



King Abdulaziz University

International Centre for Research in Islamic Economics

**INSTITUTIONAL SETTING OF
ISLAMIC ECONOMIC ORDER:
A COMPARATIVE ANALYSIS OF
ECONOMIC PROCESSES**

By:

Muhammad Abdul Mannan

***Moharram 15, 1402 H.
November 11, 1981 AD.***

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INSTITUTIONAL SETTING OF ISLAMIC ECONOMIC ORDER: A Comparative Analysis of Economic Processes

M.A. MANNAN, Ph.D. (Michigan)*

1. Setting of the Problem and Objectives

The main objective of this study is to demonstrate that Islamic socio-economic settings are more than an unique synthesis of three contemporary economic systems based on tradition, market and command, thereby exploring the forces that influence the process of production, distribution and consumption and to provide policy implications needed to identify the specific institutional settings wherein Islamic socio-economic order can operate. It is therefore, necessary to examine how Islam has assimilated not only the social concern of the most traditional societies but that it also contains a distinct synthesis of market and command societies.

It is then important to increase our understanding of a process at work – a mechanism to accomplish the complicated tasks of production, distribution and consumption. There is a growing recognition that these common functions are performed differently in different societies. But what is not properly understood is that Islam being a way of life has its own solution to the problems of production and distribution. It is evident from the following observation: “Looking not only over the diversity of contemporary societies but back over the sweep of history, he sees that man has succeeded in solving the

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production and distribution problem in three ways. That is within the enormous diversity of social institutions that guide and shape the economic process, the economist divines three overarching types of systems that separately or in combination enable humankind to meet its economic challenge. These three great systems can be called economies run by Tradition, economies run by Command, or by the Market.” (Heilbroner & Thurow - 1975, P-9).

Thus while the western economists have failed to recognise the Islamic response to accomplishing the societal role of production, Muslim economists, confronted by the challenge of contemporary societies dominated either by the market or command economy have seldom spoken of tradition, although the actual production and distribution mechanism of traditional societies offer us many interesting clues which can not be explained either by the market or the command economy. A number of recent works on economic and social anthropology has demonstrated that neither the doctrine of “economic man” nor “dialectic materialism” can explain a great many contemporary societies based on tradition, although some of the features of the traditional societies are indeed worth preserving from an Islamic perspective.

Here an attempt will be made to put the critical elements of all four systems based on tradition, market, command and Islam into historical context with a view to broaden our understanding of diverse social and economic institutions that guide and shape the economic process and help solving the problem of what is to be produced for distribution, how and for whom shall the goods and services be produced? This study also seeks to demonstrate how Islam humanises the production and consumption processes involving integration of the distributive process.

Throughout the analysis, stress is given on unity rather than on diversity within each of the systems in operation, because it is difficult to find a pure case of any of these systems in operation. This is because every economy that is characterized as a traditional society has in it some market economic institutions and vice-versa.

For the purpose of this study traditional societies refers not only 'primitive' and feudal pre-market societies of the past but also many contemporary societies of the South East, Africa and Melanesian societies of the south pacific; market societies to the U.S.A., and West European countries; command societies to the U.S.S.R., and East European countries and Islam to Muslim countries with special reference to the ideal Islamic system established under the guidance and leadership of the Prophet (peace be on him) in Medinah which was successfully developed and consolidated by the early Caliphs, when nations with different cultures and background came within the fold of the Islamic state. Although various internal and external factors have caused Muslims to move away from the model set by the Prophet and the early Caliphate, the basic Islamic values and injunctions, in respect of economic behaviour (i.e., payment of Zakat, prohibition of interest, implementation of the Islamic law of inheritance to ensure equitable distribution of wealth, internalization of socio-economic values arising out of the emphasis of God's sovereignty over all the resources between heaven and earth etc.,) continued to guide succeeding Muslim generations, particularly at the grass root level of Muslim society in almost all the Muslim countries. The recent revival of the dynamics of the Islamic economic values, manifested itself through the establishment of Islamic Development Bank in which forty Muslim countries are members, and a number of local Islamic banks, having declared objectives to conduct each of the bank's economic activities in conformity with the principles of Shariah, confirms this hypothesis. Therefore, it stands to reason that Islamic societies may be studied with reference to the ideal Islamic concept of economics. It does not however follow that Muslim countries of today are necessarily Islamic in the actual operation of their economy.

2. Underlying Assumptions and Guiding Economic Philosophy

At the very outset, it is perhaps important to know the basic underlying assumptions under which each of the economic systems operates. The framework can be expressed briefly in Table I below:

Economic System	Underlying Assumptions	Overriding Concern
Tradition	Presupposes the presence of “traditional man” who is presumed to be motivated by the interest of the group or community to which he belongs. Conventions, customs and habit play a positive role in economic life.	Social imperatives: Economics and politics are subordinate to social need.
Market	“Economic man” motivated by self interest and maximizing profit; presumed to be highly individualistic and competitive.	Economic imperatives: Social need and politics are subordinate to economic need.
Command	The state, guided by the belief in lack of harmony of interest and class-conflict as well as in historical materialism, is in the best position to know what choices and policies are beneficial for the economy as a whole and for its parts.	Political imperatives: Economic and social need are subordinate to political need.
Islam	Presupposes the presence of “Islamic man”: evolution of Islamic consciousness and consequent establishment of Islamic production relations. Islamic man is conceived as economic maximiser; subject to moral constraints of Shariah; presumed to be individualistic, cooperative and socially responsible.	Ethical and moral imperatives: Integrated economic, social and political need are subordinate to imperatives of faith and morality.

Once we appreciate the overriding concerns of each of the economic systems, it becomes relatively easy to explain the production, distribution and consumption processes.

3. Production and Distribution Process: Use and Exchange Aspects

In pre-market traditional societies the productive process did not arise out of distinct interaction among the factors of production - land, labour and capital. The fundamental tasks of production or distribution were largely un connected with anything that resembled “Market”. They were organised by the rules of convention or by the imperatives of command, handed down by the chief or rulers. Labour has of course always existed; land played a role; and capital is as old as the first hunter’s tool or sticks. Yet labour, land and capital were not treated as distinct goods and services for sale. “Certainly production and distribution were not organised by a network of trade and exchange in which human factor or the use of labour or capital were directed by the invisible push and pull of market forces” (Heilbroner: 1978, P-45).

It is evident that in traditional societies production was essentially for use. A distinct pattern of social relation of production never emerged, labour was performed a part of the social duties of a peasant farmer or a cultivator, a tenant, or a serf, depending on the structure of the society or kinship group, clan or tribes.

We have already noted that unlike the market economy where political and social organisations become subordinate to economic organisation or the command economy where social and economic organisations become subordinate to political organisation or in traditional societies where economic and political organisation becomes subordinate to social organisation, in an Islamic economy the integrated economic social and political organisations are subordinate to the moral and ethical imperatives as reflected in the Shariah.

“Economy, as a rule, is then submerged in social relationship and run on non-economic motives in traditional societies. The so-called economic motives spring from the context of social life where the modern ethnographers see the absence of the motive of gain; the absence of the principle of labouring for remuneration; the absence of the

principle of least effort; and specially, the absence of any separate and distinct institution based on economic motives. But how, then is order in production and distribution ensured? The answer is provided in the main by two principles of behaviour not primarily associated with economics; reciprocity and redistribution” (Polanyi: 1974: P-47).

While both production and family sustenance are ensured by the broad principle of reciprocity, the principle of redistribution which is no less effective ensures distributive justice in the society.

Thus, in most traditional societies, subsistence livelihood was, in effect, guaranteed as a normal part of membership in a clan or tribe. It is considered one’s social right to receive support and help from friends, kin, and clan leaders in both peace and war. The quest for profit, individual gain, and interest is not considered adequate to explain their economic activity. The extended family, clan, or tribe is the basic economic unit in the subsistence sector. People produce what they need for consumption subject to the physical environment and the influence of social and religious custom. Here again the pattern of social mobility, with some exceptions is guided by mandatory participation in community activities.

Since the subsistence unit controls its own production, its technology is adequate for a minimum subsistence level. The scope for specialization and division of labour is generally one of age and sex. This is in contrast to modern industrial society where impersonal market forces and occupational specialities determine the division of labour. Furthermore, there appears to be a natural tendency for man to work for a minimum level of food, clothing and shelter. Increased output beyond that level must be understood in terms of social accomplishment rather than economic achievement, for the increase in wealth beyond the necessary minimum is regarded as a test of social esteem. This will enable him to participate prominently in community affairs to acquire the social status and reputation. Through furthering his own career, he is also serving the interests of the group to which he belongs because this sense of belonging is the strongest motivation in his work.

The recent study of the traditional Melanesian societies of the south pacific (i.e., Papua New Geinea) has confirmed this hypothesis. In fact, contrary to popular view, the subsistence sector in Melanesian societies are found capable of producing marketable surplus mainly for non-marketable social activities after subsistence requirements have been satisfied. “It would then be a mistake to assume that in this social milieu, the worker has little incentive to produce. What is crucially important is that through education he feels kinship beyond the group and likewise attempts are made to achieve social esteem in this larger group by increasing output. In a market economy we hardly look beyond the individual” (Mannan: 1975: P-2, 3).

Indeed, it is implicit in the concepts of traditional societies that the failure to respect the principles of reciprocity and obligatory sharing imposed by kinship groups is considered to be an act of alienation from the society and social misconduct. Thus the psychological and social limits imposed by the family, kinship and clan group as a primary principle of social organisation serves as self-regulation of individual members of the community in attaining distributive justice. This can perhaps provide lessons for other developing and advanced countries as well where in most cases the policy of inequitable distribution of income coupled with the lack of social concern is reflected in the development process either implicitly or explicitly.

Significant Insight:

This discussion of the productive and distributive process of the contemporary traditional societies provides a significant insight in understanding at least one aspect of the Islamic society. It helps us to understand that Islam’s social and humane concern in productive and distributive process expressed through the voluntary and obligatory sharing of income and wealth imposed on the richer section of the community by the principles of Shariah, can be operationalized through proper institutional arrangement. It has indeed a workable value. But the Islamic economic society goes beyond the range of traditional societies by placing emphasis *both on the production for use as well as for exchange*,

thereby combining the features of both traditional and market societies in which production is mainly for exchange.

The Islamic economic society established by the Prophet (peace be on him) and later developed by Caliphs has clearly recognised the critical elements of production for use, expressed as non market exchange phenomenon and one-way obligatory transfer either as a possibility or as a reality. It has further contributed to the emergence of modern concept of the factors of production, thereby recognising the role of production for exchange expressed mainly as a market phenomenon. This can easily be confirmed by the various Quranic injunctions and traditions of the Prophet governing the use and misuse of land as a factor of production, payment of fair wage to labour, abolition of interest for the use of capital and recognition of profit and partnership enterprise in the productive process. The Islamic recognition of land and labour as fundamental factors of production is indeed unique in itself.

Like the market economy, land in Islam as a factor of production may include, not only surface of the earth and fertility of soil but also all free gifts of nature such as air, water and mineral resources, etc. What distinguishes Islamic from other economic systems is that none but God can place any claim of ownership over such gifts of nature before appropriation by human labour. Likewise the use of human resources itself is subject to moral imperatives also. In Islamic economic society, labour can not be an abstract quantity of effort offered for sale, land is not the real estate. While both land and labour are considered to be commodities for sale, they are never divorced from the social and moral life. The imperatives of morality and faith bind the factors of production into a viable social, moral and economic whole.

Thus we see that in a traditional society, economy is submerged into society and choice is socially conditioned in which acts of production and distribution are carried out on a group or communal line. The emphasis is on production for use.

The market economy is more interested in decisions than in provisions. Because economics of the “*economic man*” rises out of scarcity of resources. It is the economic experience that forces him to make a decision. On this basis market economics emerges as a generalised theory of choice. The emphasis is on exchange.

In a command economy, choice is politically conditioned: it is concerned more with provision than with decision. But as a logic of political choice, the provisioning problem mainly deals with those who follow the party line. As such, acts of production or distribution can hardly be integrated into a viable social whole. Thus empirically viewed a vast majority of the people in communist countries of to-day such as the U.S.S.R., Poland, are not the members of the communist party. So the initial provisioning concern turnout to be a major decision problem. Considered from this point of view, production becomes essentially, not for use but for exchange to maximise political gains. This is the way we look at the functioning of command economy.

In an Islamic economy system, choice is ethically conditioned; it is economically meaningful in so far as it affects the provisioning problem under which individual acts of production or distribution get integrated into a viable social whole. **Here the emphasis is on both production for use and exchange.**

The theoretical implications of this dual recognition of production for use and production for exchange is far reaching in the sense that it immediately puts a limit on market mechanism and the imperatives of command economy and a whole range of theoretical issues connected with them.

Since the Islamic society stands for both production for use and exchange, there is a clear need for continuous effort for sustained production. While the domestic mode of production in the most traditional societies inhibits surplus production, the surplus production contrary to the views of many, is needed in Islamic society for making appropriate provisioning for the present as well as the future generation. Economic activity

has then to be a continuous process not goaded merely by an inevitable sense of scarcity and profit motive as found in market societies, but by the sense of the best utilisation of “*His*” resources to achieve the maximum social advantage through which individual interest is to be served. It is not merely the **individual** as is the case of market society or not merely the **group** as is the case of the traditional societies or not merely the **state** as is the case of command societies, but the **Individual through group** is the centre of economic activity in Islam in which state is considered to be a means to an end rather than an end in itself.

In a market society, economic crisis starts with both under production and over production. This may initiate the process of social crisis and social break down as was found during the great depression of 1929. In Islamic society, it is the moral decay which will shake its economic foundation, for, its productive and distributive process is, vitally linked with the moral fabric of the society. It is neither the pure profit-motive nor the kinship responsibilities that give spur to productivity. It is the combined effect of profit-motive, kinship and social responsibilities coupled with moral urge that will give spur to productive and distributive processes. Clearly, it is the multiplicity of objectives that matters. If maximisation of profit is considered to be a goal of the firm or industry, it can be so only subject to the overall value framework of Islam.

4. Productive and Distributive Processes: Humane and International Aspects.

Another dimension of the Islamic economic society lies in its humanising and internationalising thrust of the productive and distributive processes. While the differences in income resulting from the difference in talents and capacities are recognised, the differences of race and colour, country and languages are discarded. This universality of its call is reflected not only in the universal brotherhood of the faithful but also in, the universal brotherhood of mankind coupled with toleration par excellence when these ideals

are translated into an economic sphere, they tend to humanise the production, distribution and consumption processes. The following quotations from the Quran would suffice to show the limits of Islam which safeguard individual rights as well as collective welfare.

(A) The Universal Brotherhood of the Faithful:

The following quotations from the Quran will illustrate that Islam has discarded from the very first, differences, of race and colour, country and language, in favour of the universal brotherhood of the faithful:

*The Believers are but
A single Brotherhood:
So make peace and
Reconciliation between your
Two (contending) brothers;
And fear God, that ye
May receive Mercy
(S. XLIX 10)*

*“And hold fast,
All together, by the Rope
Which God (stretches out
For you), and be not divided
Among yourselves;
And remember with gratitude
God’s favour on you;
For ye were enemies
And He joined your hearts
In love, so that by His Grace,
Ye became brethren;
And ye were on the brink
Of the Pit of Fire,
And He saved you from it.
Thus doth God Make
His Signs clear to you:
That ye may be guided.”
(S.III 103)*

*“O mankind! We created
You from a single (pair)
Of a male and a female,
And made you into
Nations and tribes, that
Ye may know each other
(not that ye may despise
(Each other). Verily
The most honoured of you
In the sight of God
Is (he who is) the most
Righteous of you.
And God has full knowledge
And is well acquainted.”
(With all things)”*
(S. XLIX 13)

(B) Brotherhood of Mankind:

A few typical quotations alone from the Quran would suffice to illustrate the Islamic concept of universal brotherhood of mankind:

*“O mankind! Reverence
Your Guardian-Lord,
Who created you
From a single person,
Created, of like nature,
His mate, and from them twain
Scattered (like seeds)
Countless men and women;
Reverence God, through Whom
Ye demand your mutual (rights),
And (reverence) the wombs
(That bore you): for God
Ever watches over you.”*
(S. IV 1)

*“Verily, this Brotherhood
Of yours is a single Brotherhood,
And I am your Lord
And Cherisher:
therefore Serve Me (and no other).”
(S. XXI 92)*

*“We have not sent thee
But as a universal (Messenger)
To men, giving them
Glad tidings, and warning them
(Against sin), but most men
Understand not.”
(S. XXXIV 28)*

*“And among His Signs
Is the creation of the heavens
And the earth, and the variations
In your languages
And your colours: verily
In that are signs
For those who know.”
(S. XXX 22)*

(C) Toleration Par Excellence:

*“Those who believe (in the Qur’an),
And those who follow the Jewish (Scriptures),
And the Christians and the Sabians,
Any who believe in God
And the Last Day,
And work righteousness,
Shall have their reward
With their Lord: on them
Shall be no fear, nor shall they grieve ”.
(S. 11 62)*

*“If only they had stood fast
By the Law, the Gospel,
And all the revelation that was sent
To them from their Lord,
They would have enjoyed
Happiness from every side.
There is from among them
A party on the right course;
But many of them.
Follow a course that is evil.”
(S. V 69)*

As Hamidullah (1977) observes, a host of other verses together with innumerable sayings of the Prophet and instances of continuous practice all through these fourteen hundred years of Islam, testify to the same effect.

Now the question arises: what are the implications of these moral values in the sphere of economics? It is true, though that they do not by themselves produce the co-operative and team spirit in productive process. Individuals need to be motivated to undertake the group task in the name of these values. How is this accomplished? It is argued that early socialization of the child is of critical importance in motivating individuals to become constructive deviants in the economic realism. (McClelland: 1961). The period of childhood is indeed marked by changes in growth of mind and body that influence and define adult life. Typically language acquisition, absorption of culture and introduction to complex social relations take place during this period. Education-both formal and non-formal is seen as one of the means of influencing the socialisation process. Thus early socialisation can complement the ethical values of Islam which can subsequently influence the economic process.

That it is possible to integrate social values into modern factory management can be illustrated from the Japanese experience.

“The Japanese factory has assimilated the extended family system. Labour recruitment in Japanese firms is apparently for life and it is not customary for a worker to move to a different firm or for a firm to poach another’s labour force. On a visit to a large chemical plant in Osaka, I was impressed by the obvious youth of practically all skilled operatives and enquired the reason. The answer was that the firm itself was very young! The factories are thus operated in Japan must like families. The labour force identifies itself with the firm and the management literally has to conduct itself towards the workers in that spirit. Inefficient workers, for example, do not get fired; they are just not promoted. The social security of the extended family is thus available inside the modern factory!”. (Bhagwati: 1966, P. 96-97).

However, when these values are applied in the case of productive processes, the emerging relationship among the factors of production need to be based more on co-operation rather than on competition; more on diffusion of ownership of the means of production rather than on concentration and consequent emergence of monopoly power and exploitation; more on the socialisation of the productive process that ensures distributive justice for all rather than nationalisation of the means of production by the state, more on internationalising the productive enterprise to maximize the gains rather than parochial approach in exploiting the resources that ignores the legitimate rights of others.

The important question is then to judge whether any specific type of productive enterprise, while advantageous from the economic point of view, is likely to impinge on Islamic social values.

5. Consumption Process: An Integrated View

Now we are coming to a crucial part of our discussion of the consumption process in an Islamic economy. Islam gives perhaps more importance to spending rather than earning despite the fact that various injunctions of Islam harmonize the money spending and money earning activities in such a way that they may promote welfare of the people. Spending can

be of various types such as personal consumption spending, social consumption spending in the cause of Allah, that is in the service of creatures, and investment spending, for the support and maintenance of the future generation. Each of the spendings needs to be balanced, While Islam allowed lawful consumption, it condemned both extravagance and niggardliness. While the Quran encouraged socially beneficent spending, it has urged provisioning for the future generations. This is how the concept of “*moderation in consumption*” was given rise to in Islam. In my view, the word “*moderation*” in consumption may be misleading, not accurately depicting the process of consumption. In the context of present socio-economic realities of Muslim countries, “*moderation in consumption*” may mean tremendous increase in its consumption from its current low level. Putting it more formally, in Muslim countries of today, marginal propensity to consume is likely to be on the high side despite popular notion that it is likely to be low due to stress on “*moderation*”. This increase in consumption may be due to several factors such as emphasis on equitable distribution of income, discouragement of hoarding, inflation, development etc. The fact is that consumption behaviour in an Islamic economy should be seen as an extension of Islamic cultural values depending on the stage of social and economic development rather than a relentless pursuit of material possession and life-style and standard of living of the West. Islam does provide a substitute or alternative life-style. The word “*moderation*” can not therefore accurately convey the notion of this life-style. While there is no place for “*conspicuous consumption*” leading to wastages in an Islamic economy, there is no place for under consumption either. The important policy implication is that if there exists a “*conspicuous consumption*”, it may mean one of the two things: either wealth is concentrated in the hands of few to the neglect of the masses or there is a clear lack of investment opportunities or both. Under consumption may mean either lack of sufficient purchasing power at the hand of the people considered from macro-viewpoint or the lack of availability of goods and services or both.

In both the cases, an Islamic economic society has to adopt a fiscal and monetary policy package not only to ensure “*Islamic consumption style*” but also to sustain the same involving integration of consumption, saving and investment behaviour.

It must be noted that, in support for so called “*moderation*” in consumption, the names of a few prohibited items for consumption (Le., eating pork, drinking wine, wearing silken dress, gold ring for man etc.,) are often cited. While the consumption of prohibited items have their definite validity in shariah, they can not, in my view, influence the consumption pattern of the Muslim unless he is imbued with the total cultural values and spirit behind such prohibitions. This is particularly true in the light of availability of over 50 thousand valid consumption items in modern supermarkets. There are, for instance, some super-markets in Jeddah, Saudi Arabia which carry over 30 thousand halal items for consumption. The key to the understanding of the Islamic consumption is that it is relative. Thus the items of expenditure which are considered lawful are of such a type that a man may just be able to live a decent human life of an acceptable standard in a particular social context and if any surplus is then left over, the spirit of Islam suggests that it should be spent in the service of those persons who have been unable to secure and receive their share according to their need as well as an appropriate investment with a view to sustaining the earning for the support of the future generation. This duality of spending puts a social limit on the personal consumption spending, although some of the Muslim scholars downgraded the investment need, out of surplus fund in an Islamic society as is found in the following observation of A.A. Maudoodi (1975, P-34):

“According to Islam the best course to adopt is that one should spend all that he earns on his lawful and reasonable needs, and if any surplus accrues, hand it over to others so that they may satisfy their needs. Islam regards this quality as one of the highest standards of morality and has put it forward as an ideal with such force that a society influenced by Islamic ethics will always respect those who earn and spend, much more than those who keep their wealth hoarded or who go on investing their surplus incomes in earning more.”

The fact is that the consumption needs in Islam necessarily have to remain ‘*modest*’ not because families have to be content with what they are able to produce as we find in the case of traditional societies but because of social and moral limits to consumption need is to be defined in the light of particular social context. Since this is a matter of “*Ijtihad*” the

pattern of Islamic consumption can not be stated. It can be viewed as both dependent and independent variable in the economic process. While the concept of consumption function in Islam can be discussed separately, at this stage it is perhaps sufficient to say that in an Islamic economic society, consumption can not be a mere function of income. It may very well be a function of obligatory transfer payments and Islamic ethics. Seen in this light, it is distribution which can activate consumption and production in Islam although consumption in an important sense, may initiate the growth process.

This position stands in sharp contrast to the position taken by societies based on tradition, command and market. In traditional societies, it is the consumption need which determines the production and distribution processes. As such it is active in initiating economic activity. In command societies it is *not* the consumption need that determine the production and distribution process. It is the political need which activates the production and distribution and consumption process in a sense both in Islam and Marxian economics there is a definite role of exogenous variable in economic processes, although the nature of such variable is diametrically opposed to each other. In the case of Islam it is the moral imperatives defined by the Divine Authority, but in the case of Marxism it is the secular ideological imperatives defined by the communist political party.

In the market economy, however, consumption is essentially a dependent variable and a function of income. It is production which activates the consumption and distribution processes.

Thus in a market economy the rich are free to choose their pattern of expenditure to underline, symbolize and fortify their class position vis-a-vis the rest of the community. This is what T. Veblen (1857-1929) suggested in his famous theory of “*conspicuous consumption*” indicating that something besides randomly assorted individual wants to determine the concept of demand in a market economy.

Even though preference theory or the indifference curve analysis displacing the Marshallian theory of demand eliminates the measurement problems arising out of the notion of diminishing marginal utility and brings more than one product into demand theory, it is “*essentially structureless*” from the standpoint of economic sociology, (Smelser: 1963, P-94) for, the consumers are essentially free to substitute one basket of commodities for another at which the individual is indifferent and changes in demand depend ultimately on changes in income of the buyers and price of the product.

From the standpoint of the Islamic theory, what is crucially important is to understand the moral propensity to consume whereby when real income of the rich is increased, it will lead to increase *not* only his consumption but also the consumption of his poor neighbours. This increase in consumption may be less than equal to absolute amount of increase in real income so that an amount is saved. In order to assess the savings rates, we need to know the total income of society and its pattern of distribution. The above contention is based on the implicit assumption that every individual’s consumption behaviour is *not* independent of every other individual in an Islamic framework as opposed to Keynes’ assumption on the contrary. In Islamic economy, it is not the demonstration effect that makes every individual consumption behaviour dependent on other individual but the Islamic ethical effect which makes the richer section of the population to be aware of their obligation to make a transfer payment to raise the income of the poor.

The need for incorporation of such moral variables makes the Islamic consumption theory different in two ways:

First: Islamic consumption theory is *not* essentially structureless. Apart from a small list of prohibited items of consumption, there exists a framework of Islamic values through which it should be possible to pronounce judgement whether or not a particular consumption behaviour is acceptable in Shariah in a particular social context.

Second: besides income and price, the incorporation of ethical variables, and recognition of the different spending patterns both at grass-root level (e.g., spending saving rates) and at a detailed level (e.g., the kind of consumer's item used by the rich) makes the Islamic consumption theory more complex in the sense that a consumption function, or rather a series of consumption function could be reproduced for the better understanding of the various theories of demand in an Islamic economy. What we actually need is to identify the list of variables from the Islamic standpoint and cast them in such a way so that they articulate variables such as income, price. Let us now summarise the critical elements of the: different economic systems based on tradition, market, command and Islam.

6. Summarised View of the Critical Elements of Economies Based on Tradition, Market, Command And Islam:

Economic system	Institutional traits	Production pattern	Distribution pattern	Consumption pattern	Exchange pattern
Tradition (Example: Primarily societies of South Asia, Africa & Melanesian Societies of the South Pacific, such as Papua New Guinea, Tonga, Solomon Islands, etc.).	Emphasis on communal ownership of land property; allocation of resources through convention of the past and historical characteristics of a tribe, group or society.	Kinship responsibilities give spur to productivity. Group interests remain an important basis for economic activity: Production is primarily for use; production tends to be intermittent and discontinuous.	Economy is submerged in social relationship and run on non-economic motives; the principles of distribution and obligatory sharing ensure distributive justice in the society.	Consumption activates production and distribution processes; it does initiate most of the economic activities.	Social reciprocity is the basis for exchange, which is personal.

Economic system	Institutional traits	Production pattern	Distribution pattern	Consumption pattern	Exchange pattern
Market (Example: Primarily countries of the western world such as the USA, UK, Australia, West European countries, etc.).	Emphasis on private property and allocation of resources through the market system.	Emphasis on the price system as a means of ensuring productive efficiency: production is for exchange: production is continuous guided by the sense of competition: consumer's sovereignty.	Emphasis on efficiency oriented analysis, neglects equity consideration; it takes the existing distribution of wealth as given, and determined outside the system; the distribution is always skewed.	Consumption is generally seen as a dependent variable in the economic process; as a function of income-factor that is acted on; but that does not initiate the greater part of the economic activities. Production activates consumption and distribution.	Exchange is impersonal and money serves as a medium of exchange.
Command (Example: Primarily Countries of the communist world such as the USSR, East European countries, China etc.).	Emphasis on collective ownership of property and allocation of resources through administrative decisions.	Emphasis on 'administered prices' which may be used to achieve objectives other than ones associated with the production of particular outputs and minimum cost: producer's sovereignty.	Distribution tends to be egalitarian at least among the members of the communist party.	Consumption does not at all generate spontaneous action as a rule; essentially a function of political taste, not merely of income, although consumption mirrors and can magnify disturbances elsewhere in the economy. Production	State and political party primarily determines the mode of exchange.

Economic system	Institutional traits	Production pattern	Distribution pattern	Consumption pattern	Exchange pattern
<p>Islam (Example: Primarily countries of the Muslim world such as Malaysia, Bangladesh, Pakistan, Saudi Arabia, Libya etc., although Muslim countries are <i>not</i> necessarily Islamic countries).</p>	<p>Emphasis on the absolute ownership of '<i>Allah</i>' and man's right to private property is in the capacity of a '<i>trustee</i>'. The trust is conditional in the sense that owner is prevented from using property for exploiting others or holding others in subjection; individual private ownership of property and state ownership are both relative.</p>	<p>Emphasis on "moderation" between productive efficiency and equity; price may embody particular social objectives; non-economic goals may be embodied in the choice of production techniques: Sovereignty of '<i>Allah</i>' who is the owner of everything: co-operation and healthy competition seen as basis of production.</p>	<p>Distribution tends to be fair and equitable; dead-level equality of income is not recognised.</p>	<p>and distribution activates consumption.</p> <p>Consumption can be viewed as both dependent and independent variable in the economic process essentially a function of income, compulsory transfer payment and Islamic ethics, not merely consumer's preference. Distribution activates production and consumption.</p>	<p>Exchange is social, impersonal and controlled all at a time in an integrated way.</p>

7. Conclusion

Although the theories of Islamic production and consumption function can be discussed separately, it is not difficult to conclude that Islam contains elements of tradition, market and command society, and it does provide a number of innovative social and economic ideas which serve as precursor of both market and command societies in an important sense and assimilates the admirable social and voluntary distributive concern of many traditional societies of today. It would however be mistaken to assume that an Islamic economic society is then a sort of mixed economy as commonly understood. As a matter of fact, the choice of so-called mixed economy concept as a strategy of development has indeed prevented the developing Muslim countries from adopting a genuine Islamic economic system.

“In most cases such a choice has combined the worst, not the best, features of capitalism and socialism. It has often prevented the developing countries from adopting honest-to-goodness economic incentives and using the free functioning of the price system to achieve efficiency in a capitalistic framework, if not equity. In reality, there have been too many inefficient administrative controls and price distortions. At the same time, the choice of the mixed economy has prevented these societies from pursuing their goals in a truly socialistic framework, since mixed economy institutions have often been more capitalistic than not. The end result, therefore, has often been, that they have fallen between two stools, combining weak economic incentives with bureaucratic socialism. Neither the ends of growth nor equity are served by such confusion in social and political objectives within the framework of a mixed economy”. (Haq: 1976, P-44).

What we need is the scientific intellectual inquiry into the various facets of Islamic economic process - an inquiry which can help the Muslim countries in making a clear choice.

What is needed for the Muslim countries is to give a genuine try to Islamic economic system: based on completely different ideological perceptions and a different pattern of society. It means a major change in the economic and political balance of power within these Muslim societies and drastic economic social and educational reforms. Whether the Muslim countries can perceive and implement such a change without evolution of revolution is a critical question which only the future can tell.

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