

Response to Comments on:

Towards a New Paradigm for Economics

Asad Zaman, JKAU, Vol. 18 No. 2, (2005).

<http://islamiccenter.kaau.edu.sa>

Rejoinder by:

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Upon reflection on the comments, it seems to me that disagreements have emerged because of my lack of clarity about the following three points:

1. What is the purpose/goal/object of my paper "Towards a new Paradigm for Economics" (TNPE)?
2. How does TNPE relate to Islamic Economics?
3. Does TNPE, in fact, lay out a new paradigm for economics?

I hope that clarifying these issues will lead to increased understanding among us. The joining of hearts of the *Ummah* is a great treasure and blessing of Allah, while disagreement and difference among Muslims is a source of displeasure of Allah.

'And hold fast, all together, by the rope which Allah (stretches out for you), and be not divided among yourselves; and remember with gratitude Allah'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 Allah make His Signs clear to you: That ye may be guided, (The Qur'an 3:103).

Goals of "Towards A New Paradigm for Economics (TNPE)"

Allah says in Surah Al-Haqqah (The Reality) "Nor did he urge the feeding of the poor.", (69.34).

Some aspects of Islam are universal and easily shared with all human beings, while other aspects are particular to Muslims. Islam has a rich and complex set of traditions and principles pertaining to the organization of economic affairs in Muslim societies as

well as for Muslim individuals. Among these, the verse cited above is striking. It is not enough to feed the poor; rather, failure to urge the feeding of the poor is a failing which is condemned in strong terms by Allah. TNPE is an attempt to carry out this order of Allah by the use of the pen. As Muslim economists, we must urge the feeding of the poor. Now this can be done to two different audiences. Among Muslims, we can urge the feeding of the poor using our common understanding of Islam, the Quran, and the Sunnah of the Prophet and his Companions. We can also make common cause with all compassionate human beings in the World, since concern for the poor is part of the *Fitrah* (nature) of human beings. My paper is an effort in this second category. Because this paper seeks to make common cause with all human beings, it does not make any direct reference to Islam; compassion for the poor is much more widely agreed upon than Islam. This is an accordance with the recommendation of the Quran that in talking with those outside our religious tradition, we should first discuss those issues on which we have agreement.

In order to carry out the order of Allah, and to urge the feeding of the poor in an effective way, it is necessary to examine the causes and sources of poverty. If hunger is caused by “scarcity” – that is, there is simply not enough food for everybody – then we must work for technological solutions. We must think about how to increase agricultural production and find other ways (fishing, hydroponics, etc.) to increase food supply. However, the striking work of Amartya Sen (1984), and many others, shows clearly that ‘scarcity’ is not the reason for poverty and hunger. Many different sources testify to the truth of the Quranic verse that:

"There is no moving creature on earth but its sustenance dependeth on Allah" (11:6).

The problem of poverty arises because the poor are not considered to be ‘entitled’ to the food. In capitalist societies, a man is entitled only to what he can earn. If jobs are not available, then men may starve in the midst of plentiful food. Islam creates entitlement for the poor, ordaining that:

"In their wealth there is a known right for those who ask for it and those who have need for it." (The Qur'an 70:24-25).

Thus Islam strikes at the root cause of poverty, and creates entitlements for the poor which, if implemented, should lead to the eradication of hunger. In talking to non-Muslims, we cannot tackle the problem of entitlement by citing the Quranic verse above. Therefore, we must use language and methods suitable for that audience to persuade them to see the justice of feeding the poor first, before attending to the requirements of the rich. We now consider how to persuade non-Muslims to feed the poor.

The economic policies of wealthy non-Muslim nations (as well as Muslim ones) are governed by theories largely based on the dominant neoclassical school of economic thought. This school stresses the virtues of the market system for the production and distribution of goods. The utility theory foundations of this school fail to distinguish between needs and wants, and do not have any natural way to identify some needs as being more urgent than others. To the neoclassical economists, the desire of a billionaire for a display of fireworks is equal in importance to the desire for milk of a hungry malnourished baby. Within this axiomatic framework the poor are invisible. A famous

labor economist once remarked to me that the poor will always be with us, since there will always be a bottom 10th percentile of the income distribution. We already mentioned that the Bible of Economics, Samuelson and Nordhaus, say that the poor should be helped provided that this can be done without harming economic performance. Economists with hearts have a difficult time persuading fellow economists to make poor-friendly policies. Our reformulation of the utility function makes the poor visible and provides a language to talk about the poor – the language is very close to that already spoken by conventional economists and hence should be easy to learn. The lexicographic utility function provides a tool to talk about the poor, and also about the failure of the market to provide adequately for the poor.

Conventional economics pretends to be positive while implicitly incorporating many questionable value judgments. Our proposed reformulation inputs a basic ethical judgment about the priority of basic needs which is widely agreed upon into the economic framework. Currently, these ethical judgments are argued qualitatively, and do not intrude upon the sacred, highly mathematical general equilibrium theory at the heart of conventional neoclassical economics. Our framework, which is fully compatible with all the foundational assumptions of neoclassical economics, can be used to carry the battle to the heart of economics. It is our hope that humane economists from all schools of thought will be able to use this framework to urge the feeding of the poor in a more eloquent way, and one which will be difficult for neoclassical economists to resist.

Another audience of the paper is the heterodox schools of economic thought, some of whom are discussed by one of the commentators. Our goal is to make common cause with these schools. Most of the heterodox schools share a concern for the poor, although they have different views regarding the causes of poverty and the potential cures. The TNPE paper introduces a language for talking about poverty, while abstaining from discussing causes and cures, in the hope that a common language shared by different schools of thought will give us more power to effect outcomes.

Relation to Islamic Economics

Most of the comments have judged TNPE in relation to Islamic Economics, which is natural since it is being published in JKAU. As already discussed, TNPE is meant for a secular audience, and takes only those elements of Islamic Economics on which we can hope to make common cause with all humane people. This is why TNPE does not mention Islam, and makes no appeal to Islamic traditions and sources. Nonetheless, TNPE is based on Islamic sources and incorporates insights which Islam provides us about the nature of human beings. In this section, we will reformulate the ideas of TNPE as they would be presented to a Muslim audience, in the context of the Quran and the *Sunnah*. These ideas form only a small part (but nonetheless an important one) of the complex, rich, and varied teachings of Islam on economic issues. Unlike some of my commentators, I feel that Islamic teachings from our sources are quite adequate for the conduct of our economic affairs. All schools of economic thought can profitably borrow from Muslims, while there is little that we can learn from them. Our failure in the economic domain does not come from our lack of knowledge of modern economics, but from our failure to apply the teachings of Islam in the conduct of our economic affairs. I hope to explain this more fully below.

Allah says in *Surah Al-A'raf* (The Heights): "O Children of Adam! wear your beautiful apparel at every time and place of prayer: eat and drink: But waste not by excess, for Allah loveth not the wasters" [7:31].

At the heart of the suggested new paradigm is a distinction between needs and wants. As the above verse indicates, we are encouraged to fulfill our legitimate needs, but we must not go to excess and consume beyond what is necessary. *Israf*, or overspending is not permissible. Spending on needs is not only permissible but desirable and commanded by Allah, as in the verse above. Our needs are limited while our wants are unlimited.

Allah says in *Surah Al-Baqarah*: "They ask thee how much they are to spend; Say: "What is beyond your needs." Thus doth Allah Make clear to you His Signs: In order that ye may consider" (2:219).

The fact that needs are limited is shown in the verse above, since one can go beyond needs only if they are limited. The unlimited nature of desire is shown in the following *Hadith*:

Narrated Anas bin Malik: Allah's Apostle said, "If Adam's son had a valley full of gold, he would like to have two valleys, for nothing fills his mouth except dust (of the grave). And Allah forgives him who repents to Him" (Al-Bukhari, Volume 8, Book 76, Number 447).

Once this is understood, we can resolve a long standing controversy among Muslim economists. There is a school of thought among classical Muslim scholars which has argued that there is no "scarcity" because Allah is bounteous and has provided amply for his servants. Economists trained in modern schools have argued vigorously against this view, since scarcity is the basis of modern economics. In fact both schools are right, and our texts and Islamic teachings support both views. There is no scarcity at the level of needs, and Allah has indeed provided bounteously for all his creation. As indicated by the *hadith* cited above, there is scarcity at the level of wants because there is never enough to satisfy all wants. However, the *hadith* also shows that this "scarcity" is due to the unlimited nature of desire, rather than the limitations of materials. Thus, no amount of expansion of GNP will eliminate this scarcity. This is a radical insight from Islam, which differs tremendously from how economists understand scarcity. Seeing scarcity as an issue of lack of material resources, economists seek to remove it by adding to resources by increasing GNP per capita. However, if we see scarcity as arising out of the unlimited nature of desire, then the cure for scarcity will be sought in limiting the desires. This is exactly the line taken by the Quran, which berates those who have taken their desires for their Allah (45:23), and states that paradise is for those who fear Allah and restrict their desires (79:41-42). Allah teaches us not to envy luxurious lifestyles of those who do not believe in the day of Judgement, since all they have is the life of this world, which is pitifully small and limited compared to the next.

The Islamic point of view receives strong empirical support in the findings of "Happiness Research," which developed out of early studies of Easterlin, (See Frey and Stutzer (2002) for a survey of this field) which shows that increases in GNP per capita

are not associated with increases in general level of satisfaction or contentment. People in rich societies are not happier than those in substantially poorer societies whether the comparisons are made across time for one culture, or in section across several cultures. This finding has been reliably replicated in many studies. A comparison of a rural and urban city in Australia showed the level of contentment to be much higher in the rural area, despite substantially lower income. The common sense explanation is that people judge their belongings relative to the average in their community. In this case, doubling the GNP per capita will have no effect on satisfaction of the people, since relative standings will remain unchanged. This is a clear sense in which the pursuit of worldly possessions is an illusion (Surah Al-Imran 3:185, Surah Al-Hadid 57:20). Conventional economists, policy makers and planners study policies to increase the rate of growth of GNP per capita, and spend tremendous amounts of energy to achieve goals which have no perceptible impact on human welfare. In contrast, Islam teaches us how to increase welfare in societies without increasing material consumption. **Crucial Islamic teachings in this context are:**

1. **Avoidance of *Israf*:** spending more than necessary is wasteful of resources, and also lead to many social problems. According to a 1997 study by US Department of Agriculture's Economic Research Service (ERS) entitled "Estimating and Addressing America's Food Losses", about 96 billion pounds of food, or more than a quarter of the 356 billion pounds of edible food available for human consumption in the United States, was lost to human use by food retailers, consumers, and foodservice establishments in 1995. Roughly 49 million people could have been fed by these resources⁽¹⁾. In presence of such statistics, showing wastage and resulting loss of efficiency, how can claims of "market efficiency" – that is market structures lead to efficient outcomes -- be taken seriously? Such claims are made on purely theoretical grounds by economists, without any regard to the empirical side, or observations of market efficiency. It is clear that *israf*, spending more than what is necessary, leads to massive inefficiency, loss of food that could have gone to feed the hungry, as well as creating an atmosphere of indifference to the needs of the poor. Market institutions do nothing to resolve this problem, which is addressed directly by Islamic teachings. I have not found any material related to *Israf* in the heterodox schools of economics either. This supports my claim that Islam offers solutions to economic problems which are needed by the world, rather than our being in need of economic ideas from orthodox or heterodox economics. (Surah Al-Araf, 7:31).
2. **Avoidance of *Tabdhir*:** While *Israf* is spending more than what is needed, *Tabzir* is to spend on what is entirely unnecessary, illegal or *haram*. If consumers were to spend only on their needs, there would be a substantial fall in demand for consumer goods, and substantial increase in savings. This would lead to substantial funds being available for investment and welfare projects and corresponding increases in growth and welfare of the poor. However, capitalist societies have mechanisms to prevent this reallocation of resources to useful purposes. Marketing is used to create feeling of need in consumers for entirely

(1) Source: "Statistics on poverty & food wastage in America", by Samana Siddiqi, available at: <http://www.soundvision.com/info/poor/statistics.asp>.

unnecessary products (like “Pet Stones” expensive “Barbie Dolls” and other faddish items). Conspicuous consumption, first analyzed by Veblen (1902), is to buy things so as to be the envy of the neighbors, or to establish status, both of which are *haram* in Islam. These lead to massively wasteful and inefficient market outcomes, which are not recognized as such by conventional economists because of their assumption that consumer demand is the final judge of what is useful or not. As Muslims, we can not accept this assumption, which legitimizes consumption of the *haram* as well. (Surah Al-Isra', 17:26, 27).

3. **Contentment and Gratitude:** An essential teaching of Islam is to be content with what Allah has given us, and to be grateful to Him for His blessings in all domains of life. Cultivation of this attitude would allow a people to enjoy a much higher level of satisfaction with substantially lesser amount of material resources. (Surah Al-Qasas 28:73, Bukhari 4 - 53 - 273).
4. **No envy.** Envy of others is *haram*, and actions taken for the purpose of causing others to envy us are also not permissible:

"And in no wise covet those things in which Allah hath bestowed His gifts more freely on some of you than on others: To men is allotted what they earn, and to women what they earn: But ask Allah of His bounty. For Allah hath full knowledge of all things" (Surah Al-Nisa, 04:32).

This rule strikes at the heart of conspicuous consumption, which is the bane of capitalistic societies. In complete contrast, the Prophet taught us to keep a share for the neighbor in the fruit that we bought – if we could not afford to do so, then we should bury the peel of the fruit, so that the neighbor's children would not see and feel regret. Implementing in our hearts this degree of concern for others would enable a small amount of material goods to go a long way towards fulfilling social needs.

5. **Collective social feeling:** Caring for others, and putting their needs above one own, is among the important teachings of Islam. No one can be a believer unless he wants for his brother what he wants for himself. The whole *Ummah* is like a single body, and pain in any part of the body is felt by the whole. Empirical studies show the importance of collective social feeling, sometimes called “social capital”. This variable affects growth, economic performance, satisfaction with life, ability to respond to emergencies/catastrophes, and many other dimensions of performance. Development of this social capital is strongly encouraged by Islamic teachings. (Surah Al-Anbiya', 21:92).

In fact, the above list is just a sampling of the major teachings of Islam which would impact on consumer behavior. We have not listed all relevant teachings. For example, if we strive for simplicity, as recommended by Islam, we will work for a simpler lifestyle. This would be exactly the opposite of Western recommendations to pursue glamorous and luxurious lifestyles portrayed in their movies and advertisements. Recent empirical research confirms that Islamic prescriptions will do much more to achieve happiness and contentment than the pursuit of material wealth and ostentatious lifestyles.

These teachings of Islam are the key to economic progress, in the sense that if we follow them, it will not only increase welfare and satisfaction, but also lead to rapid economic growth. These do not have parallels in either Autistic or post Autistic economics. I have only outlined some arguments, which relate to a small and specific domain. Islamic teachings relating to economic affairs are much more vast and cover a substantially larger set of issues. It is sad that Muslims have neglected their heritage, and have envied that of others. It is not fitting for one who has been given knowledge of the Quran to envy those who do not have this; it is likely to arouse the anger and ire of Allah, who says: *"let it not deceive thee that those who are bent on denying the truth seem to be able to do as they please on earth, it is [but] a brief enjoyment, with hell thereafter as their goal - and how vile a resting-place!"* (Surah Al-Imran (3:196, 197).

It is not our object to spell out a paradigm for Islamic Economics here. This would require organizing the teachings of the Qur'an and *Sunnah* pertaining to the economic realm in a way that they become relevant and applicable to current affairs. As many Muslim economists have remarked, the Islamic system is radically different from conventional one. The heart of conventional economics is built around a society of greedy and selfish individuals, while Islam seeks to transform individuals into unselfish beings who care for others above themselves. The Quran consoles our Prophet, telling him not to kill himself with sorrow if all human being do not follow guidance (*Surah Al-Kahf*, 18:6). This shows how much love he had in his heart for his fellow human beings. Islamic economic systems are built around the effort to adopt the *Sunnah* of the Prophet in our lives, individually and collectively.

In accordance with the Quranic teaching of *Surah Al-Saff* "O believers, why do you say that which you do not do", (61:2) the main issue of Islamic economics is to bring the teaching of Islam into our lives and into the lives of our fellow Muslims. When we start practicing these teachings by leading simple life styles and caring for our fellow human beings, an Islamic economic system will come into existence. Muslim societies are distant from the practice of Islam (as witnessed by levels of *zakah* collection, for example), and so our priorities must be to restore the practice, which will lead to the desired theory. This means particularly that Muslim economists must strive to put Islamic teachings of Islam in their own lives and demonstrate Islamic economics by being living models. May Allah give us the capacity to understand and obey his commands and plant our feet firmly on the path of Guidance.

Is This a New Paradigm?

We hope to show that TNPE does present a new paradigm for conventional economics. As clarified in the previous section, this is just one small component of the paradigm for Islamic economics. TNPE picks out this particular component because it is readily understood by a secular audience. Many of the other components discussed in the previous section would not be so easily understood or shared with a non-Muslim audience. Even this small component has revolutionary potential, in that its adoption and widespread usage would change the type and nature of questions studied by economists. This is precisely what is meant by a paradigm shift. We discuss briefly how and why this is the case.

According to conventional views, scarcity lies at the heart of economics. There is not enough to fulfill all desires. Accordingly, decisions must be made about what is produced and how it is to be produced and distributed. Generally speaking, the capitalist system is governed by money. The desires of the wealthy will determine what is produced, cost minimization will determine how it is produced, and the goods produced will be distributed in proportion to wealth of the members of society. This set of affairs is pronounced to be good or efficient or optimal, and praises are sung in favor of the market system in conventional economics textbooks.

An entirely different picture emerges when needs are prioritized over wants, which is the basic message of TNPE. There is no scarcity at the level of needs: there are enough resources to meet the basic needs (including food, housing, shelter, health and education) of everyone in the world. Thus the central problem of economics becomes the question of why this does not happen? Briefly, this is because men have neglected the commandments of Allah who says: "*[Since they have become oblivious of God,] corruption has appeared on land and in the sea as an outcome of what men's hands have wrought.*" (Surah Al-Rum, 30:41).

In particular, excessive indulgence in fulfilling the wants and idle desires of the wealthy leads to the poor and hungry remaining unfed and unclothed. The market system is ideally geared to this unjust allocation of resources. It is unjust to prioritize the idle desires of the rich over and above pressing and urgent needs of the poor. This is precisely what the market system does, because it does not recognize the right of the needy in the wealth of the rich. The adoption of this paradigm leads us to think about how to rectify this failing of the market. Islamic economists must think about the existing mechanisms for transfer of wealth, resources, opportunities, capabilities etc. to the poor, oppressed and underprivileged segments of the World population as a whole. The Qur'an and *Sunnah* are full of exhortations towards charitable behavior, which could persuade people to give more. In addition, mechanisms for transfer of resources must be examined to improve their efficiency – typical NGO's spend less than 10% of the money designated for the poor and needy on the target population while 90% is spent on overhead expenses. If Muslim economists concentrated on issues related to justice, and fulfillment of the commands of Allah in the economic domain, they would quickly distinguish themselves from mainstream economists who focus their research on other areas.

In fact, there are many different approaches possible to the problem of poverty. TNPE itself does not take a stand on which approach to take. A heterodox coalition of a variety of different approaches may be useful to tackle this massive problem of injustice. It is worth noting that a radical approach advocated by Peter Singer, is very much in the spirit of Islam. Singer recommends that we all spend everything over and above our basic needs on helping the poor, which is exactly the recommendation of the Qur'an in *Surah Al-Baqarah* (2:219). He makes the argument on general moral grounds which would appeal to all human beings. Such an approach would be very much consonant with the spirit of TNPE.

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References to Qur'an

- 2:219 They ask thee how much they are to spend; Say: "What is beyond your needs." Thus doth Allah Make clear to you His Signs: In order that ye may consider.
- 3:103 And hold fast, all together, by the rope which Allah (stretches out for you), and be not divided among yourselves; and remember with gratitude Allah'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 Allah make His Signs clear to you: That ye may be guided.
- 3:185 Every human being is bound to taste death: but only on the Day of Resurrection will you be requited in full [for whatever you have done] - whereupon he that shall be drawn away from the fire and brought into paradise will indeed have gained a triumph: for the life of this world is nothing but an enjoyment of self-delusion.
- 3:196 LET IT NOT deceive thee that those who are bent on denying the truth seem to be able to do as they please on earth: 197 it is [but] a brief enjoyment, with hell thereafter as their goal - and how vile a resting-place! -
- 4:32 And in no wise covet those things in which Allah Hath bestowed His gifts More freely on some of you than on others: To men is allotted what they earn, and to women what they earn: But ask Allah of His bounty. For Allah hath full knowledge of all things.
- 7:31 O Children of Adam! wear your beautiful apparel at every time and place of prayer: eat and drink: But waste not by excess, for Allah loveth not the wasters.
- 17:26 And give his due to the near of kin, as well as to the needy and the wayfarer, but do not squander [thy substance] senselessly.
- 17:27 Behold, the squanderers are, indeed, of the ilk of the satans - inasmuch as Satan has indeed proved most ungrateful to his Sustainer.
- 18:6 Thou wouldst only, perchance, fret thyself to death, following after them, in grief, if they believe not in this Message.
- 21:92 VERILY, [O you who believe in Me,] this community of yours is one single community, since I am the Sustainer of you all:
- 28:73 For it is out of His grace that He has made for you the night and the day, so that you might rest therein as well as seek to obtain [what you need] of His bounty: and [He gave you all this] so that you might have cause to be grateful.
- 30:41 [Since they have become oblivious of God,] corruption has appeared on land and in the sea as an outcome of what men's hands have wrought.

45:23 Hast thou seen him who maketh his desire his god, and Allah sendeth him astray purposely, and sealeth up his hearing and his heart, and setteth on his sight a covering? Then who will lead him after Allah (hath condemned him)? Will ye not then heed?

57:20 KNOW [O men] that the life of this world is but a play and a passing delight, and a beautiful show, and [the cause of] your boastful vying with one another, and [of your] greed for more and more riches and children.

61:2 O ye who believe! Why say ye that which ye do not?

69:34 Nor did he urge the feeding of the poor.

70:24-25 In their wealth there is a known right for those who ask for it and those who have need for it.

79:40 But unto him who shall have stood in fear of his Sustainer's Presence, and held back his inner self from base desires,

79:41 paradise will truly be the goal!

References to Hadith

Al-Bukhari: Volume 4, Book 53, Number 373:

Narrated 'Amr bin Taghlib: Allah's Apostle gave (gifts) to some people to the exclusion of some others. The latter seemed to be displeased by that. The Prophet said, "I give to some people, lest they should deviate from True Faith or lose patience, while I refer other people to the goodness and contentment which Allah has put in their hearts, and 'Amr bin Taghlib is amongst them." 'Amr bin Taghlib said, "The statement of Allah's Apostle is dearer to me than red camels."

Narrated Al-Hasan: 'Amr bin Taghlib told us that Allah's Apostle got some property or some war prisoners and he distributed them in the above way (*i.e.* giving to some people to the exclusion of others).