

M. Fahim Khan

Macro Consumption Function in an Islamic Framework

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Prof. M. Fahim Khan's paper suffers from a number of deficiencies which may be grouped under the following categories:

1. Inaccuracies in the description of positions relating to modern secular economics.
2. Questionable interpretation of Islamic positions.
3. Technical and logical errors in model construction.

I shall take up these points in turn.

I

To begin with Prof. Khan's description of the premises of modern economic theory of consumer behavior and its subsequent critique is inaccurate. According to him "Modern economic theory studies consumer behavior under the following premises:

- i) It is assumed that a consumer will decide what to consume and how much to consume only to gain the material benefits and satisfaction.
- ii) It is generally assumed that all his consumption is geared to satisfy his own needs. He is not bothered to satisfy anyone else's needs.
- iii) It is assumed that a consumer behaves rationally.

This among other things, means:

- a) the consumer Will neither be a miser nor an unnecessarily spendthrift.
- b) he Will not hoard his wealth." (p.2)⁽¹⁾

Modern economic theory of consumer behavior does not assume any of the said premises given by Prof. Khan. What modern theory assumes is that a consumer with his given income allocates his spending on different goods and services in such a way that he maximizes his utility or satisfaction. According to modern theory it does not matter whether a consumer is a miser, spendthrift or a hoarder. Also it does not matter what cultural values or religious preference he has. For example according to modern theory a Muslim consumer whose marginal utility for *Haj* is far greater than his marginal utility for a new car, is perfectly rational by deciding to spend his money on *Haj* rather than on a new car even though all his satisfaction is spiritual.

(1) Page numbers given in the text of these comments without reference, refer to Prof. M. Fahim Khan's article *JRIE*, vol. 1, No. 2.

In the modern economic theory of consumer behavior utility is a subjective and psychological phenomenon and is not restricted to material benefits as contended by Prof. Khan. A couple of quotations from one of the textbooks used currently in American universities will make this point perfectly clear.

"--- Economically rational behavior, or economic rationality, is any action that people take to make them better off or to prevent them from becoming worse off.

Rational behavior need not be totally selfish. Good things come in many different packages. Self-interest, then, has a broader meaning in economics than it does in common usage. People not only consider themselves better off when they add to their stock of material goods but also feel better off when they believe that they have done the right thing.

Actually, most individuals base decisions on social, political and ethical considerations as well as on personal gain. Also what people do may be strongly affected by habit, custom, and tradition. Every society weaves a fabric of institutions that guide its economic behavior."⁽²⁾

Now consider the following passage specifically on rationality of consumer behavior.

A consumer is assumed to be rational if he or she seeks to maximize his or her satisfaction. It is therefore rational to try to get the most out of one's income by selecting the mix of goods and services that promises to offer the greatest amount of personal satisfaction.

"--- Economists realize that a person's expression of utility is not formed in a vacuum, but that it reflects one's social environment.

"--- Orthodox Jews and Moslems will not eat pork, orthodox Hindus will not eat beef, and orthodox vegetarians will not eat meat of any kind or fish or sometimes eggs.

In the same way, people may value particular consumption patterns mainly to show how rich (or poor), how modern (or traditional), or how intellectual (or anti-intellectual) they are (or wish they were).

"--- All such behavior may be entirely rational to the consumer who engages in it, whatever you, or we, or the rest of the world may think about it."⁽³⁾

II

Prof. Khan's statements and interpretation of some of the Islamic positions are questionable. Consider the author's distinction between E_1 and E_2 ; E_1 being "spending to achieve satisfaction in this world" and E_2 ; being "spending for others with a view to earn reward in the hereafter." (p. 7).

(2) Bronfenbrenner, M. et al, Microeconomics, pp. 21-22.

(3) *ibid.* pp. 110-111.

The above statements are not in conformity with Islamic principles. A Muslim is always a Muslim. If he spends his money on himself and his family (E_1), or on others (E_2), he does so following the commands of Allah with a view to earn a reward in the hereafter.

Now, consider Prof. Khan's following statement:

"--- The more a person is God-fearing the more will be the 'a' value and more of the total spending will go to E_2 " (p.9).

It appears from this statement that the author considers E_2 as a measure of God-fearingness. Such a position is questionable from Islamic point of view. Whether a person spends more or less proportion of his income toward E_2 depends on a number of factors like his income, size of family, personal and family needs and other special family concerns and responsibilities; such as chronic illness in the family requiring unusual medical care, large education expenditures, etc. Individual circumstances vary from person to person. Thus a person who has allocated relatively a low proportion of his income to E_2 , is not necessarily less God-fearing. Only Allah has the complete knowledge of all circumstances to make such a judgement. However, in the Holy Qur'an we get clues to the factors which will determine the reward in the hereafter. These factors include a number of things such as the five pillars of Islam, *taqwa*, *tawakkul* and good deeds in general. Thus *zakah* and charity are not the only factors determining God-fearingness and the reward in the hereafter.

Finally, the paper gives the impressions that Islam urges Muslims to earn more and more in order to spend more and more on E_2 ; also that *zakah* and charity are the only or major sources of earning reward in the hereafter. Consider the following statements:

"The desire to increase income is strong for a Muslim consumer because he would like to spend in the way of Allah and earn a reward in the hereafter. Also, it is a Muslim's religious obligation to improve his economic condition so that he becomes a *zakah* payer rather than a *zakah* receiver". (p.12).

"--- But this population knows that to be always in the receiving class of *zakah* and charities is not encouraged in Islam and that he has to improve his economic condition. Also he wants to earn reward by spending in the way of Allah as the upper income groups are doing. So he will make efforts to increase his income". (P.15).

This kind of over emphasis on earning or increasing income is questionable from Islamic point of view. This makes the plight of a human being in Islamic society resemble very much like his counterpart in the materialistic societies of capitalism and socialism in which man becomes a money making machine, though for a different reason.

With respect to the statements on *zakah* and charity, it should be mentioned that they are obligations only on those who can afford. Allah asks the rich to share wealth with the poor, but does not make it obligatory to earn more and more. One does not have to become rich or *zakah* payer to earn a reward in the hereafter as discussed earlier.

III

There are logical and technical errors especially in the formulation of microeconomic model of consumer behavior. Dr. Zarqa is right in pointing out that the MU of E_2 can not be constant, and the law of diminishing MU applies to E_2 just the same way as to E_1 (P. 9n). Logically speaking, an additional dollar spent on E_2 will bring far greater satisfaction to a person who has not spent enough on E_2 in the past, than to the one who has more than fulfilled the obligation of *zakah*.

The author's contention that "the assumption of declining MU of E_2 being supposed to have no effect on the conclusions" (P. 9), is unwarranted. This is so because the conclusions are not derived from this model. The author does not pursue microeconomic analysis beyond this point and he moves to macroeconomic formulation, and further more both models are independent of each other.

There is a mathematical inconsistency in the model which might have resulted by not being careful in selecting letters for variable names in the micro and macro versions.

Consider the following equations:

$$(1) Y = E_1 + E_2 \text{ (p. 8)}$$

$$(2) E_1 = Y_U - E_2 \text{ (p.14)}$$

$$(3) Y = Y_U + Y_1 \text{ (p.12)}$$

Substituting the value of E_1 (eq. 2) into eq. 1, gives:

$$Y = Y_U - E_2 + E_2 \text{ or } Y = Y_U$$

which is not consistent with eq. 3.

This problem could have been avoided by selecting upper case or capital letters for the macro model and lower case letters in the micro version. The following equation on p.13 is inaccurate:

$$\Delta Y_U = I/K.$$

change in income (ΔY) results from change in investment (ΔI) rather than from total investment I . This equation should be:

$$\Delta Y_U = \Delta I/K.$$

There is a discrepancy or a typographical error in the presentation of the same equation on p.13 and p.16.

$$\Delta Y_U = I/K \text{ (p.13)}$$

$$\Delta Y_U = 1/K \text{ (p.16)}$$

IV

To conclude it should be mentioned that in spite of the problems discussed above, Prof. Khan's attempt toward quantitative model building in Islamic economics is commendable.

It should be considered as a greatly needed beginning toward constructing realistic and viable models in Islamic economics.

Reference

Brofenbrenner M., Sichel, W., and Gardner, W. *Microeconomics*, Houghton Mifflin Co., Boston, 1984.