

العنوان:	SCARCITY CHOICE AND OPPORTUNITY COST : ITS DIMENSIONS ISLAMIC ECONOMICS
المصدر:	مجلة العلوم الاجتماعية
الناشر:	جامعة الكويت - مجلس النشر العلمي
المؤلف الرئيسي:	Abd Almannan, Muhammad
المجلد/العدد:	عدد خاص
محكمة:	نعم
التاريخ الميلادي:	1981
الشهر:	ديسمبر
الصفحات:	261 - 282
رقم MD:	682044
نوع المحتوى:	بحوث ومقالات
قواعد المعلومات:	EduSearch
مواضيع:	السياسة الاقتصادية، التنمية الاقتصادية، البرامج الاقتصادية، الندرة الاقتصادية، ، الاقتصاد الإسلامي،
رابط:	<a href="http://search.mandumah.com/Record/682044">http://search.mandumah.com/Record/682044</a>

## **Scarcity, Choice and Opportunity Cost : Its Dimensions in Islamic Economics**

**M. A. Mannan \***

### **1. Statement of the Problem and Objectives**

The primary objective of this paper is to introduce and explore certain fundamental considerations which constitute the foundations of Islamic economic science. Specifically, we shall seek to introduce the Islamic perspective of scarcity and choice which provides a foundation for the field of modern economics. No longer can we content ourself with the statement that «Islamic economics is a social science which studies the economic problems of a people imbued with the values of Islam», or that Islamic economics has to deal with the production, distribution and consumption of goods and services within the framework of an Islamic society where the Islamic way of life is fully established - a condition necessary for the operation of Islamic economics. These are accurate, but not particularly revealing facts concerning the nature and scope of Islamic economics. In fact, we need a more comprehensive understanding of the economising problem of Islamic society. To this end, we shall extend and modify the definition of Islamic economics by the use of a so-called production possibilities curve and then restate and discuss in some detail the economising problem in terms of Islamic economic values. «It requires a study of the contemporary economic behaviour and socio-economic institutions, comparing and contrasting them with what could be their Islamic alternatives with a view to defining the changes required to effect a transition to modes of behaviour and institutional arrangements conforming to the Islamic norms», (Siddiqi: 1975, P.111-112). In particular, there is nothing wrong with internalising and assimilating western thought into Islamic economics as long as they do not «run counter to basic Islamic ethical values». (Naqvi: 1978, P.106). This task of assimilation, integration and internalisation calls for a clear recognition and understanding of the factors which constitute the foundation of Islamic economics. This is what we seek to establish. It is not an easy task though.

---

\* Professor of Economics at King Abdul Aziz University

The discussion can, however, be organised under the following four headings:

- A) ISLAMIC ECONOMICS AS A PROCESS
- B) THE ISLAMIC DIMENSION OF THE CONCEPT OF SCARCITY AND WANTS
- C) CHOICE AND OPPORTUNITY COST: ITS ISLAMIC DIMENSION
- D) THE INTEGRATIVE SYSTEM OF EXCHANGE AND TRANSFER IN ISLAM.

#### A. Islamic Economics as a Process

In my book entitled Islamic Economics: Theory and Practice (1970, P.3), Islamic economics is defined as «a social science which studies the economic problem of a people imbued with the values of Islam». Although this definition is essentially a good description of the subject matter, it needs substantial modifications and clarifications of certain issues on the following three grounds:

Firstly, it is not just a social science like any other social sciences (e.g. political science, history, anthropology, religion), it is a composite social science in the sense that Islamic economics studies the economic, social and moral consequences of production, distribution and consumption in an integrative manner. Balanced attention is given not only to the production of goods and services, which are bought and sold, but also to social and moral consequences having bearing on the quality of life and human fulfillment. Economy is then submerged in social and ethical foundations of the religion of Islam. In other words, Islamic economics is neither positive nor normative economics. Generally speaking, positive economics studies economic problem as they are. Normative economics concerns what ought to be. Scientific enquiry in modern economics is usually confined to positive questions, not to normative questions which depend on value judgment about what is good and what is bad (Lipsey: 1975, P.4).

The separation of the positive from the normative is **not** relevant to Islamic economics; they are both inextricably bound up with Islamic life philosophy, cultural and religious positions. In fact, this is true in the case of most economies, for, «value judgment of one sort or another lies at the basis of all the premises of economic reasoning». In many cases the distinction between positive and normative statements gets blurred. The reason is that when examined carefully, apparently normative propositions reveal positive questions. For instance, unemployment is worse than inflation, because the socio-economic effects of unemployment tend to be more serious than the (measurable) effects of inflation. Again, most positive assertions or theories which are based on so-called factual evidence or actual observations are not

value-free. In fact, most economic arguments or disagreements over positive economics are about value differences, **not** about analytic techniques. The point is that by recognising the clear role of normative assertions in Islamic economics, it becomes immediately more relevant to life and is thus capable of explaining the social and moral underpinnings of the economic problems confronting Muslim societies. This brings us into our second point of clarification of issues involved in understanding Islamic economics as a process:

In modern economics the emphasis is given to the understanding of the total metabolic process of the system. «It consists essentially in the transformation of inputs into outputs in accordance with the functional relationship between them. If we know the functions and we are given the inputs, we should be able to predict the output. ...The problem of what organisms can survive in a self-sustaining system, however, is related very closely to the nature of the production functions which link the inputs and outputs, that is, the metabolic process». (Boulding: 1970, P. 46). Thus in modern economics, the survival of the firm depends on its capacity to produce outputs of a total value at least equal to its inputs. The overriding principles under which they operate is the principle of profit maximisation based on positive economics.

In Islamic economics also a clear distinction is to be made between the process and principles, the understanding of both is imperative because the normative principles as reflected in the Quran and the Sunnah provide the framework for the process. These principles are not based on the principles of profit maximisation as understood in modern secular economics. They are based on the concept of total human welfare and fulfilment of life working through the principles of co-operation and limited competition at both the individual and state levels. Thus, it will not be considered irrational behaviour on the part of the Islamic entrepreneur if «making money» or earning «normal» profit is treated as a means to an end, not an end in itself. This de-emphasis on the profit maximisation motive does not mean that efficiency criteria are to be sacrificed in choosing the socially appropriate technique of production. The productive process must try to avoid wastage, minimise cost and select «optimal plant» in order to achieve both economic and technical efficiency.

The failure to appreciate the distinction between principles and process or the slow recognition of Islamic economics as a dynamic process have been responsible for the slow growth of Islamic economics as a discipline.

As a result «consumption theory sometimes becomes a restatement of the Islamic laws concerning food and drink, instead of being a study of the behaviour of the consumer toward the package of available consumer goods,

and the theory of production is reduced to a study of the right of ownership in Islam instead of being focused on the behavior of the firm as a productive unit». (Kahf: 1978, P. 7).

This understanding of the process and restructuring of principles and axioms governing the process seems necessary in order to understand the conditions or structure of the «behaviour unit» in Islamic economics at any given moment of time. In modern economics, a good deal of economic analysis uses response functions such as those represented by the study of the behaviour of a firm or the household. For example, the demand curve of a firm represents a relationship between the price of a commodity and the amount demanded by the people for purchase, while the supply function represents a behavioral response to perceived change in exchange opportunity on the part of the producers. «On the whole, it is the behavior of economic variables that economists study, not the behavior of people at all. Thus if stock prices rise, this phenomenon certainly originates in the behavior of the people who buy and sell stocks and represents a change in their behavior or at least a change in their state of mind. The empirical economist, however, simply looks at the series of prices and asks how they behave. Similar questions can be asked of regions and nations». (Boulding: 1970; P.73-74).

What makes Islamic economics (IE) distinctive is that it does study the behavior of economic variables in a comprehensive and integrative way. It does not only take into consideration the inputs which immediately get transformed into outputs but also takes into consideration the inputs which are simply absorbed into a behavior unit **without** producing any immediate output or where the internal activity of a behaviour unit produces output without any apparent inputs (i.e. imbuing the Islamic values of social responsibility of the obligatory sharing of wealth and income of the rich with the poor and the needy). Modern economics has failed to recognize or has been slow to recognize that there is a large class of economically relevant social and moral behaviour units lying between the firm and the household. The study of consumption and investment loans without interest, supporting aged parents, looking after poor neighbours or orphans come under the study of Islamic economics also. Viewed from this angle, Islamic economics may be seen as behaviour science.

Lastly when we say that Islamic economics studies «the economic problems of a people imbued with the values of Islam», it does not imply that Islamic economics is not concerned with the economic problems of **non-Muslims** living in an Islamic state. On the contrary, non-Muslim minorities are a «sacred trust» in Islam. «They are in a more advantageous position than the Muslims because they enjoy the same privileges as Muslims without

discharging obligations enjoined upon Muslims. Moreover, in the Islamic state, the minority is not at the mercy of the majority, because the majority is not empowered by the Holy Quran to frame any law not conducive to the welfare of the entire population irrespective of their faith, colour and creed». (Mannan: 1973: P.74).

The main significance of the statement is that the presence of the «**Islamic man**» guided solely by the **Islamic rationality** of individual and societal welfare is a «must» for the successful operation of the Islamic socio-economic system; just as the presence of the «**Economic man**» guided solely by **self-interest** and profit motive enables the classical economists of a capitalist economy to make predictions concerning the economic behaviour of the individual or firm; just as the presence of «**communist man**» guided by the Marxist notion of **class-conflict** and a materialistic interpretation of history enables the Marxian economists to justify the dialectical theory of social change.

Let us now discuss in some detail the Islamic dimension of the concept of «scarcity» an «wants».

#### **B. The Islamic Dimension of the Concept of "Scarcity" and "Wants"**

It is argued that the fundamental economic problem of mankind owes its origin to the fact that man has unlimited material wants, and that the resources by means of which he produces goods and services in trying to satisfy material wants are scarce or limited in supply. In other words the resources of a society consisting of natural resources such as the free-gifts of nature like land, minerals, as well as human (e.g. labour) and non-human resources (e.g. tools, machinery etc.,) are said to be limited in supply. Had there been no scarcity of means, there would have been no economic problems. Hence the study of economics.

In Islamic economics also, the scarcity of means can form the basis of our study although the concept of scarcity and human wants has to be understood in the light of «Islamic rationality» which embodies not only economic but also social and moral objectives, thereby emphasising aggregative welfare as opposed to economic rationale based on calculated pursuit of pleasurable wealth.»

This notion of scarcity should not be confused with the notion of the unlimited «bounties of Allah» which provide sustenance to all creatures on earth including man. The fact is that the God-given resources between earth

and heaven are not always in the form of finished product; the transformation of resources into consumer and capital goods calls for human involvement and efforts. Even the notion of free availability of clean air and water for human consumption is no longer valid in the context of present day industrial societies. Human efforts are also needed to improve the quality of the environment through pollution control and treatment. But the fact is that there is a limit to human efforts and capacity to exploit the resources. This obvious limitation of human knowledge and capacity, seen in the light of the Quranic verse which says: Man can have nothing but what he strives for (al-Quran 59 : 39) brings an insight to this issue in the sense that the concept of scarcity can still form a basis of Islamic economics although it is altogether different from the one found in standard text books of modern economics.

As we have seen scarcity of means is not merely attributable to nature but to human nature as well. **In Islamic economics scarcity is an economic experience, humane experience and moral experience.** It is an economic experience in so far as it is used to satisfy individual wants because the Quran has stressed the need for human involvement and endeavour in the production process in order to earn an honest and decent living to meet material wants. This is explicit in the following verse:

«And when prayer is finished, then may ye disperse through the land and seek the bounty of Allah». (al-Quran 241 : 10).

It is a humane experience in so far as the scarce resources are used to satisfy the needs of the poor and the needy in the form of transfer payment. This has been emphasised several times in the Quran. The following two verses provide outstanding examples of the Quranic exhortions:

«So give what is due to kindred, the needy, and way-farer. This is best for those who seek the countenance of Allah, and it is they who will prosper». (al-Quran 30:30).

«And their wealth and possessions (was remembered) the right of the (needy), him who asked, and him who (for some reason) was prevented (from asking). (al-Quran 51:19).

Such alms of spontaneity, known as **sadaqat** have been prescribed as a supplementary or complementary measure against economic misery, in addition to the obligatory tax called zakat.

This built-in social security and co-operative insurance in Islam is intended to ensure social equilibrium, social stability and peace for the progress of mankind and should not be seen as encouraging «dependence» and creating social parasites which have a negative influence on legitimate economic activities because both the Quran and the tradition of the prophet (peace be

on him) have stressed «the earning of a righteous living» which is considered next only to the worship of Allah. As the Quran says:

«ye apostles! enjoy (all) things good and pure, and work righteousness;  
For I am well acquainted with (all) that ye do.»  
(al-Quran 23:5).

As a matter of fact, the Islamic stress on «transfer payment» is highly pragmatic, reflects realism and is extremely relevant in the so-called civilised world of the 20th century. The World Bank development indicators (1978: P.7) have already acknowledged the fact that the current disappointment and disillusionment are not merely due to growing international inequality between the rich and the poor countries but also due to national inequality resulting from the rapid increase in the standard of living of the rich in the poor countries. In fact, «the world we live in presents a picture of appalling contrasts. While a few countries are immensely prosperous, nearly two thirds of the population of the world subsists on sub-standard incomes. Illiteracy, bad housing, lack of medical care and malnutrition are prevalent throughout most of Asia, Africa, the Middle East and Latin America. These facts can no longer be ignored. Indeed they have come to dominate intellectual thought and political action to an unprecedented degree in our time». (Bhagwati: 1971, P.9). Thus the need for «transfer payment» can hardly be over-estimated. It is a moral experience in so far as scarce resources are used for the cause of Allah (e.g. time spent in remembrance of Allah, for the propagation of the message of Islam).

These three experiences taken together explain the concept of scarcity. It is the key to the understanding of the dynamics of Islamic society. Viewed from this angle, scarcity, as a felt condition can not be attributed to nature alone, despite the fact it operates under the universal conditions of diminishing return. If the scarcity of nature sets the stage for economic problems, it is the acquisitive behaviour of man that we find in a market society which makes the economic problem dangerously chronic and highly complex.

In «The Affluent Society», Galbraith (1962) has argued that the advanced industrial societies of today have for the most part gone beyond the level of physiological needs of food, clothing and shelter and that society is under «producer's sovereignty» in the sense that consumers flit from one purchase to another purchase in response to persuasive advertising. Galbraith advocated more spending on social goods and less on private goods. A similar sentiment is expressed when Heilbroner & Thurow (1975) said «If Americans today, for instance, were content to live at the level of Mexican peasants, all our material wants could be fully satisfied with but an hour or two of daily labour. We would experience little or no scarcity, and our economic



problems would virtually disappear. Instead, we find in America - and indeed in all industrial societies - that as the ability to increase nature's yield has risen, so has the reach of human wants. In fact, in societies such as ours, where relative social status is connected with the possession of material goods, we often find that «scarcity» as a psychological experience becomes more pronounced as we grow wealthier: our desires to possess the fruits of nature race out ahead of our mounting ability to produce goods» (Heilbroner & Thurow 1975, P.5).

Remember that when we are talking about Islamic society we do reject the hypothesis about human behaviour based on economic rationality. The Islamic economists' view of man is different; his acquisitiveness is expressed by his desire to better his condition **through** the betterment of the conditions of others. His success is then measured not merely in terms of money but also in terms of his social concern and the moral authority he commands by being virtuous.

In an important sense, an Islamic economy as noted earlier, is submerged in social and moral relationships and runs on both economic and non-economic motives. Once this normative aspect of Islamic economics is properly understood the **constraints on material** wants become obvious. Islam has stressed all legitimate consumption of goods and services which can promote individual and social welfare (al-Quran 50:168). The emphasis is always on socially beneficial spending (al-Quran 268:7) while niggardliness is condemned as a negative and destructive quality (al-Quran: 63:37), extravagance is equally discouraged (al-Quran 81-141). The Islamic stress on «moderation» makes the act of satisfying wants a means to an end rather than an end itself. By implication, the act of satisfying wants may not necessarily create a new wave of wants for himself in the process. The moral and social responsibility imposed on the Muslim as a part of his faith put a limit to the emergence of more wants requiring satisfaction for himself. The process tends to make an «Islamic man» individually alert and socially concerned and sensitive. The income and budgetary constraints he faces coupled with the problem of moral and social choice make him pragmatic, thereby enabling him to strike an operational balance between «crude materialism and ultra-spiritualism».

Thus in Islamic society, wants are restricted, because constraints are imposed not only by income but also by social and moral norm.

This raises a fundamental question of our time: are human wants really unlimited? Does human nature ever bring us to a point of contentment? The real answer to these questions depends on the form and type of social institution and social control of the means of production distribution we are really talking about. With the emergence of a market society the new imper-

sonal relationship of man to man arose; also there arose a new form of social control - a pattern of social behaviour which drives the individual to increase his income. This «**drive for more**» **material well-being** does not seem to diminish as he moves up the economic scale because his status and success are seen in terms of his material possessions, level of consumption and recreation. In such market societies instability of wants afflicts most people. Thus, the act of satisfying wants does necessarily end in creating waves of new wants. In a **frantic rush** to maximise individual welfare, he becomes so engrossed in material pursuits that he tends to lose his sense of purpose and the inner meaning of life. The process inevitably makes him «selfish, ruthless, unscrupulous and arrogant». «The state of wantlessness which promises perfect bliss, happiness and peace remains a mirage for ever. The more man strives to reach it by his maximizing behaviour, the further it gets away from him». (Ariff: 1978).

In contrast to market societies, an Islamic economy does include among its aims moral and social welfare as well as physical goods and services, more time to spend for individual moral welfare through service to one's fellow human being as well as more income to spend for enjoyment of goods. This kind of «drive for more» would inevitably force Muslims to strike a «social balance». At least this seems to be true in societies that encourage striving for status and success not merely in terms of material possession but also in terms of moral and spiritual commitment. Viewed from this line of reasoning, wants in an Islamic society seem to be restricted. This hypothesis concerning Islamic behaviour will have tremendous impact on the concept of effective demand and demand curve and consequent policy implications.

As a matter of fact, in Islamic society, human wants can be viewed as a «stock» and «flow» concept. It is a stock concept in the sense that in a given period of time wants tend to be limited, given the difference in income and social structure. It is also a flow concept in that human wants tends to increase over time subject to Islamic socio-economic values. The dynamic interplay of these two concepts make the basic problem of economic organization a permanent feature in an Islamic society. In fact, Islam not only urges its followers to engage themselves in every day «prayers» only but also induces them strongly for work and livelihood (al Quran: 241 : 10).

This brings us to the discussion of the nature and scope of economic problems in Islam which arise basically because of scarcity of resources. Because of our different concepts of scarcity, the concept of economic problems tends to be different as well. Its social and moral dimension makes it unique in itself. The common question concerning economic organization will have uncommon answers. Thus common questions of any society whe-

ther it is capitalistic, socialistic or Islamic are basically the same as follows: (a) What goods and services will be produced? (b) How they are to be produced? (c) For whom shall goods be produced?

The Islamic response to these questions is different in the sense that the «What» questions in the capitalistic society would be determined by the buying response of customers to the offering of sellers. That is, it is determined by the nature and volume of «effective demand». In Islamic society it is to be guided by «effective need» - a wider concept which includes more than the «effective demand». It does include the provisioning of the poor and the needy customer who can not afford to buy at a market price.

While the «How» question is largely determined by competition among firms in a market economy, it is to be determined by limited competition and conscious co-operation among firms in Islamic economy. Lastly the «For whom» question in capitalistic economy is resolved primarily by a system of prices and of markets. In Islam it is to be determined by the integrative system of exchange and one-way transfer. All these questions can, of course be, dealt at a micro or macro-level depending on the nature of the problem. This unique approach to resolving economic problems in Islam has a profound impact on the dimension of choice involving opportunity cost.

#### **C. Choice and Opportunity Cost : Its Islamic Dimension**

Choices are made among alternatives both in modern and Islamic economics. In modern economics, choices depend mainly on the individual preference function which is supposed to be independent or indifferent to the welfare of others because it assumes selfishness and independence of individual preference. In a market economy, this preference function becomes «revealed» through the price system. The question is whether the price function offered in the market is a good guide to social welfare? Obviously not, for it includes the influence of income distribution on the prices offered. The fact is that the marginal utility of one dollar for the person who earns ten dollar a day is not equal to that of a person who earns ten dollars per hour.

Furthermore, externalities can arise in the process of individual choice either as a consumer (e.g. additional private cars adding to the crowding of city roads) or as producer (e.g. industries causing water pollution or smoke). Externalities are clearly relevant for social choice and provide a sufficient argument for incorporating social factors into individual choice. In Islamic economics choice is then conditional and inter-dependent based not merely on the legal threat system but on the moral injunctions reflected in the Quran and the sunnah.

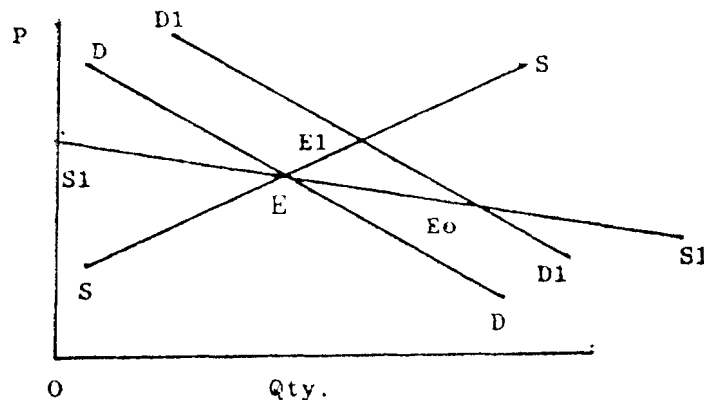
It also follows that choice in Islamic economics must reflect not only efficiency but also equity which are neglected by the market economy. As a matter of fact choices depend not only on sound preference but also on equal opportunities as well.\*

In fact according to the Islamic economic system choice does involve some kind of inter-personal comparison of utility. In fact any decision involving other people involves inter-personal comparisons. In Islam it is made within the moral code of conduct and economic ethics as «revealed» in the Quran. As such the chances of individual exploitation through biased choice have been reduced to minimum.

Thus we see that choice among alternatives must embody what is earned in regard to Islamic values of life. In other words, Islamic values of life need to be internalised within the individual preference functions. This is a human learning process. The process by which one can learn to map one's structure of preference is a fundamental key at the understanding of Islamic social welfare and moral production function.

It is implicit in the preceding analysis that there is always a cost in choosing one alternative over another which is termed as opportunity cost in economics. It describes the fact that «when we employ resources in a particular way, we are not merely making a decision to produce those goods,

\* Under certain circumstances a small change in preferences or opportunities may result large changes in actual choice as illustrated below with the help of a similar demand and supply curve having almost similar slopes: E is the initial equilibrium position resulting from the



interaction of negative demand curve DD and positive supply curve SS. E1 represents new equilibrium point resulting from the shift in demand curve DD. But if supply curve had been also negatively sloped like S' S' the same shift in DD will make equilibrium point (E\$) a larger move compared to E'.

we are also deciding not to produce some other goods or services. That which we implicitly decide not to produce is the opportunity cost of what we do produce». Consumers likewise encounter opportunity cost in terms of spending this income. Government is also confronted with opportunity cost in terms of allocation of its scarce resources among various competing demands (e.g. whether resources to be allocated for defense build up or consumers goods). «The concept of opportunity cost emphasises the problem of choice by measuring the cost of obtaining a quantity of one commodity in terms of the quantity of other commodities that could have been obtained instead». (Lipsey: 1075, P. 52).

So far the concept of opportunity cost appears to be value free. But as a matter of fact this concept is value loaded both from the view point of modern and Islamic economics. The difference lies in its emphasis and dimensions. The perspectives of opportunity cost under the sovereignty of Allah tends to be different from one working under either consumer's or producer's sovereignty. The Islamic concept of opportunity cost is broad and narrow at the same time. It is narrow because choices among alternatives are to be made within the framework of the Islamic value system. Many valid economic activities under the capitalistic system (i.e. the brewery industry, night club activities) are not permissible under the Islamic value framework. It is wide, because options for choosing among alternative are not merely limited to pure economic activities as understood in the western sense of the term. Many activities involving one-way transfer (e.g., supporting an orphanage, spending money for the poor may not be considered to be valid economic activities in the western economic system. But it can legitimately be considered under Islamic economics in view of its broader implications for societal welfare, for that matter, economic welfare.

Apart from this social dimension, the concept opportunity cost in Islam has its moral dimensions as well. This concept can be illustrated with the help of a concrete example: in most Muslim countries like Saudi Arabia, there is a «prayer break» within so-called office or business hours. If a person works 40 hours a week, he is considered to be fully employed in Saudi Arabia. The important point is that this 40-hours does include his «prayer break time» which should not be less than five hours in a week. In the Western economic system he would be under-employed: this is treated as irrational behaviour. and as such it is not allowed. A Muslim's option for «prayer break» in lieu of other money earning activities is morally satisfying to him. This very act immediately enables him to establish a link between work and life. He is expected to get «job satisfaction» in the wider sense of the term. His chance of becoming «alienated» is definitely reduced. The long run over-all consequence of his action tends to have a favourable impact on material work.

Since the phenomenon of exchange, either as a fact or as a possibility is implicit in our discussion of choice involving opportunity cost, it is extremely important that the nature of an integrative exchange system under the Islamic economic system be explained at some length.

#### D. The Integrative System of Exchange and One Way Transfer

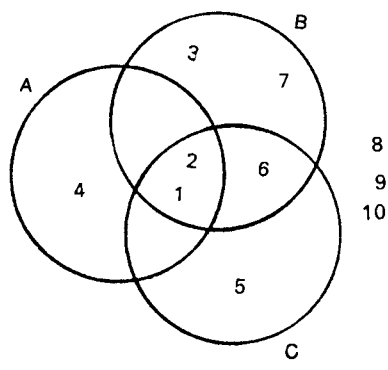
In modern economics, allocation of scarce resources is based on the principle of exchange and the institutions of exchange. In fact, Boulding (1970: P. 17-18) defined modern economy «as that segment of the total social system which deals primarily with exchange and the institutions of exchange and by extension, with exchangeables or the goods and services which participate in exchange». What makes Islamic economics distinctive is that scarce resources may be allocated in many ways other than through exchange or the institutions of exchange. The development of integrative economic, social and moral responsibility makes the allocation of scarce resources complex in the sense that they may be allocated by market and non-market forces simultaneously; that they may be allocated, for instance, through «fear of Allah» (i.e. moral threat) or through the principle of social and family responsibility as reflected in the Islamic value system. Islamic economics is not solely concerned with «material provisions» although they are clearly important. For instance, the people making contributions or sacrifices in constructing magnificent mosques or supporting the poor and the needy can hardly be explained by the concept of «**rational maximizing**». In fact, it is meaningless to apply the word «rational» to pursuits such as these under modern economics. In Islamic economics they have a place as re-allocation of scarce resources done through the «integrative system of exchange and transfer». Under the integrative system, the Islamic concept of exchange is clearly not value-free, it has, in fact, social and moral overtones. For that matter, exchange in the market economy is not value-free either as Islamic economics deals not only with the provision of exchangeables as understood in modern economics, but also non-exchangeables (ie. transfer payment) which frequently exist under the conditions of relative social concern and moral responsibility as opposed to «indifference» and «selfishness». There is then a substantial degree of «benevolence» in exchange which is legitimate on moral and ethical grounds and operates as a social organiser in Islam. The exclusion of this aspect of benevolence from the rigorous study of modern economics makes it responsible for the loss of personal identity as well as for the failure to develop a broader aggregative concept of general welfare leading to total human fulfilment where man can see a link between work and life in its totality.

The almost complete neglect of the concepts of malevolence and benevolence on the part of «economists» cannot be explained by their inability to handle these concepts with their usual tools. There are no mathematical or conceptual difficulties involved in interrelating utility function provided that we note that it is the perceptions that matter. The familiar tools of our trade, the indifference map, the Edgeworth box, and so on, can easily be expanded to include benevolence or malevolence, and indeed without this expansion, many phenomena, such as one-way transfers, cannot be explained. Perhaps the main explanation of our neglect of these concepts lies in the fact that we have concentrated very heavily on exchange as the object of our study, and exchange frequently takes place under conditions of at least relative indifference or selfishness». (Boulding: 1970, P.127).

### Exchange and Exchangeables

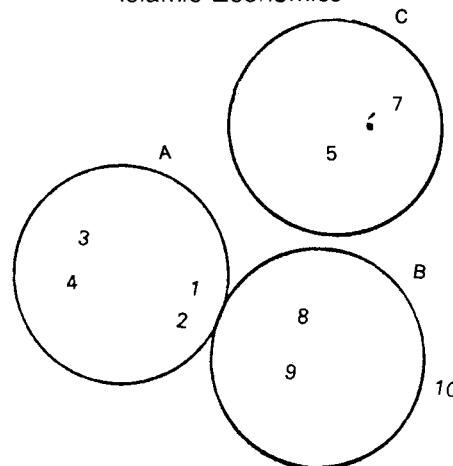
While through emphasis on «exchange» and «exchangeables» modern economics takes a narrow view of individual welfare, the Islamic emphasis on an integrative system of exchange and non-exchangeables makes it immediately relevant to the total welfare of man, thus preventing it from falling into the trap of being purely impersonal, and selfish. The whole concept can be illustrated below with the help of the elementary mathematical concept of set.

Figure I  
Islamic Economics



$$A \cap B \cap C = \{ 1, 2 \} \text{ intersection;}$$

Figure II  
Islamic Economics

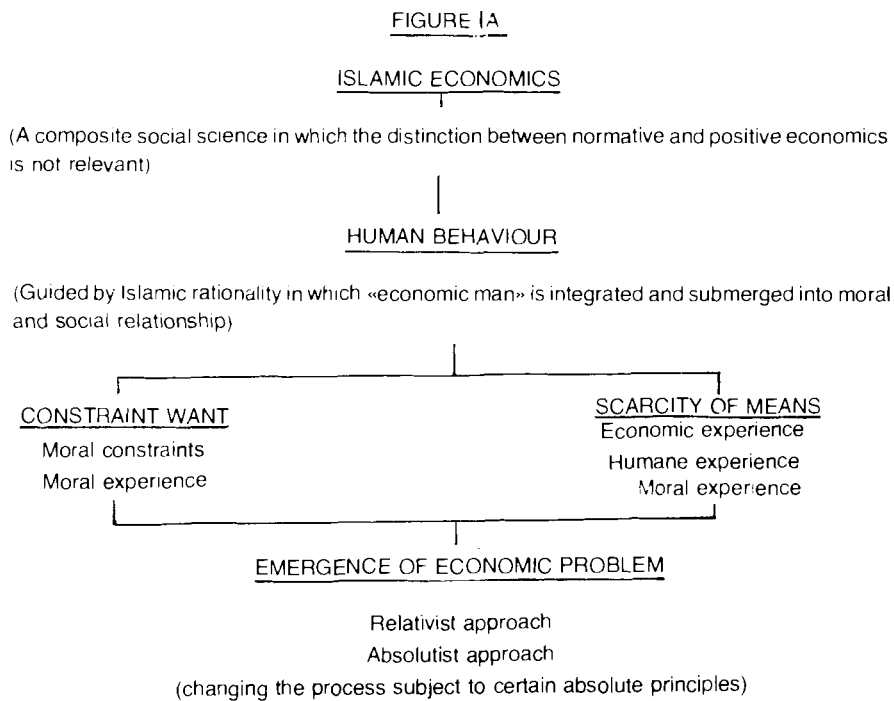


$$A \cap B \cap C = \phi \text{ (Empty set)}$$

The integrative system of exchange and non-exchangeables in the final analysis is really the problem of «provisioning» of all good things in life. Now if provisioning as a general problem is classified into three sets: «A» representing provision of necessities of life, «B» representing provision of security from threat, civil rights to enjoy the necessities of life and «C» representing provision of social security, social justice and moral welfare etc, then at the intersection of these three sets  $A \cap B \cap C = 1,2$  as indicated in figure I, we get the key to the concept of an integrative system of exchange and non-exchangeables in Islamic economics. In modern economics they represent an empty set (Figure II) although the possibility of intersection between sets A and B is not ruled out.

## 2. Summary of Discussion in Figures

The whole discussion can now be summarised in Figure 1A and 1B as given below:





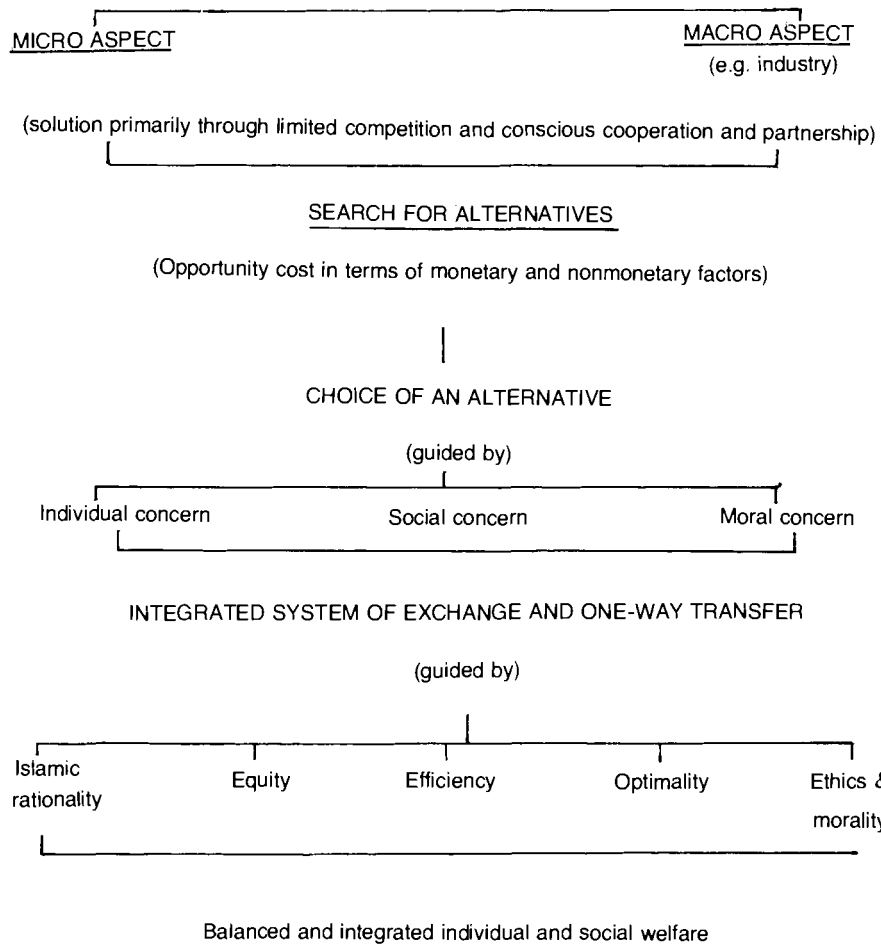


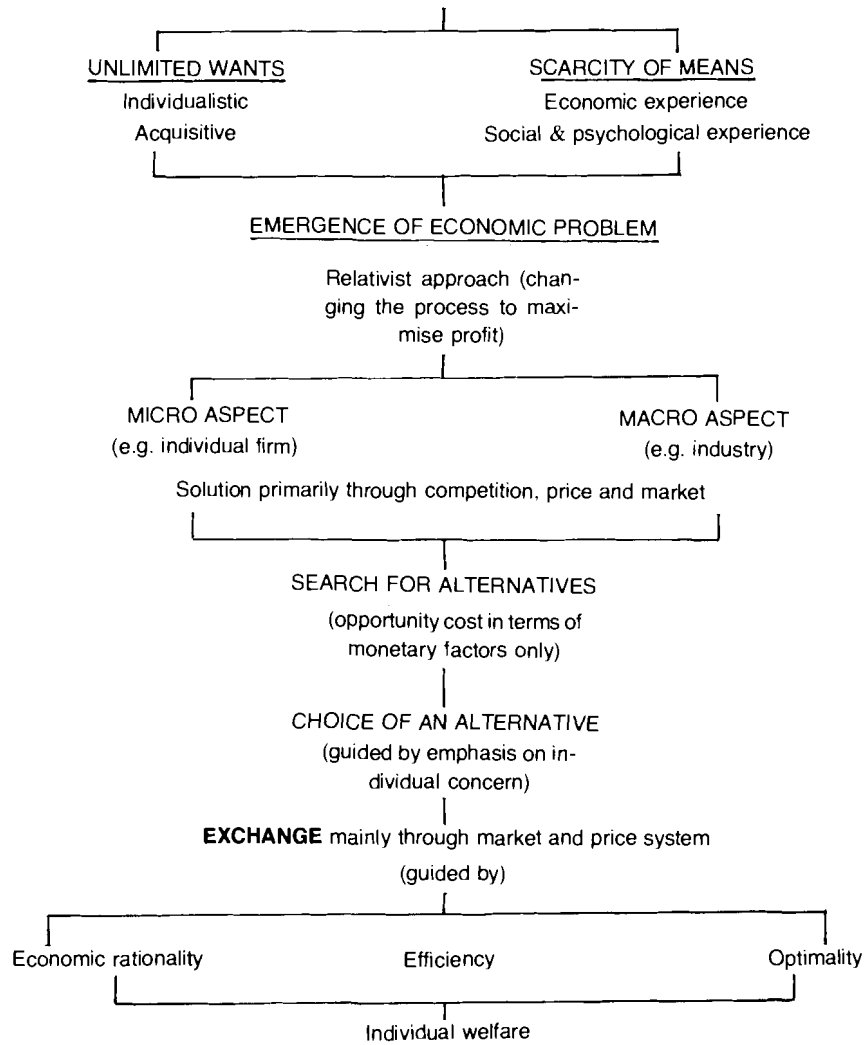
FIGURE 1B

MODERN ECONOMICS

(a social science in which emphasis is on positive economics which concern what is, **not** what ought to be)

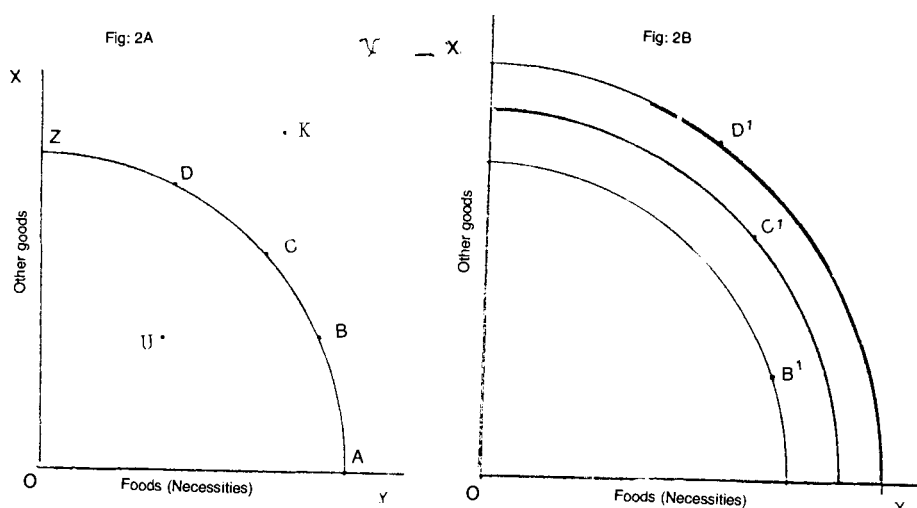
HUMAN BEHAVIOUR

(guided by rational maximising in which «economic man» is indifferent to social and moral relationship)



### 3. Scarcity, Choice and Opportunity Cost Distinguished Diagrammatically

At this stage the concept of the production possibility frontier (PPF) represented as a simple diagram, can be introduced to clarify the concept of scarcity and choice and Islamic notion of priority concerning the «What», «How» and «For Whom» questions.



In Fig.2 A we measure quantity of food (necessities) produced on the «y» axis and on the «X» axis the quantity of other goods. Let us plot all the possible combinations of food and other goods (e.g. A, B, C, D, Z) and join these points. The resulting line is called PP-F which immediately brings the problem of choice out of various combinations of food and other goods as presented by A, B, C, D, Z. A and Z represent two extreme choices That is if A is chosen, there would be no «other goods produced» and vice versa. This is a problem of the allocation of resources arising out of scarcity: how many

resources to devote to producing «food» and how many to «other goods». The opportunity cost of producing more food as indicated by the downward slope of the PP-F is being measured in terms of the quantity foregone of «other goods».

Any point inside the PP-F such as «U» may denote either under utilisation or inefficient use of resources or a situation where potentially useful resources are lying idle. Similarly, any point outside the PP-F such as «K» is an unattainable combination given the resources and level of technology at a given point in time. Let us now ask a number of basic questions: under the Islamic system what combinations of commodities will be produced, and in what quantities? How and for whom shall goods be produced? As noted earlier, at the **initial stage of development**, most resources are to be devoted to meeting the «**effective need**» rather than «effective demand» of the society **irrespective of profitability considerations**. The concern for equity rather than distributional efficiency becomes the basis for choice at this stage both at micro as well as macro level. If individual choices do not reflect the social and moral responsibilities the state must intervene and introduce corrective adjustments. Thus in order to meet the effective «need» of the society, it may be necessary to do one of two things: If production is at point «U» inside the PP-F, efforts must be made to move the point closer to or actually on the boundary, from U to B in Fig. 2A. If the economy is already on the boundary, the necessary steps should be taken to move the boundary outward so that production can expand resulting in shifts of PP-F from B' to C' as shown in Fig. 2B. While the shift from U to B represents a change in the level of economic activity, the movement of the actual boundary from B' to C' refers to economic growth which makes it possible to have more of all commodities. The crucial point to note is that choice of movement from a point (say B') on the PP-F to another point along the boundary (say C') will remain restricted as long as the basic and urgent need of the society is not met. This problem of **allocation of resources is to be resolved primarily by planning** rather than by a system of prices and of markets as we find in the case of the capitalist free-enterprise economy.

This strategy of planning may, however, involve the introduction of a number of policy measures such as the use of income distributional weights in project appraisal, the use of fiscal tools in the form of taxation of luxury goods which reduce the unfavourable effects in the form of consumer externalities and limit the flow of domestic resources. Income distributional weights may be derived from the utility function where the marginal utility of consumption is dependent on the initial level of consumption and social elasticity of the marginal utility of consumption which is the parameter of the utility function. (Balassa: 1977, P. 218).

The utility function itself is supposed to reflect individual as well as government preferences although it involves value judgements.

Since equity will be an overriding concern at the initial stage of development in an Islamic state, it would not be surprising that the introduction of income distributional weights may lead to the choice of a project with a lower increment of output and consequent slower rates of growth and improvements. With the advance of economic growth, the equity consideration must be followed by a study of alternative policy instruments with greater attention given to their effects on efficiency, savings, risktaking on co-operative ventures. As noted earlier while Islam has stressed the need to help the poor and the needy, it has equally discouraged wastage.

Such wastage of resources or loss of output resulting from equity consideration may be tolerated up to a point where basic subsistence consumption is ensured for all. After that level is reached, the efficiency consideration based on the system of reward and incentives must be reflected in investment decision making. There are situations when equity considerations may be damaging for the group they are supposed to serve. What is important is to improve income distribution **at least cost** in terms of loss of production and output. The Quran does recognise the differences in talents and differences in income among the different members of the society for the progress and prosperity of the same (al Quran 62:32).

The steps needed to move the PP-F from B' to C' or C' to D' is quite consistent with Islamic economic values. «The satisfaction of wants, including comforts, adornment and ornamentation of life is permissible and quite lawful in Islam. The Holy Prophet advised his companions to enjoy the good things of this world which God had created for their use. There are many sayings of the Holy Prophet which testify to the fact that enjoyment of the beautiful things of life is not repugnant to the teachings of Islam». (Rahman: 1975, P. 26).

What is crucially important is to strike a social and moral balance between money earning and money spending both at the micro as well as macro level. Both these activities are not ends in themselves, they are means to an end, to achieve the higher quality of individual, social and moral life.

#### **4. Major Conclusions :**

The following major conclusions emerge from the preceding analysis:

a) Broadly speaking, Islamic economics can be defined as a composite social science which studies the problems of production, distribution and consumption through an integrative system of exchange and transfer over

time and their social and moral consequences in the light of Islamic rationalism. It assumes the presence of «Islamic man».

b) The distinction between positive and normative economics is not relevant in Islamic economics. They are inextricably bound up with Islamic socio-economic values. Islamic economics is concerned not only with the economic problems but also with what ought to be. In modern economics emphasis is given to positive economics.

c) In Islamic economics, the fundamental principles reflected in the Quran and the sunnah provide the framework for the transformation of inputs into output. At times it does take inputs into account, absorbed into a behaviour unit without producing any immediate output.

d) The concept of scarcity in Islamic economics can be seen as an economic, humane and moral experience depending on whether scarce resources are used to satisfy physical needs, social needs or spiritual needs. Human wants tend to be narrower in scope. The concept of an economic problem tends to be different as well. Its social and moral dimension makes it unique. So is the case of choice, opportunity cost and exchange.

e) Choice involving opportunity cost must reflect Islamic values of life which need to be internalised within the individual preference function. The process by which one learns to map one's structure of preference is a fundamental key to the understanding of Islamic social and moral welfare function.

f) There is a substantial degree of «benevolence» in the Islamic integrative system of exchange and one-way transfer which is legitimized on moral and ethical grounds and operates as a social organiser. This is a step forward in search for personal identity as well as for a broader aggregative concept of general welfare.

g) Economic growth is permissible in Islam. While equity considerations will be an over-riding concern at the initial stage of development to meet the «effective need» of the people, with the advancement of economic growth, equity considerations must be followed by a study of alternative policy options with greater attention on efficiency considerations. While Islam has stressed the need to help the poor and the needy, it has discouraged wastage as well. What is needed is to strike an operational social and moral balance between money earning and money spending activities.

## 5. References

Al-Quran

Translation and Commertry by Allama Yusuf

- Ali, Lahore (The first number in the parenthesis refers to the chapter in the Quran, the second to verse (ayat).
- Ariff, M. (1978) «Islamic Ethics and Economics» Proceedings of the 7th Annual Conference Association of Muslim Social Scientists, Indiana, U.S.A.
- Balassa, Bela (1977) «The income distributional parameter in project appraisal» in **Economic Progress, Private Values and Public Policy**. Ed. by Balassa / Nelson, North Hollan, New York.
- Bhagwati J (1971) **The Economics of Underdeveloped Countries** Weidenfeld & Nicolson, London.
- Boulding Kenneth, E (1970) **Economics as a Science**, McGraw Hill, New York, U.S.A.
- Galbraith, J.K. (1962) **The Affluent Society** Penguin Books, Middlesex.
- Heibroner, R.L. & Thurow, L.C. (1975) **The Economic Problem** Prentice Hall Inc. 4th Edition.
- Kahf, M. (1978) **The Islamic Economy** The Muslim Student Association of the U.S.A. and Canada, Indiana, U.S.A.
- Lipsey, R.G. (1975) **An Introduction to Positive Economics** 4th Edition, Weidenfeld & Nicolson, London.
- Mannan, M.A. (1973) **Islamic Economics, Theory and Practice**, Ashraf Publications, Lahore, Pakistan.
- Naqvi, N.H. (1978) «Ethical Foundations of Islamic Economics» in Islamic Studies Vol. XVII No. 2, Islamic Research Institute, Islamabad,
- Rahman, Afzal-ur (1975) **Economic Doctrines of Islam Vol. II** Islamic Publications, Lahore, Pakistan.
- Siddiqi, M.N. (1975) «A Survey of Contemporary Literature on Islamic Economics» A paper presented at the First International Conference on Islamic Economics, Holy Mecca, 5-11 April,
- World Bank (1978) **World Bank Development Indicators**, World Bank, Washington, D.C.