to make sure that everybody trades fairly and that there is no insider trading.

Hoarding and Fair Market Conduct

In the context of the market regulator and the famine, there is also a saying about hoarding. It is fascinating that he talked a lot about economic, financial, and commercial issues, and he talked about hoarders. If prices are going up because somebody is hoarding something, then they deserve leprosy — which is pretty brutal. But he is clearly sending a signal that we trust in God, yet to a certain extent we need to keep the bad habits of man in check occasionally as well.

Sometimes it went into details that strike one as very odd. I will give an example, not of Muhammad but of his son-in-law, Ali. He went to the marketplace where a guy who was a blacksmith had set up his blacksmith's shop in the middle of the marketplace. Ali said, "Sorry, you've got to take it down." The guy said, "Well, that's a lot of work. What are you transporting this in and out?" Ali said, "No, this is a free market. Every morning, people first come, first served. We don't have anybody expecting they have any kind of privilege here. You start all over every day."

The Ummah and the Building of Trust

Another thing that is fascinating about this period is the concept of the ummah, which is still very much prevalent in the modern Muslim world. I did my PhD looking into Islamic studies, and it was a key factor that came up constantly — this idea of a common brotherhood. One reason why that is interesting is that before Islam emerged, Arabia was fragmented into hundreds of different competing tribes, each with their own god. There was no common sense of identity. But under Islam, everyone became part of an ummah because you had monotheism under a single god. In some ways, that created more trust in the community than you had before. Do you think that helped pave the way for the rise of this kind of market capitalism as well? I think that is certainly a plausible explanation, because what happened is that you are building trust. And I am so happy that you mentioned the word "building trust," which is so important for market practice, especially if there is no government.

How the Market in Medina Became Commercially Successful

Medina attracted more and more people. More and more people got the idea, "Hmm, this business model is actually a good thing. I think I'd like to know more about it." Unsurprisingly, more and more people then converted to that business model in terms of commerce, but also for the religion that animated it. That is how it took off across the Middle East.

Some of it, it has to be said, was by means of warfare and conflict between Medina and Mecca. Mecca is further south than Medina. So if you are in Mecca and your business is taking a caravan to Gaza, and in between Gaza and Mecca there is this city where you have people you don't like and they don't like you, sooner or later there is going to be trouble. And there were raids. Eventually, Muhammad took over and came back and took possession of all of Mecca. That was part of the reason.

They also began to spread Islam northward to Khaybar. That was a settlement north of Medina. Muhammad gained rents — I think now we would call them taxes — from the areas that were incorporated into Islam. Through those, he became fantastically rich. So he had the lion's share from raiding parties, and he also had huge revenue coming in from rents from areas that had become part of the realm of Islam. According to Leone Caetani, a reputable Islamic scholar who has been through all the tax records of the time, Muhammad was the highest-income Arab of his time. Living a very, very modest life, it has to be said. He had a high standard of living before he became a prophet. But when he was in Medina, he had a very simple way of life and always made a point of having a simple lifestyle, but never had a problem with those of his companions who liked to live it up.

From Medina to the Spread of Trade and Capitalism

The picture we are seeing right now is that Islam is on the rise and will eventually spread throughout the Middle East and along the trade routes going east as far as Indonesia and west to the Mediterranean, which is quite remarkable. But as Islam spreads and as this commercial vision spreads too, the interesting question is whether this is just correlation, or whether it is the model of capitalism that made early Islam such a commercial success and vice versa. And to what degree did this actually come into Europe and the vision of capitalism that emerged subsequently? Does that go back to that market in Medina? Big questions. We will be looking at those after the break.

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[return from break]

Welcome back. We are discussing something that people don't often talk about in relation to Islam, which is the commercial life of the Prophet Muhammad and the extraordinary free market business model that he established.

The Business Model That Enabled Islam's Rapid Expansion

So, Benedict, you think that it was this business model that enabled the rapid expansion of Islam, but you also think that this model eventually found its way into Europe along with other things like algebra and numbers and things like that, which came from the Arabic world as well, where it eventually sowed the seeds of modern capitalism, which, of course, is entirely different from what people normally presume. So how do you think this has happened exactly?

Well, some of it, Gillian, was by way of unintended consequences and things that had something to do with Europeans having some get-up-and-go as well. Now, in Italy, there were some cities — I'll just pick one of them, Venice. But Venice stands for another kind of mercantile operation like Genoa, Pisa, and several others. Now, they were part of the Byzantine Empire. And Venice in the Middle Ages can be compared to what Hong Kong was in the British Empire. This was a self-contained community that had no army, a very small one, if at all. But they were traders, and they had an overlord, but that overlord was in Constantinople, very far away. And the Venetians were living very happily doing business all over the Byzantine Empire. And they had their own trading outposts along the Levant and in Egypt.

Now, eventually, after the Arabs displaced the Byzantines, the Byzantine bureaucracy was pushed out. But the Arabs discovered all of these business people. And the business people said, "Look, if you don't mind, we'd like to stay." And so the Venetians and the other Italians just went on trading in their outposts the way they had done before. They had their own self-contained units. They were called fundacus. They had their own management. They had their own privileged access to Islamic authorities. And they had their own warehouses. And they traded with Islam. So what this did was give Europeans a window into Islamic business practices. And during that time, when Venice had its fundacus in the Islamic Empire, that was the glory day of the Venetian Republic.

Similarities Between Caravan and Sea Trade

So in Venice, they were called commenders, right? These sort of commercial trading ventures that are quite similar to the caravan ventures that we discussed before the break, right? Well, Robin, that's my story, because what is a commender? A commender is a convoy of boats. So instead of camels, think boats. But what have you got on those boats? Well, you have high-value goods. And you take them across the water, and you sell them and come back and make a lot of money, provided you do come back. It's exactly like the caravan trade. There are big wins, but there are tremendous risks and losses if you don't win. So the business model is pretty much the same.

So if you want to equip a ship, you've got to build it, and you've got to store all the wares that go on it. And to do that, you need somebody to put money up ahead of time and to wait until you've returned to settle for profits and losses. So a commender just happened to be traveling venture capital across the Mediterranean, across the water, whereas the Kiraat was taking venture capital across camels, across the sand. But the business model was venture capital in both cases. Yeah. The similarity being you have essentially an investor in a **risk-sharing** venture that in return for putting up the capital, they get a share of the profits from the trading mission or the camel caravan.

Arabic Words That Entered European Commerce

In your book, you also have actually quite a few other interesting examples of words, European words, we think, but they actually seem to come from Arabic, commercial words. Can you tell us some of those? Well, if you were a Venetian, you were doing a lot of business with Arabs, and you'd pick up a lot of their vocabulary that you might not be familiar with and say, "Well, that describes exactly what I'm doing." One such word was traffico, traffic. We take that it's about cars and traffic jams. But trafficking is really about trading and bartering and taking goods across distance. Another one, if you're in France, you'll see the sign douane, which refers to taxes on borders. That comes from the Arabic diwan, which was their accounting office for foreigners coming in. And in France, if you're in a bank, a guarantee could be called an aval. And that comes from hawala, from the Arabic ways of guaranteeing long-distance payments.

But the big word for me, Robin, is the word risk. Now, you think riesikum sounds so Latin. It's got to be European. But the funny thing is, it never shows up in any European, Italian, or Latin dictionary until the 1200s. And when it shows up, it's in commercial contracts by Italian traders, where they say, "This is a commenda at risikum et fortunam." So the term risk was a new one. So Romans had words for danger or for luck or for fate. But the word risk, the idea of upside and downside, that concept never entered into a European language until Europeans happened to interact with Arabs.

Tariffs and Other Imported Concepts

Well, there's also a lovely word, which is bitterly ironic today, that's been used a lot by President Donald Trump, which, of course, is tariff. Yep. Which also came from Arabic as well, didn't it? Yeah. I mean, you know, bitterly ironic given what President Trump sometimes says about, you know, the wanting to champion European culture, et cetera, et cetera. You know, the very tariff concept comes originally from the Arabic world.

But are there other examples aside from tariffs which got imported from the Muslim world in terms of European financial and business practices? Well, one particular is everybody's heard of a famous Italian mathematician by the name of Fibonacci, Leonardo Fibonacci, and the Fibonacci series. Well, he grew up in Algeria in exactly the kind of fundaco that we were mentioning earlier. He wrote his autobiography and said, "Well, I was trained in mathematics by Arabs." And he then wrote his book about business and math. So that's one example of what we picked up. But there's another one. That is actually one of my favorite stories is that when in England, the first trusts were created, trusts being a common law invention and an innovation in European law. Well, actually, trusts, where you have a donor, a beneficiary, and a manager who looks after making sure the trust does the way the donor wants it to, well, that model already existed in the Arabic world in the Middle East for several centuries. It was called a **waqf**. And it was introduced by Muhammad and his companions. So that's another idea that we didn't have until we met the Arabs.

Now, you can say, "OK, fine, we didn't meet Arabs until then, but somebody could have figured it out themselves." Well, the funny thing is, the first trusts were set up by people who were Franciscans and Knights Templar. Now, the Franciscans and the Knights Templar were the very Europeans who had bases in the Middle East. So it's hard to imagine that they got it from anywhere else.

The Debate Over Influence

No, I mean, they're all fantastic examples. I mean, we should note that not all academics agreed that these institutions, these social structures were adopted directly—sort of copied and pasted from the Islamic world. And obviously, similar structures can and often do occur independently in different parts of the world without necessarily being inspired or being influenced from one to the other.

The evidence is pretty circumstantial, isn't it?

Well, you'll say it's circumstantial, but it's the timing in history. How come you have this critical mass of innovation happening in Europe? And why does it come in exactly those places where we Europeans are interacting with people in Islam? So my storyline is that in the Middle Ages, the Mediterranean was a single market—an interdenominational, multicultural single market—where ideas traveled from one end to the other, ricocheted across the Mediterranean, and people picked them up. But it never would have happened if there hadn't been people in Mecca who said, "We have this business model, and let's see how far we can run with it."

Cultures as Rivers, Not Boxes

One of the things that reason I love this story, apart from being so inspirational, is that my own PhD work was based on the Silk Roads, which was all about different cultures colliding and learning from each other. But as an anthropologist, I also passionately believe that anyone's vision of cultures existing like Tupperware boxes, where you can seal them and they're static, and you can stack them on top of each other in a hierarchy of value, and inevitably put your own culture at the top, is entirely wrong. You know, culture is more like a slow-moving river with very muddy banks that new streams keep flowing into, and the waters keep moving and keep redefining themselves. And what you're talking about is really a story of commerce that's on that model, where people were borrowing ideas from each other, and it's often very hard to work out where they came from originally because no one had a copyright, say, on the word risk.

So one of the things that's also very ironic about what you're telling us is that not only does it change or challenge our vision of how cultures operate throughout history, but it should also make us rethink some of our ideas about Islam and capitalism, because very often the European—and let's say, Christian world, the American world—tends to think of the Islamic world as being economically very sclerotic. And that's because by the 19th century, the Ottoman Empire was being dubbed the sick man of Europe, and all the brilliant science we'd seen in earlier centuries had somewhat fizzled out. Meanwhile, Europe was being seen as the birthplace of capitalism and economic dynamism—you know, all that Adam Smith and things. Why do you think that is?

The Disruption of the Islamic Golden Era

Well, Islam, the Islamic business model came across in the late 1490s. Within the space of 10 years, two things happened that put an end to the Islamic golden era. The first was the navigator Vasco da Gama. He sailed from Portugal around Africa, made it to India. From that moment on, you had a sea lane and sea traffic going to India. You no longer needed to travel across the lands of Islam. So that was competitor number one. But competitor number two came through Christopher Columbus. He sailed across the Atlantic and discovered America. So all of a sudden, there were business opportunities in an entirely new region. And with that, the business model that had sustained the Islamic prosperity for so many centuries was obsolete.

Now, Julian, I appreciate completely what you're saying, that people said the fizz went out of Islam, and that is true. But the business model was wrecked, and there was nothing that was going to bring it back. And that had nothing to do with Islam. They could have had any other religion, and their business model would have been wrecked. And I'll give you an example for that. Think of Venice. Venice was a prospering polity until around the time that Mr. Vasco da Gama and Mr. Columbus found sea lanes into new destinations. Venice never came back, and nor did the entire Eastern Mediterranean. So you're right. The fizz went out of the Eastern Mediterranean from around 1500, but that was irrespective of whether or not somebody was Muslim, Christian, or Orthodox. And by the way, the fizz went out of the parts of the world where I once studied for my PhD, which is much of Central Asia subsequently, because to use modern parlance, the whole Silk Road got disrupted. Yes. Or disintermediated.

Skepticism and the Roman Precedents

But I mean, Rob, when you expressed some doubts earlier about Benedict's thesis that so many of the ideas that are the bedrock of modern European capitalism originally came from the Islamic world. So I'm curious, has he changed your mind?

Well, I mean, my first job in journalism was in Islamic, covering Islamic finance. And I still find it absolutely fascinating. I still, I completely agree. And what's so unique with the Prophet Muhammad is the only really major religious figure who actually, you know, was a businessman, but also led a community. You know, so you wrote and talked a lot more about economics and commerce than anybody else, really, of any major religious significance. So there's so much interesting nuance and context in his thinking. So I still think this is fascinating. I still talk about Islamic reinsurance and Islamic bonds and things like that. But I'm skeptical of just to what extent that was kind of directly influenced the West. I definitely agree with the whole idea that these ideas are percolating. But, you know, the Romans had something like the funducs and the Venetian commenders, these risk-sharing organizations, sort of proto-companies almost. So the Romans had something called Fines Nauticum. They were actually more debt-based. They were more lending. You lent to commercial ventures rather than being sort of equity-based, where you invested money in them, risk-sharing capital. But they were quite similar. The Romans also had something kind of esquinted that looked a bit like a public company called the Societate Pubblica Norum. So I just think humans are actually incredibly inventive, and some of these ideas we've kind of stumbled our way to independently, while still obviously being inspired and taking influences from everywhere. I think the Venetians would have had a commender even if they'd never been in direct contact with the Muslims.

The Unique Concentration in Islam

There's a lot in what you say, Robin, and I maintain my point. I'm sticking to my guns on this. What's different about the case of Islam is that you have all these building blocks in other cultures, in other times, in other religions, in other societies. But what you don't get is the concentration. What you don't get of the whole being more than the sum of its parts, and what you don't get is the explicit backing of all of these practices, which is contained in the work of Muhammad.

Equity, Debt, and the Islamic Finance Framework

That's true. I guess you can sit there and argue about whether it's correlation or causation, to use that financing framework that people often talk about. For me personally, one of the most important elements that comes out of this is the emphasis on equity financing, not debt financing. And frankly, I happen to think there's a lot of merit in championing this today, as we have a global system drowning in excess debt and leverage in every sense.

No, I agree completely with that. I think that's the foundation stone of Islamic finance — that it should be about true risk-sharing. And more equity than debt, I think, is incredibly compelling. I don't think we can sort of return to that, but I agree that it would be better if we actually maybe imported a bit of Islamic financial thinking into the Western world in that regard.

A Libertarian's Thesis in the Muslim World

I guess one of the things I'm so fascinated by in your thesis, Benedict, one of the reasons is that we live in a world where we have so much prejudice swelling towards different ethnic groups and religions and things. And so many people will be very surprised to hear a very different vision of Islam and finance from what the popular media tropes often are. And I'm just curious: how have your ideas in your thesis been received in the Muslim world, given that you are a paid-up libertarian and capitalist, and you're not actually a Muslim yourself?

I was nervous about that, and I've been amazed at the response. My book has been translated first into Turkish, then into Arabic, then into Persian. And I've been giving talks from Morocco to Malaysia and several countries in between. And what's amazing is the hospitality and the courtesy that's been extended to me. And I can only salute my translators, because I was nervous for them.

In particular, somebody who translated my book into Persian, because getting any book published in Iran, you've got to jump a number of hurdles. And if you want to publish a book in Iran about Muhammad, you probably have to jump even more hurdles. And I reckon if you want to publish a book about Muhammad written by somebody who's a Christian, I reckon there are even extra hurdles you've got to jump. And to jump all those hurdles, get it through, and have a book that's in its sixth print run, I say hats off to the translator and the publisher who have the guts to do that. And I'm very appreciative of what they did.

Mutual Respect and the Messenger's Final Years

Absolutely. And I guess one of the things that's really heartwarming about the story and fascinating is it really does show the power of mutual respect for different cultures, the fact we can all learn from each other, and the fact that no one culture or civilization has a monopoly on good ideas. True that, as the kids say.

But before we end, guys, I'd love to maybe return to the Messenger's story, the hero of our story, even though we're going to stick to the non-spiritual parts of it, because it is a compelling, incredible story. He began life as an orphan. He founded this hugely successful market economy. He conquered his old rivals in Mecca. And he was incredibly wealthy, but he lived incredibly frugally, right? Benedict, can you tell us a little bit about how his life went towards the end? How did it all play out?

How did it play out? Well, Robin, you just mentioned you've got three kids. I tell you one thing, if one of them ever tells you, "Dad, I think I've got the calling to be a prophet," talk him out of it. Because it's a very tough life. And he was, by the end of his life, he felt incredible sadness. There was nothing he would have liked better than to have a son. He did, but that little boy died when he was a toddler. But he had started out in life. He came out of a very good family, but he had absolutely nothing. By the time he was 40 years old, in his midlife, he was a successful businessman and could have gone on, continued coasting that way. Chose a new career, started from nothing, started all over, turned it into something unimaginably bigger than anything could have been imagined, had an enormously high income, but didn't care for showing, flaunting his wealth, or enjoying his wealth, had a modest, humble lifestyle, and was never somebody who put on airs.

So he didn't believe in big government. He really believed — he was very egalitarian in that way. Not, however, as regards owning and making money. So he had lots of friends who were very, very, very wealthy. They liked the trappings of wealth, and he never stopped it. He said, "If Allah lets you have lots of money, good for you. Enjoy yourself." But for himself, he never wanted it.

That's fascinating. Well, I must say, many of today's tech titans would applaud the point about big government. They might applaud the point about accepting the merit of accumulating money through your own hard work. They probably wouldn't quite agree about the fact that you shouldn't flaunt it if you have it. But anyway, that's a contentious point. I know many religions have things to say about that.

Looking Ahead

And we'll be coming back in future episodes to talk about how other religions have intersected with the world of finance and money in some very surprising ways. We'll also be talking more about Islamic finance and how its impact in the world today, and what we can frankly all learn from it, whether we are Muslim or not. But those are future episodes. So I'll just say, thank you so much, Benedict, for joining us today. Well, thank you for inviting me. And that's it from the Story of Money this week. I'm Gillian Tett. And I'm Robin Wigglesworth. We'll see you all here next week.

Hi, it's Gillian here, and I hope you enjoyed today's episode of the Story of Money. And if you want to hear more, I've got some good news for you. If you're in London in September, come along and listen to Robin and me at the FT Weekend Festival, recording an episode about what some of the greatest literary figures of history made of the world of finance, in conversation with the author David McWilliams. You can buy a ticket with a discount, just use the code FTPODCAST. And you can also find all the details about this in the show notes or at ft.com/festival. It's happening at the FT Weekend Festival on Saturday, the 5th of September, at Kenwood House in London. So hope to see you there.

#Islam #Capitalism #Economic History #Islamic Finance #Muhammad #Caravan Trade #Medina Market #Risk-Sharing #Interest Ban #Waqf