

THE ECONOMICS OF BENEVOLENCE: AN ISLAMIC PARADIGM

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## DECLARATION

I hereby declare that this thesis is the result of my independent investigation, except where I have indicated my indebtedness to other sources

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I declare that the work submitted in this thesis has not been previously accepted in substance for any degree and is not being concurrently submitted in candidature for any degree at this or other university

Candidate

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DEDICATION

*To My Mother,  
My Departed Father,  
And To  
Mayy*

## TABLE OF CONTENTS

|  | Page No. |
|--|----------|
| Preface  | viii     |
| Abstract   | ix       |
| <u>Introduction</u>                                      | 1        |
| 1. Economics; A Philosophical Framework                  | 1        |
| 2. Economics And Social Values                           | 3        |
| 3. Economic Solipsism And The Norm Of Self Interest      | 5        |
| 4. Economics And Ethics: An Islamic Perspective          | 12       |
| 5. Thesis And Methodology                                | 14       |
| <br>   |          |
| <u>Ch.1 Altruism, Philanthropy And Economics</u>         | 21       |
| 1.1. Overview  | 21       |
| 1.2. Altruism  | 21       |
| 1.2.1. Altruism And Human Nature                         | 23       |
| 1.2.2. Altruism And Hedonism                             | 25       |
| 1.2.3. Altruism And Genetic Fitness                      | 32       |
| 1.2.4. Altruism And Emotions                             | 34       |
| 1.2.5. Genuine Altruism                                  | 40       |
| 1.3. Philanthropy  | 42       |
| 1.3.1. Philanthropy And The Free-Rider Problem           | 45       |
| 1.4. Altruism, Philanthropy, And Economic Theory         | 52       |
| 1.5. Concluding Remarks                                  | 59       |
| <br>   |          |
| <u>Ch.2 The Islamic Conception of Benevolence</u>        | 61       |
| 2.1. Overview  | 61       |
| 2.2. The Islamic Philosophy of Benevolence               | 62       |
| 2.2.1. Benevolence And Human Nature                      | 62       |
| 2.2.2. Benevolence And <i>tazkiyah</i>                   | 70       |
| 2.2.3. Benevolence And The Attributes Of God             | 72       |
| 2.2.4. The Islamic Theory Of Motivation                  | 74       |
| 2.3. The Basic Qur'anic Concepts of Benevolence          | 75       |
| 2.3.1. The Concept Of <i>ihsan</i>                       | 76       |
| 2.3.2. The Concept Of <i>birr</i>                        | 77       |
| 2.3.3. The Concept Of <i>ithar</i>                       | 79       |
| 2.3.4. The Concept Of <i>infaq</i>                       | 81       |
| 2.3.5. The Grades Of Benevolence                         | 82       |
| 2.4. Benevolence And The Philosophy Of Islamic Economics | 84       |
| 2.4.1. The Philosophical Principles Of Islamic Economics | 84       |
| 2.4.1.1. The Concept Of <i>tawhīd</i>                    | 84       |
| 2.4.1.2. The Epistemology of Islamic Economics           | 85       |

|              |  |     |
|--------------|--|-----|
| 2.4.1.3.     | The Principle Of <i>al'adl</i>   | 86  |
| 2.4.1.4.     | The Principle Of Trusteeship   | 88  |
| 2.4.2.       | An Introduction To The Homo Islamicus  | 91  |
| 2.5.         | Concluding Remarks   | 98  |
| <u>Ch.3.</u> | <u>The Islamic 'Benevolence market'</u>  | 99  |
| 3.1.         | Overview   | 99  |
| 3.2.         | The Unilateral Transfer Of Wealth  | 99  |
| 3.2.1.       | The Institution Of <i>zakāh</i>  | 100 |
| 3.2.2.       | The Institution Of <i>ṣadaqah</i>  | 109 |
| 3.2.3.       | The Institution Of <i>hibah</i>  | 114 |
| 3.2.4.       | The Institution Of <i>waqf</i>   | 123 |
| 3.3.         | The Economics Of Unilateral Transfers  | 129 |
| 3.4.         | The Economics Of The 'Fairness-Benevolence Relation                                    | 136 |
| 3.4.1.       | The Establishment Of <i>al'adl</i>   | 137 |
| 3.4.2.       | Fair Market Valuation  | 139 |
| 3.4.3.       | The Rejection Of <i>riba</i>   | 139 |
| 3.4.4.       | The Prohibition Of <i>maysir</i>   | 144 |
| 3.4.5.       | The Elimination Of bribery   | 144 |
| 3.4.6.       | The Elimination of Hoarding  | 145 |
| 3.4.7.       | Other Market Imperfections   | 147 |
| 3.5.         | Concluding Remarks   | 149 |
| <u>Ch.4.</u> | <u>Consumer And The Entrepreneurial Behaviour On The Assumption Of Benevolence</u>     | 151 |
| 4.1.         | Overview   | 151 |
| 4.2.         | Rationality And The Principle Of Maximization  | 151 |
| 4.3.         | Consumer Behaviour   | 159 |
| 4.3.1.       | The Neo-Classical Consumer Theory  | 159 |
| 4.3.2.       | The Homo Islamicus' Consumption Behaviour  | 165 |
| 4.3.2.1.     | <i>maṣlahah</i> Versus Utility   | 165 |
| 4.3.2.2.     | The Structure Of The Islamic Consumption   | 168 |
| 4.3.2.3.     | Consumer Choice And Income Allocation  | 171 |
| 4.4.         | entrepreneurial Behaviour  | 180 |
| 4.4.1.       | The Conventional Theory Of The Firm  | 180 |
| 4.4.2.       | The Behaviour Of The Homo Islamicus Entrepreneur                                       | 184 |
| 4.5.         | Concluding Remarks   | 191 |
| <u>Ch.5</u>  | <u>Capital-Labour And Employer-Employee Relations On The Assumption Of Benevolence</u> | 192 |
| 5.1          | Overview   | 192 |
| 5.2          | The Philosophical Principles Of Factor Compensation                                    | 192 |
| 5.2.1.       | Fixed Contracts  | 193 |
| 5.2.2.       | The Employer-Employee Relation Under Fixed Contracts                                   | 196 |
| 5.2.3.       | Share Contracts  | 200 |
| 5.3.         | Profit-Sharing: The Philosophical Foundations  | 202 |

|          |  |     |
|----------|--|-----|
| 5.3.1.   | <i>ribā</i> , <i>bay'</i> And Profit-Sharing | 202 |
| 5.3.2.   | The Forms Of Profit-Sharing                  | 207 |
| 5.3.2.1. | <i>mudārabah</i>                             | 207 |
| 5.3.2.2. | <i>shirkah</i>                               | 213 |
| 5.3.2.3. | A Digression on Sharecropping                | 216 |
| 5.4.     | Self-Management                              | 221 |
| 5.4.1.   | The Received Theories                        | 221 |
| 5.4.2.   | The Islamic Profit-Sharing Firms             | 229 |
| 5.4.2.1. | The <i>mudārabah</i> -Based Firm             | 229 |
| 5.4.2.2. | The <i>shirkah</i> -Based Firm               | 238 |
| 5.5.     | Concluding Remarks                           | 242 |
|          | <u>Conclusion</u>                            | 243 |
|          | <u>Bibliography</u>                          | 262 |

## PREFACE

In rendering the Qur'ānic Text into English I have kept close to the English translation by A.Y. Ali. The English translation of the *ahādīth*, which is not acknowledged in the bibliography, is my own. Amendments to the original translations, of both the Qur'ān and the *ahādīth*, are made where it is deemed necessary to ensure accuracy and/or to avoid possible obscurity. Herewith, if any mistranslation (or misconception) remains, both the responsibility and the blame are mine. The transliteration of Arabic words and names follows the illustrative-table below.

| Consonants |           |   |           |   |   | Short Vowels |      |
|------------|-----------|---|-----------|---|---|--------------|------|
| ا          | ء         | ر | r         | غ | g | َ            | a    |
| ب          | b         | ز | z         | ف | f | ِ            | i    |
| ت          | t         | س | s         | ق | q | ُ            | u    |
| ث          | th        | ش | <u>sh</u> | ك | k | Long Vowels  |      |
| ج          | j         | ص | ṣ         | ل | l | —            | ā    |
| ح          | h         | ض | ḍ         | م | m | —            | ī    |
| خ          | <u>kh</u> | ط | ṭ         | ن | n | —            | ū    |
| د          | d         | ظ | ẓ         | ه | h | Diphthongs   |      |
| ذ          | <u>dh</u> | ع | ʿ         | و | w | و َ          | aw   |
|            |           |   |           | ي | y | ي ِ          | ay   |
|            |           |   |           |   |   | Double       |      |
|            |           |   |           |   |   | و ُ          | uwa  |
|            |           |   |           |   |   | ي ِ          | iyya |
|            |           |   |           |   |   | ا َ          | anna |



## ABSTRACT

This study is an endeavour to propose an Islamic paradigm of the economics of benevolence. It attempts to elicit the behavioural significance of the ubiquity of benevolence as an essential, *jure divino*, motive force, and the relaxation of the utilitarian assumption of egoistic human motivation. Benevolence has been epitomized in the development of a *benevolent homo Islamicus* as an alternative to the conventional *solipsist homo economicus*. The behavioural norms underlying these assumptions constitute the nucleus for a new economic paradigm - an ethico-Islamic economics. The introduction puts the study in an ethico-economic context. The first chapter is a necessary investigation of the pros and cons of non-selfish behaviour in western thought. The second chapter is an exposition on the Islamic ethico-philosophic foundations of benevolence both as an innate trait of character and a divine imperative. The third chapter is an attempt to propose a 'benevolence market' as a unique third market in the Islamic Economy. The fourth chapter is an elucidation on the *homo Islamicus*' consumption and production behaviour under the all-pervasive norm of benevolence. The fifth chapter is an endeavour to infer the Islamic philosophy of factor compensation - the fair and congenial capital-labour and employer-employee relation under the assumption of benevolence. The conclusion recapitulates the main issues raised in the preceding chapters.

# INTRODUCTION

## 1. Economics; A Philosophical Framework

Man's intrinsic and instinctive relation with the phenomenon of economic activity can hardly be a matter of doubt; indeed, Carven (1984) claims "No man comes to economics as a traveller to an unknown land" (P.1). Man is subject to biological, cultural and psychological needs; the struggle for needs-satisfaction, which involves economic activities, is his most salient characteristic. The term *economic* is a compound of two meanings; *formal* and *substantive*. The substantive definition of economics denotes 'bearing reference to the process of satisfying material wants'. The formal, and frequent, definition of economics stems from the means-ends relationship; it deals with the allocation of scarce means among the competing ends. (Becker, 1976, P. 3-4; Polanyi, 1977, PP. 19-20). Since the allocation of scarce resources is universal,<sup>1</sup> the *scarcity-choice* definition of economics is inadequate. To avoid this flaw, Boulding (1970a) defines economics in terms of 'exchange' and the 'exchangeables' (P.17).<sup>2</sup>

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<sup>1</sup> The allocation of scarce resources is a property of the total social system, not confined to the economy. Besides 'exchange', resources could possibly be allocated through 'threat' or through the integrative system.

<sup>2</sup> Boulding's definition retained the *market-price* portrait of economics. It excludes the allocation (or reallocation) of resources through both *threat* and *benevolence*. Both systems are, so to speak, priceless. Unequivocally, the threat system is illegal and immoral under any respected paradigm. However, benevolence as an approbrious social norm should not be relegated from economic analysis just because it is incompatible with the market (price) system.

However, economics is perceived as the outcome of human activities; it is a human science - a social science. The place of 'social' in juxtaposition with 'science' seems contradictory; it generates two conceptions of the nature and the scope of economics: *normative economics* with its emphasis on human values and psycho-ethical consideration, and *positive economics* with its emphasis on propositions which are testable against objective evidence. "In the battle between mechanism and moralism generally mechanism has won hands down"(Boulding, 1970a,P.118). Economics is, or claimed to be, a *wertfrei*, positive science,<sup>3</sup> and, generally speaking, economists are liberalistic positivists "both by self-avowal and philosophical orientation"(Ward,1972,P.24).

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<sup>3</sup> Positive economics depends heavily on the philosophy of logical positivism. It studies problems which pertain to matters of 'facts', not 'values'. The distinction between facts and values is said to be necessary to distinguish between the scientific and unscientific, the quantitative and the qualitative methods of assessment. Positive economists hold that theories/hypotheses must be tested against empirical evidence. Two lines of thinking are worth mentioning. Positive economists define testability as verifiability (and thus empirical tests become empirical verifications). The 'Popperian' positive economists define testability as falsifiability (and thus empirical tests become empirical falsifications.(see Katouzian,1980,PP.53-55). Presumably, because it is more difficult to verify a statement than to show that it has not been falsified, positive economists have learned to visualize their own activities through the methodological eyeglasses provided by Karl Popper; that is, falsification and fallibility.

The modern, liberalistic economic paradigm emerges in the course of the philosophy of utilitarianism and the hedonistic psychology (Myrdal, 1976, P.85). The liberal psychology, according to Ward (1972, P.24-25), is based on three principles. Firstly, hedonism; which characterizes man in terms of drive-reduction or the satisfaction of the urgent demands of body and mind. Secondly, rationalism; a means-ends orientation; the use of deliberate choice among alternatives in seeking the satisfaction of drive-reduction. Thirdly, atomism; the assertion of the essential separateness and autonomy of each man from every other, with consequent stabilization of values by means of processes internal to the individual human organism. The central assumption of this liberalistic economics is that individuals are, *ipso facto*, 'rational' in maximizing their own interest. Presumably, these principles, together with the assertion that the scarcity of resources is the all-pervasive economic problem, are the foundation of a market society - a society perceived as "an agglomeration of human atoms"(Polanyi,1977,P.13). The market oriented psychology recognizes only material motives as real; all other 'ideal' motives are relegated to the "limbo of ineffectuality" (Polanyi,1977,P.15).

## 2. Economics And Social Values

The positive liberalistic economic paradigm dismisses ethical values from economic analysis on the grounds that a scientist, *qua* scientist, should concern himself with

what is rather than what ought to be. In the words of Knight (1922, PP. 475-6) "Economics deals with the form of conduct rather than its substance or content.----If one wishes to study the concrete content of motives and conduct he must turn from economic theory to history, social psychology and especially culture history". In contrast, many economists maintain that the question of 'values' cannot be underestimated and their relegation from economic inquiry is, to say the least, inappropriate. As Heilbroner (1973) puts it, "the objects observed by the social scientist all possess an attribute that is lacking in the object of the natural universe. This is the attribute of consciousness - of cognition, of "calculation, of volition"(P.133). Katouzian (1980) asserts that an *a priori* hypothesis is subjective by definition and any scientific theory would be impregnated by subjective elements for the simple reason that it is the product of the human mind.(P.139). Moreover, unlike the natural scientist, the social scientist is himself a part of the subject-matter of his investigation. Thus, in the words of Boulding "Nowhere is the positivistic fiction of a dispassionate, objective observer wholly removed from the field of his observation more absurd than in the social science" (1970b, P.4)

It is somewhat fallacious to claim that positive economists dismiss the question of value once and for all. Any economic paradigm is in some way based on a certain

value premise, and positive economics is no exception; the "Neglect of ethical values in positive, liberalistic economics has led to the substitution of such quasi-values as quantitative maximization, inefficiency, egalitarianism, anti-discrimination, what is normal, etc." (McKee, 1982, P. 7). The rapidly growing concern about *social economics* is a reformationist impulse - an impulse to return to the social values that have been nullified or obscured by the positivists' aberrations. As Boulding (1970b) has pointed out, "For all the attempts to dehumanize the science of man [economics], a moral science it remains. Its central problem is the problem of value: and value is but a step from virtue" (P. 12).

### 1.3. Economic Solipsism And The Norm Of Self-Interest

Economic solipsism<sup>4</sup> advocates the pursuit of self-interest as the conceptual core or the basic theorem in liberalistic, positive economics. The individualistic psychology underlying the assumption of self-interested behaviour is as old as the eighteenth century

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<sup>4</sup> The term solipsism (Latin *solus*, alone, plus *ipso*, self) would generally suggest any doctrine that attaches prime importance to the self. It is of three kinds; egoism (the notion of self-seeking); reality solipsism (the notion of the self as the supposed totality of existence); and epistemological solipsism (the notion of the self and its states as the only object of real knowledge). (cf. Rollins, 1967, P. 487). Economic solipsism thus belongs to egoism; the notion of self-interest as a universal behavioural norm.

'naturalization'<sup>5</sup> of the economy which separates the economic morality from the societal fabric as well as from religious teachings (Tawney, 1980, P. 195; Robertson, 1987, P. 1). This view has been epitomized by Adam Smith (1776/1961) who developed an atomistic view of social life resting upon the ubiquity and ever-decisive role of self-interest: "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest" (vol. 1. P. 18). With the idealization of this individualistic, utilitarian paradigm, the whole edifice of economic theory becomes thematized on what Jevons (1871/1970, P. 50) has labelled *the mechanics of utility and self interest*. [Emphasis supplied]. Whether economics is defined in terms of *wants-satisfaction* or *scarcity-induced choice*, it certainly supports Jevons' connotation. In this *amoral* economics, every goal that helps an individual "improving his lots" is deemed to be attainable pursuant to the general proposition that "everything has a price at which it may be obtained" (Mckenzie and Tullock, 1975, P. 21).

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<sup>5</sup> Naturalism usually signifies "the view that all objects, truths, and facts fall within the scope of scientific inquiry, that nothing is in principle insusceptible to scientific explanation" (Stout, 1987, P. 315). Thus the economy came to be regarded as operating according to its own laws, particularly those issuing from the relationship between supply and demand. Through 'naturalization' and the diagnosis of secularization (the decline in the significance of religion in modern society) the economy became fully thematized as a relatively autonomous realm of human life.

The norms of logical positivism and methodological individualism have created the 'fictitious' *economic man*; the most authentic representative of economic solipsism. Axiologically, individualism advocates a 'solipsist' *economic man* whose universal and fundamental element of personality is rational maximization in pursuit of self-interest. The most fatal limitation of the *economic man* is his presumed omniscience (Hutchison, 1984, PP.2-3). As perfect competition is an ineradicable scandal of economic theory [presumably due to its thoroughly unrealistic assumptions] (Simon, 1979, P.9), the *economic man's* rationality is bounded, not global as it is claimed to be. However, no serious alternative has yet been proposed as to the *economic man's* outmoded psychology and/or his mechanic character.

The norm of self-interest is generalized, so much so that 'maximization' becomes the dominant economic approach and thereby the 'fictitious' *economic man* becomes *homo sapiens*. Becker (1976, P.14) insists that human behaviour is not compartmentalized; all human behaviour is interpretable in terms of the pursuit of self interest maximization. In Becker's view, marriage, fertility, altruistic behaviour and even criminality are (economically) worth-while acts only if the 'expected



benefit' of each act outweighs its opportunity cost.<sup>6</sup> As Rohrlich (1977, P.334) has pointed out, many dimensions of life, in which utility may play a subordinate role, have been gauged by the utility calculus as if this were their *raison d'être*; and self-interest is being misrepresented as the lever that governs human conduct in respect of them.

Even the social virtues grounded in religious belief such as truth, trust, acceptance, restraint and obligation have not escaped the rigors of self-interest; they are conceived as central in the functioning of an individualistic, market economy. Religious belief, once adopted, performs a secular function; it operates conveniently as a private sanction, being seen to provide rewards and penalties directly in accordance with the individual's performance of his social obligations. As such it is an effective inducement for collective action - an action necessary for a market economy. The liberalists maintain that one might not go to heaven by loving one's neighbour as oneself, yet, one will get more worldly goods out of the market provided that all neighbours do

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<sup>6</sup> Thus killing a person could be economically viable and feasible if the opportunity cost (the utility derived from spending the same time doing something else) is less than the 'expected benefit' derived therefrom. However, once ethics is invited onto the scene, the cost of doing such an act would be high enough to be compensated even by the Benthamite calculus.

likewise. More exactly, the earthly pay off does not require the neighbourly love to exist, but only action as if it exists.<sup>7</sup> Likewise, there is no need for genuine, positive, altruistic acts. In the words of Hirsch (1978), "provided everyone behaves as if he were really altruistic, no one need be: everyone's interest will be better served than if everyone behaves unaltruistically" (139)<sup>8</sup>. The non-Marxist social function of religion is that religious obligation "helped to reconcile the conflict between private and social needs at the individual level and did it by internalizing individual norms of behaviour. It thereby provided the necessary social binding for an individualistic non-altruistic market behaviour" (Hirsch,

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<sup>7</sup> The liberalists' perception of the 'modern' world is but notional and amoral - "a world in which the economizing of Love is, in certain circumstances, morally permissible, instead of being morally reprehensible" (Kristol, 1981, P.204). The economization of Love has been identified by Robertson (1956, P.154) who in response to the query; 'What do economists economize?', ambiguously replied: 'Love'.

<sup>8</sup> This view is derived from Sen's (1973) solution to the prisoners' dilemma - when a contractual solution is not possible. Sen's exposition runs as follows: if each prisoner behaves as if he is maximizing the welfare of the other, then provided that non-confession is a superior strategy, neither will confess; this will lead to a better situation for each in terms of his own welfare as well. (P.252).

1978,P.142).<sup>9</sup> Collective and cooperative actions are impractical and ineffective unless they are internally motivated. Without the internalization of social values and obligations, collective interest will be neglected.

Economic solipsism is by no means the only form of human motivation; other-directed, nonselfish behaviour has long been recognized by philosophers, sociologists, anthropologists, etc. Though altruism is recognized as a social norm, yet it is perceived as a philosophical principle, not a behavioural nor an operational concept. Conventional liberalistic economists are enamoured by 'exchange' and therefore usually think only in terms of 'price'. As altruistic behaviour is priceless, economists are forced to reinterpret it as a form of exchange; a disguised self-serving behaviour. However, the same tautology can be used to show that the (seemingly) self-serving behaviour is an altruistic one indeed. No economist has totally ignored altruism as a possible motive-force. Nor has it been successfully incorporated in

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<sup>9</sup> For the Marxist religion is an epiphenomenon, it is of a peripheral significance. Marx's famous statement "religion is the *opium* of the people" is to be understood in the following context, "an ideological cover, either for the defense of the social *status quo* or for protests against it" (Bellah,1968,P.408). As to its function, the Marxists maintain that religion is a matter of social need; it will become functionless and wither away with the change of social needs through the transformation of the structure of the society.(cf.MacIntyre,1971,P.84-85).

any form of basic economic theory. Economic theory remains the way it was; an account of egoism in action, as Stuart(1962) puts it, with altruism playing the part of more or less a stubborn or a disturbing intruder. Ostensibly, the connotation of altruism -i.e. the complete or perfect regard for others - is in itself an obstacle to its incorporation in any form of economic theory. "What disturbs one about this concept is precisely its pairing as an opposite to self-interest. Thus it is the far end on a range that goes from totally self-regarding acts and attitudes to predominantly other-regarding acts and attitudes"(Rohrlich,1977,PP.341-2). Even philanthropy, or the active effort to further others' welfare, though a behavioural concept, has been conceived, due to the notion of self-interest, as essentially entailing ulterior motives. Furthermore, philanthropy, as it is perceived, is neither a universal nor an effective social norm inasmuch as it is beset with the free -rider<sup>10</sup> problem - a problem whose very presence is pertaining to self-interest.

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<sup>10</sup> This problem arises due to the presumed incompatibility between the individual and the collective interest, that is, the principle of rational egoism and the principle of collective optimization. The free-rider problem is the basic paradox in public finance. For instance, in the case of the non-rival public goods, each individual, given his economic solipsism, will attempt to secure the benefit from the public good without participating fully in the sharing of its cost.

#### 1.4. Economics And Ethics: An Islamic Perspective

As economics is concerned with the intricate and complex actions and motives of man, its substantial association with ethics can not be passed over *sotto voce*, but placed at the heart of economic inquiry. In the Islamic perspective, man - the centrepiece of economic inquiry - is characterized by an ontological commitment to material and spiritual satisfaction. (cf. Qur'ān, 15: 28-9). The creation of man is purposive; *ibādah* (the worship of God) and hence the longing for spirituality becomes man's *raison d'être*. Within this general framework of *ibādah* lies the divine *taklīf* (obligation) that man must develop and husband the earth. Man's economic activities become a form of *ibādah*; an essential part of his or her divine *taklīf*; thus man's mundane pursuit becomes spiritualized. It is this integrative and holistic view of Islam that rejects outright any schism between ethics and economics.

The unification of man's spiritual concern with his or her mundane pursuit is to be understood within the context of *tawḥīd* (unity of God). *Tawḥīd* connotes that man is in cosmic 'movement' towards God and accountable for his or

her deeds in the *ākhirah* (the Hereafter) .(Qur'ān,84:6). thus man's motives and actions must be guided by the expected approval of God. In the words of Al-Fārūqī (1982, P.193) "The concept of *tawhīd* which implies that God is the sole and ultimate value, implies that the purpose of man is the actualization of values in space and time". The psycho-ethical orientation of the *tawhīdic* paradigm imbues the mind of the Muslim with the notion of *ḥalāl* (material and spiritual felicity) as the *summum bonum* of economic activities. Albeit, man is ontologically committed to material and spiritual concerns, he or she is, axiologically, aware of the supremacy of his spiritual concern over mundane pursuit.

Axiomatically, the Islamic ethical imperatives epitomize the socio-economic values of the society, and through their induced psychological orientation determine the preference structure of the individuals. Thus it could be argued that the core of Islamic Economics consists of the over-riding concern of ethical considerations. As Naqvi(1981b, P.18) puts it "What Islam asserts is that ethics, independent of the economic conditions prevailing at any time or in any society, must guide human behaviour for the attainment of social bliss as well as spiritual salvation". One hesitates not to negate such claims as "There can be even less doubt that our values are influenced by knowledge

about facts"(Gordon,1977,P.544). Facts and values are not of the same ontological status. Those who assign hard ontological, and axiological status to 'facts' are assuming a positivist paradigm whereby 'values' become trivial unless they are fact-induced. In the Islamic perspective, unless facts are epistemologically divine, they enjoy no axiological status. It is true that knowledge about facts (such as living in extreme affluence or poverty) may turn the individual away from God by inducing him or her to adopt un-Islamic values.(cf. Qur'ān, 89:15-6; 96:6-7). However, this *facts-values* effect is Islamically undesirable; it connotes that man fails to realize the probationary nature of being in a certain economic condition. Thus its ontological status should enjoy no axiological significance.

#### 1.5. Thesis And Methodology

The present study proposes that economic solipsism is, categorically, antithetical to the Islamic ethical value system whose psycho-ethical orientation imbues the mind of the *homo Islamicus* (the Muslim economic agent) with benevolence as an all-pervasive behavioural norm. Islamic benevolence is conceived as an attitude of mind wherefrom springs a certain pattern of behaviour where one strives to further others' welfare besides his own without any ulterior motive(s) or external compulsion. It is neither

*en passant* nor merely approbrious; rather it is socio-spiritually essential, and *jure divino* imperative. The unilateral transfer of wealth from the haves to the have-nots is essential in uplifting the least privileged in the society. However, the norm of benevolence is not confined to unilateral transfers, but also permeates the whole edifice of economic activities, through its interaction with *al'adl* (justice/equilibrium). In the absence of *al'adl* benevolence is likely to undermine benevolence.<sup>11</sup> In this ethical environment, the *homo Islamicus's* economic behaviour would be *ab intra* and *ab extra* consistent with the norm of *al'adl* and benevolence. Ultimately, the assumption of egoistic human motivation would be, Islamically, vacuous. Unlike the Benthamite cost-benefit calculus, Muslim economists have to premise their views of a generalizable individual action on its conformity with the *ḥadīth* "He has no faith who wishes not for his brother what he wishes for himself"(Muslim, vol.1,P.31). The emerging new economic paradigm necessarily epitomizes the ubiquity of benevolent human motivation.

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<sup>11</sup> Note that there is every need for *al'adl* as a controlling device which maintain for both the subject and the object their due rights and obligations. In accordance with *al'adl*, the subject shall avoid self-abnegation and self-absorption, and shall not dishonor the object. Likewise, the object shall not decline the subject's benevolent impulses nor unnecessarily depend on others' benevolence. Without *al'adl* it will be practically impossible to determine where benevolence ends and coercion (or threat) begins.



The methodology of this study is basically deductive, however, induction is indispensable whenever the incorporation of valid historical precedents is deemed to be necessary. The deduction is not from arbitrary or hypothetical propositions; it is a deduction from the Islamic ethical value system as expounded by the Qur'an and the *sunnah* of the prophet.<sup>12</sup> Since man is neither self-sufficient (Qur'an, 56:57-74) nor omniscient (Qur'an, 17:85), he or she needs *hidayah* (guidance) at both material and spiritual levels. However, the *hidayah* received by experiential knowledge is reductionist, and man's need for divine *hidayah* becomes essential. Unlike the experiential knowledge, "the holistic revelational knowledge provides holistic impulse that results into holistic response and the *hidayah* [as such in the text] thus obtained is also holistic" (Kirmani, 1984, P.13). As a matter of *iman* (conviction), the divine knowledge is regarded as substantially true. Given the fact that "the explanation of mental process is itself a mental process,

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<sup>12</sup> The Qur'an is the word of God revealed unto the Prophet Muhammad, as such it is, ontologically, divine. The *sunnah* refers to the norms set by the prophet or deduced from his behaviour or authentic *ahadith*. Defending the prophet, the Qur'an states: "Nor does he speak of (his own) desire. It is naught save an inspiration that is inspired (53:3-4). Thus the *sunnah* of the prophet is virtually divine. Though the Qur'an and *sunnah* are divine, their understanding is completely human. For the Muslim, the Qur'an and the *sunnah* represent the source of normativeness and *hidayah* (both wordly and spiritual guidance). Being assigned a hard axiological and epistemological status, the Qur'an and the *sunnah* are inseparable from the life of the muslim in the sense that they determine his or her world-view.

so that any exhaustive explanation would have to explain both itself and the explainer"(Knight,1956,P.178n18), human perception (mental process) cannot verify and/or falsify the divine imperatives. Human reasoning is fallible; however, by no means does this fallibility connote that human reasoning is epistemologically insignificant. "In so far as reason is pulled by desire or self interest it is antithetical to revelation"(Siddiqui, 1983,P.11). Methodologically, human reasoning, free from desires and motives, does not contradict the Islamic ethical system. Thus, Islamic Economics can, without apology, borrow valid ideas from conventional economic theory provided they are consistent with the Islamic ethical system.

Thematically, apart from the introduction and the conclusion, the study is subdivided into five chapters. In the first chapter, it is argued that non-selfish behaviour is a recognized, though scarce, social norm in western thought. Yet it is construed as a form of disguised self-interest. This is why egoistic human motivation is the fundamental premise of conventional economic theory. The limited, partial attempts to incorporate altruism in a form of economic theory are naive, inconclusive and in one form or another retain the ubiquity of self-interest. The

incorporation of the norm of altruism, without seriously relaxing self-interest as a value premise, would result in such eccentric behaviour as ruthlessness in the marketplace and altruism in the ballot box.

Chapter two is an exposition on the Islamic conception of benevolence and its philosophical significance for the Islamic Economics. Since man is longing for spirituality, the approval of God is the kernel of the Islamic theory of motivation. Benevolence is and should be free of all forms of ulterior motives. Only through the inculcation of this conception should benevolence be an all-pervasive norm. Being sacrosanct and, *jure divino*, imperative, benevolence is placed at the heart of economic inquiry. The *homo economicus* is thus turned into a *homo Islamicus* whose mind is imbued with a benevolent human motivation. This departure from conventional theory forms the nucleus of a new economic paradigm - the benevolence economics, or the Islamic Economics.

In chapter three, the all-encompassing concept of benevolence has been used in the proposition of the 'benevolence market' as a unique 'third' market in the Islamic Economy. Unlike the western concept of the 'charity market', the 'benevolence market' functions at two interacting levels; the unilateral transfer of wealth and establishment of *al'adl* (fairness/justice). The

unilateral transfers is meant to uplift the needy (materialistically and spiritually) though it also helps the spiritual ascent of the givers. The norm of *al'adl* ensures the active role of benevolence in ordinary market exchange.

Chapter four is an exposition on the *homo Islamicus*' consumption and production behaviour on the assumption of benevolence. Unlike the *homo economicus*, the *homo Islamicus* is facing an ethical allowability constraint in addition to the traditional feasibility constraint. The concept of rationality as the maximization in pursuit of self interest becomes empty in the Islamic ethical value system where rationality is determined by its conformity with *ḥalāl* (material and spiritual felicity). The *ḥalāl*-determined rationality requires the introduction of the concept of *maṣlaḥah* (an Islamic alternative to the concept of utility) as a basis for consumer theory; and *satisficing*, instead of maximizing, as a basis for the theory of the firm. The norm of benevolence is effective in determining the preference structure of the *homo Islamicus*; both the commodity space and the production menu appeared to be 'contracted' and bounded.

Chapter five is an assertion that the establishment of the norms of *al'adl* and benevolence remove all possible impediments to fair factor compensation, thus contributing to the establishment of a congenial 'capital-labour' and

'employer-employee' relation. It is shown that *ribā* (the advance fixation of capital reward) is antithetical to the Islamic ethical value system, and profit-sharing is the 'first best' alternative thereto. Profit-sharing and its forms (*mudārabah* and *shirkah*) are scrutinized and used to develop abstracts models of self-managed firms. These firms are not only feasible and viable, but also free from many theoretical problems facing the non-Islamic self-managed firm, such as the 'Ward-Vanek' self extinction forces and the 'Furubotn-Pejovch' horizon problem.

# CHAPTER ONE

## ALTRUISM, PHILANTHROPY AND ECONOMICS

### 1.1 Overview

Economic activities as social phenomena are inseparable from the individual's norms, ethics and behaviour. Of these norms and behaviour, self interest attracts the most notice of economists to the extent that it represents the fundamental premise of modern economic theory. Non-selfish behaviour has been recognized throughout history, yet it has an insignificant role in economics. The present chapter endeavours to investigate the key concepts in nonselfishness viz, altruism and philanthropy and their underlying significance for modern economics. The chapter is subdivided into four sections. Section two explores the nature of, and the motives behind, altruism. Section three analyses the concept of philanthropy and its underlying motives. Section four discusses altruism and philanthropy vis à vis modern economic theory.

### 1.2. Altruism

Human beings instinctively exert themselves to safeguard and promote their own welfare; nonetheless, they often involve themselves with others' pain and appear to further others' welfare. Whether these impulses are

natural or not depends on how the nature of human beings is perceived. Are human beings by nature cooperative or is human nature intrinsically competitive? Why do people often act so ruthlessly and, at one and the same time, so sympathetically? Elucidation on such human behaviour, what Cohen (1972) termed the *altruistic paradox*, and the questions posed thereby are central issues in moral philosophy. The genesis and exposition of these issues is the product of seventeenth and eighteenth century thought (MacIntyre, 1967); it was only after Hobbes (1651) that the conflict between self-interested (egoistic) and other-directed (altruistic) behaviour appears as a philosophically disputable issue.

The term altruism is of recent coinage, though the behavioural phenomena to which the term refers have been examined since time immemorial (Masters, 1978; Rushton and Sorrentino, 1981). It is generally acknowledged that the term altruism originates from the French sociologist Auguste Comte<sup>1</sup> (1798-1857), who used it to mean unselfish regard for others (Wispé, 1978). Since Comte, other behavioural scientists have been actively studying altruism in both conscious as well as unconscious beings. The Oxford English Dictionary defines altruism as *devotion to the welfare of others, regard for others as a principle*

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<sup>1</sup> How Comte came to adopt the term altruism from the Italian word for other, *altrui*, rather than from the French *autrui* or the Latin *alter* remains a puzzle (Wispé, 1978).

of action, where love and duty are the only determinants of altruism. However, the definition of altruism has posed difficult problems. Behavioural researchers have generally avoided the definitional issue which involves establishing the intention behind altruism, by employing operational definitions (Krebs, 1970). Altruism is usually contrasted with egoism<sup>2</sup>, the disposition to further one's own welfare. The contrast is between self-regarding and other-regarding (benevolent and disinterested) tendencies. In addition to the definitional problems, the perception of altruism (or egoism) is beset with motivational problems. An attempt will be made hereafter to elucidate these issues vis à vis altruistic impulses.

### 1.2.1. Altruism and Human Nature

Since antiquity attention has centered on altruism in relation to two basic questions viz, what human nature is, and how ought people to live their lives? The former investigates whether altruism is inherent and deep-rooted in human nature, while the latter maintains that altruism is morally virtuous. In regard to what human nature is, three basic views are worth mentioning (Cohen, 1972; Rushton and Sorrentino, 1981). Firstly, human beings are naturally 'evil' (individualistic and selfish), and socialization is

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<sup>2</sup> Egoism should not be confused with the moral quality of egotism, the latter being confined to the vice of thinking too much of one's own self interest. (Lillie, 1966). However, an egoistic philosophy might lead a person to practical egotism.



required to make them social<sup>3</sup>. Secondly, human nature is essentially 'good' (social, cooperative and altruistic)<sup>4</sup>. Thirdly, human nature is morally 'neutral', and man's evil is the result of evil surroundings<sup>5</sup>. However, none of these views can be generalized to all human beings irrespective of their culture and environment. To claim that human beings are acquainted with this or that innate quality, it is necessary to show, using Cohen's (1972) words, that they manifest it despite the context in which they develop and live.

As to how ought human beings to live their lives, altruism (the regard for others) is universally hailed as a virtue (Timur, 1956). The most basic tenet of all major religions in the world is that "unselfishness is the primary virtue and that selfishness lies at the root of the world's ills" (Bohannon, 1463, P.336). "Do to others as you would have them to do to you" (Luke 6:31), is a famous Christian principle. However, the Christian teachings on altruism and love demands a high standard of humanity and therefore many doubts arise regarding its

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<sup>3</sup> This pessimistic approach is derived from the Sophists (5th-4th century B.C.) to Machiavelli (1469-1527) to Hobbes (1588-1679) to Freud (1856-1939).

<sup>4</sup> An optimistic approach is derived from the Socrates (5th century B.C.) to Aristotle (384-322 B.C.) to Rousseau (1712-1778).

<sup>5</sup> The upholders of this view runs in line from Epicurus (342-270 B.C.) to Plato (427-374 B.C.), Locke (1632-1704) and Marx (1818-1883).

viability. The importance of altruism is stressed throughout human culture. Rushton and Sorrentino (1981) mention two exceptions to the universality of altruism as a virtue : one is Machiavelli (1532) who suggests that to "maintain the state, a prince is often obliged to act against charity, humanity and religion", and Ayn Rand (1964) who proposes that "ethical altruism is extremely bad in its consequences for our society". Kekes (1987) though not directly opposing altruism and benevolence, argues that the moral claims for them should not be inflated. By and large, researchers into human conditions are divided as to whether humans are altruistic, but they are less so in regard to the principle that 'humans ought to behave altruistically'. Whether altruism is natural or not, it manifests itself in many real-world examples. Neither are all these acts virtue-motivated, nor do all virtuous persons always behave altruistically. In other words, altruism could be practised for reasons other than moral virtue.

### 1.2.2. Altruism and Hedonism

Many attempts have been made to establish a hedonistic explanation of altruism. Hedonism is the doctrine which maintains that the main object and end of life is pleasure (Rickaby.S.J., 1929; Lillie, 1966). Generally speaking, hedonism denotes that people are indifferent to the welfare of others and struggle only to promote their own pleasure and minimize their own pain

(Nowell-Smith, 1969). As MacIntyre (1967) has argued, since pain and pleasure are the names of sensations, then the only pleasure whose prospect attracts the individual is his pleasure, and the only pain the prospect of which repels him is his pain. Being the mere pursuit in all things of pleasurable feelings (feelings being always particular and limited to the self), hedonism exhibits selfishness; as such it contravenes the norm of altruism. However, if hedonism is regarded as a theory which bases morality upon pleasure (Rickaby, S. 1929), then both egoism and altruism are possible, but the pleasure-motivated hedonistic altruism could hardly be regarded as genuine altruism. If hedonism is maintained, then genuine altruism is a logical impossibility (Nowell-Smith, 1969). Hedonism is of two forms; psychological and ethical.

Psychological hedonism suggests that men always do those actions which have pleasant consequences and have such nature that they can desire nothing but pleasantness (Lillie, 1966; Brandt, 1979). Two forms of psychological hedonism are worth noting (Milo, 1973); the first maintains that selfishness is a universal character trait, and people usually make the pursuit of their own interest their primary and over-riding concern, altruism is not denied, though the prevalence of selfishness over altruism is highly stressed; the second is the view that egoism is a character trait that consists of an exclusive concern with one's own interest and that one promotes the interest

of others only so far as this is considered conducive to one's own interest and that one is willing to sacrifice the interests of others when this is considered instrumental to promoting or safeguarding one's own interest. Hence altruism is either denied outright or regarded as an epiphenomenon<sup>6</sup>, a disguised self interest. In this manner, as will be discussed later in this section, psychological hedonism has been proposed as a reinforcement of altruistic behaviour.

Ethical hedonism attempts to explain how men ought to act and what men ought to desire (Lillie, 1966). It maintains that a rational man would want, for himself, one and only one kind of thing : pleasant experiences for himself (Brandt, 1979). There are two forms of ethical hedonism; egoistic and universalistic. Ethical egoism holds that each man ought to seek his own maximum pleasure (Lillie, 1966). Ethical egoists ought to act in such a way as to best promote their own interest while subordinating the demands made upon their conduct by the interests of others to this primary concern (Milo, 1973). However, the common sense of morality shows that people see directly the rightness of seeking the pleasure of other people, but no one in his senses imagines that it is his moral duty to seek his own pleasure.

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<sup>6</sup> The term epiphenomenon means a by-product of a basic process which exerts no appreciable influence on the subsequent development of the process.

Universalistic hedonism, more commonly utilitarian hedonism, is a theory which makes utility the criterion and end of conduct, while utility is to be measured in terms of pleasure (Hyslop, 1895). Utilitarian hedonism intends to avoid the distinction between egoism and altruism and to apprehend the proper aspects of both. Emphasis here is not on the good of the individual at the expense of others, nor is it on the good of others at the expense of the individual, but "each man ought to seek the maximum pleasure of all human beings, or even of all beings capable of experiencing pleasantness and unpleasantness" (Lillie, 1966; P.162). Hence the utilitarian slogan 'the greatest happiness of the greatest number'.

However, utilitarian hedonism is not in conformity with altruism; if a man feeds the hungry that he may have the satisfaction of seeing them eat, then it is himself that he finally seeks to gratify. Hence the hedonist acts for his own pleasure even in his benevolence (Rickaby, S.J., 1929). By attempting to unite altruism and egoism, the utilitarians are no more than attempting the mixture of vinegar and oil. How is the egoistic theory of human nature reconciled with a moral theory of benevolent utilitarianism? If universal benevolence is a fundamental moral rule, then, given the egoistic human nature, what is it that motivates a person to obey that fundamental moral rule? As to these questions, the utilitarians' position

is as follows (MacIntyre, 1987) : theological egoistic utilitarians argue that the happiness of those who obey the moral rule will be secured in the long-term (eternal life), that is, a long-term self-interest. Secular utilitarians, generally speaking, presuppose that the individual's pleasure and the pursuit of the greatest happiness of the greatest number will coincide, or at least will not conflict. In a skillful but inconclusive argument, Smart(1967) suggests that utilitarianism evolves a generalized benevolence which is not the same as altruism, the former is self regarding and other-regarding too. Generalized benevolence and self love or self interest are not in conflict. Self love is either compatible with generalized benevolence or not. If the former, then self love does not contradict universalistic utilitarianism, if the latter, then self love will be largely cancelled out. However, Smart's hypothesis is no more than a general assertion; it neither justifies the proposed compatibility of generalized benevolence with self love, nor does he explain how self love is cancelled out.

By and large, hedonism is in error, therefore it is an unconvincing explanation of altruism. The mere argument that, morally speaking, hedonism determines whether a human conduct is right or wrong, deprives humans of their sense of duty and religion, and seems to regard them as lower pleasure-seeking animals. Human beings desire a host of things of which utility or pleasant

feeling is only one. Moreover, people desire not the pleasant feeling but the object arousing it, that is to say, people do not desire things because they give them pleasure, on the contrary, they give them pleasure because they desire them. As such, the well-being of others may be what one desires most and what gives him most pleasure, and this is just what Lillie (1966) means by calling the man unselfish. However, one needs only say that Lillie's case is no more than disguised self interest.

Hedonism denotes an egoistic human motivation. Could it be argued, therefore, that behind any altruistic act there is a strong self interested impulse ? An affirmative version of this thesis is offered by Hobbes (1651), whose argument is that undisguised, unmodified self seeking leads to total war, and that the fear of such war leads to the adoption of a regard for others from purely self interested motives. This egoistic assumption lays special emphasis on the laws of reinforcement or the concept of reward as the only or the major human motivation. Rewards are often expressed in the form of explicit (direct reciprocity) or implicit (anticipated return / enlightened self interest) return. However, rewards are not only of an identifiable material return; they can be of psychic form too, such as fear (Hobbes 1651), reputation and goodwill (Collard, 1978) and self satisfaction or self fulfilment (Iverach, 1908; Grice, 1967). The mere anticipation of any reward contradicts altruism - as quid without a pro quo.

Is it true that self interest is the only human motivation? Or, are self interest and altruism reconcilable? Such reconciliation has been attempted by some moralists like Bishop Butler, J.S. Mill, Sidgwick and David Hume, who were essentially agreed that there are in human nature disinterested benevolence and social sympathies as surely genuine as self interest (Stuart, 1962). The moralists endeavour to reconcile altruism and self interest as concrete virtues, however the motives behind altruism are, nonetheless, egoistic. Iverach (1908) agrees that self regard and benevolence, as virtues, are concrete facts, but they are realized only when the individual finds himself rooted in a society. To him each individual strives to come nearer to the ideal self which is dawning upon his intelligence. The making of this self is only possible by means of social efforts which necessitate living in a society. Hence the individual's self interest is inseparable from the interest of the society. However, Iverach's thesis is a clear-cut representation of disguised self interest. Grice (1967) insists that the altruists are motivated by their own fulfilment. He further adds that this fulfilment is not in terms of their interest assessed independently of the interest of others; it consists in acting in the interest of others. Thus, if self-fulfilment is desired most and is achieved only through acting altruistically towards others, then altruism is an epiphenomenon.



Hedonism in general and self interest in particular cannot account for genuine altruism. Many like MacIntyre (1967) insist that there is no single spring of action or single set of aims and goals entitled self interest which are the same in every man. A self-interest act is that which disregards the legitimate claims of others. As such, the notion of self interest has application not to human behaviour in general but to competitive behaviour. However, many real-world experiences suggest that genuine altruism, not urged on by ulterior motive(s), exists. One could finally ask whether suffering for others' happiness, which may put one's life in jeopardy, is hedonistically justifiable.

### 1.2.3 Altruism and Genetic Fitness

What is it that accounts for the survival of altruism? This question has been tackled by geneticists and biologists whose work has been termed 'socio-biology' by Wilson (1975). They use the hypothesis of self gene and define altruism as,

"[The] behaviour that enhances the personal genetic fitness of others at the cost of genetic fitness on the part of the altruist; the altruist either reduces its own survival capacity, or curtails its own reproduction or both"(Wilson,1978;P.11)

But what is it that causes the persistence of the seemingly disadvantageous genes ? In other words, what explains the survival of altruism? Evolutionary

biologists make use of Darwin's (1859) concept of group selection. Herbert Spencer (1972) claims that the need for altruism decreases with the advance of the society. He adopted the 'survival of the fittest' (the anti-thesis of altruism); but he nonetheless recognized altruism within the realm of the family. This is, however, a real contradiction; the survival of the fittest, if admitted, would negate altruism even within the family. Moreover, using the natural or group selection, altruism will be directed towards the closest and the most favoured among the family. This view is at variance with the observed altruistic impulses towards strangers. Trivers (1971) proposes that such altruism will be paid back in future and thus contributes to the propagation of one's own genes. The acceptance of Trivers' thesis as a good case for the biological basis of altruism (Hoffman, 1981) depends on whether reciprocity is accepted as a form of altruism<sup>7</sup>. Wilson (1978) proposes a different thesis: the beneficiaries are assumed to carry some of the altruistic genes, and the benefit they receive permits them to multiply those genes to a more than compensating degree. Hence, the genes will increase in the population as a

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<sup>7</sup> The norms of reciprocity sustain mutual beneficial exchange. These norms maintain that the givers usually give in expectation of a reward. Sometimes it is but obligatory for the recipients to give in return either on the spot or in a future time. (cf Malinowski, 1932; Mauss, 1954; Becker, 1956; and Goudner, 1960). As such, to regard the norms of reciprocity as altruism is either a result of operational definitions or a matter of methodological inconsistency.

whole, and altruistic behaviour will spread. Becker (1976) suggests that kin interaction, and not the common genes, explains the survival of altruism, so that altruistic acts between unrelated neighbours or co-workers are possible.

The hypothesis of self gene is not only too absurd to explain human action, but it also falsifies the universality of altruism. It fails to explain altruistic acts towards strangers and unconscious beings. Humans are distinguished from animals by their individualistic judgements (conscience) and their external non-individualistic judgements (imposed morals). Human beings sometimes give a stranger preference over their own relatives. Failure to realize these human faculties and hence failure to distinguish between conscious (humans) and unconscious (animals) beings leads to catastrophic conclusions regarding human behaviour.

#### 1.2.4. Altruism and Emotions

The possibility of explaining altruism through emotional feelings has been explored. The primary psychological function of emotions is that they intensify attention and magnify cognition and generate a certain behaviour (Rosenhan, 1978). Through the violation of the laws of reinforcement, emotion could promote altruism. The ordinary laws of reinforcement seek to maximize rewards to the self, and thus technically rule out altruism. When

experiencing some emotional affects, people shift from maximization of their own rewards and instead find that their attention, cognition and behaviour are other-directed, often without regard for the quid pro quo (Rosenhan *et al*, 1981). The psycho-egoistic assumption of human motivation (that is, man is motivated only by the laws of reinforcement) is at variance with observed altruistic acts. The psycho-emotional feeling (and sometimes human norms) have been postulated to solve the above dilemma as well as to explain altruism. Two categories of emotion have been historically established; positive and negative affects.

Positive affects are the positive mood states such as success, competence and good luck. Rosenhan *et al* (1981) review many studies' findings and conclude that "evidence is accumulating that cognitive processes mediate the relationship between positive affects and pro-social behaviour" (P.237). These studies attempt to demonstrate that good moods and bad moods lead to increases or decreases in altruism. Indeed, the state of mood affects human behaviour, but actions motivated thereby should be understood only in that context. A good act springing from a good mood is not an altruistic one unless altruism is defined operationally and thus becomes a loose concept.

The amplification of sympathetic feeling is said to be the basis of altruism. But what is it that is called sympathy? To Aronfreed (1970), an act is sympathetic to

the extent that it is elicited through the actor's empathic or vicarious effective response to the actual or anticipated distress of another person. Here the empathic experience is needed as a prerequisite of sympathy. Wispe (1972) defines sympathy as "the capacity to apprehend the pain, suffering or signs of negative emotions in man or animals and to respond to these with negative feelings" (P.441). Hence Wispe limits the term sympathy to feelings and emotions rather than to actions. A completely different perception of sympathy is offered by Baston and Coke (1981). To them sympathy could promote altruism but only as a reaction to others' pain. Behavioural scientists are not unanimous as to what sympathy is, but they are even less so in limiting the term to the psychological feelings towards others' pain or distress.

How does sympathy promote altruism? The sympathiser strives to share the feeling of the sympathised while the latter tries to flatten his emotion to harmonize with those of the former. This is the view of Adam Smith (1759) who therefrom derives two sets of virtue; benevolence and self-command. Adam Smith is understood (Wispe, 1972) to have argued that men could live without sympathy and benevolence but not without justice. Ward (1883/1926) used the concept of sympathy in a manner not dissimilar from Smith's; sympathy is "the painful sensation which results to high nervous organizations at the sight of suffering in others"(vol.1.P.395). He regards sympathy as the basis of

man's moral nature - of honesty, benevolence, justice, etc. Since for Ward society is an association of individuals who are by nature unsocial, his egoistic basis of altruism creates a moral paradox. In an attempt to solve this paradox, McDougall (1908) suggests that sympathy promotes altruism only if it is amalgamated with the tender emotions (emotions that are associated originally with parental instincts, but which include any person towards whom hostility is felt). Hence those who possess egoistic tendencies can also be altruistic. Many psychological experiments have shown a somewhat positive relation between altruism and sympathy (cf Aronfreed, 1970; Ekstein, 1978; Baston and Coke, 1981). Though these attempts are said to be promising, their acceptance is beset with many conceptual difficulties regarding their underlying operational definitions of altruism.

Is sympathy enough to account for altruism?. Could the sympathiser be egoistic too ? The sympathiser is not a genuine altruist, on the contrary, he strives to relief the pained awareness of his distress (Nagel, 1970). This is too obvious in the case of the 'guilt-altruism' relation. If one causes the victim's distress, then one's self-blaming attribution will transform another's pain into one's discomfort and makes one feel responsible for the other's plight (Hoffman, 1981). Guilt or "the pained recognition that one is acting or has acted contrary to reason which the chains, rights or interest of others provide" (Nagel,

1970; P.80), causes unpleasant feelings to the subject and motivates him to do what he can to remove it. Many psychological experiments (cf Aronfreed, 1970) confirm that in acting to reduce the distress of others, the subjects are not necessarily empathically motivated, they may be so acting "to avoid simulation which they experience as directly aversive to themselves" (P.100). On the whole, it seems that there is something really egoistic in the sympathetic motivation.

Genuine altruism is likely to be motivated by empathic feelings rather than by sympathetic ones. In Aronfreed's (1970) use of the term, empathy "denotes an individual's affective experience when it is elicited by social cues which transmit information about the corresponding affective experience of another person" (P.107). As was mentioned earlier, this empathic experience, which is presumably caused by others' distress, is a prerequisite for sympathy and hence for altruism. By empathy Wispe (1972) refers to "the self conscious awareness of the consciousness of others"(P.441). Unlike sympathy, empathy denotes an active referrent. The empathiser has the capacity of feeling the pain of others; the sympathiser, on the other hand, knows the pain of others but feels only his. Drawing on Wispe's conception of empathy, Cohen(1972) regards altruism, an act or desire to give something gratuitously to others, as solely motivated by empathy and by no other motive of reward from the object of the

altruistic behaviour. Batson and Coke (1981) propose a more comprehensive conception of empathy: "an emotional response elicited by and congruent with the perceived welfare of others" (P.170). Unlike sympathy which is confined to the relief of others distress, empathy includes relating to others' pleasure as well as to others' pain. Before Batson and Coke, Boulding (1962) in a very expressive way relates genuine altruism to empathy, the latter being directed towards others' welfare (both their pain and pleasure).

"It is this capacity of empathy - for putting oneself in another's place, for feeling the joys and the sorrows of another as one's own - which is the source of genuine gift. It is because 'no man is an island', because the very realization of our identity implies in some sense that there is a common identity in humanity, that we are willing to 'socialize' our substance and to share with the afflicted. This is 'charity' before the word became corrupted by vanity and fashion". (P.61)

Is the sympathetic/empathic feeling enough to account for altruism? Could it explain altruism in the absence of norms? Both sympathetic feelings and norms explain altruism while not contradicting the laws of reinforcement (Darley and Latané, 1970). The empathiser/sympathiser is relieving his own distress by acting altruistically toward others. Likewise those who violate the helping norms are subjecting themselves to negative consequences which punish them for this failure (though these consequences may be anticipated and no empathic distress arise immediately. Due to this *hedonistic paradox* altruism is,



logically speaking, not in a strong position. Schawrtz and Howard(1981) argue that people experience empathic concern only towards those whose welfare is relevant to their own internalized values. This view is also elaborated by Staub (1981) who proposes that value orientations, pro-social orientation and orientation towards duty or obligation, affect the kind of behaviour. To explain altruism psychologically, and to neglect the role of human ethical norms is a great mistake. The psychological feelings and the ethical norms are not incompatible or irreconcilable. Human ethical norms, which differ from one person to another and from one group to another, are translated into actions through a process of psychological experiences. Psychologists and behavioural scientists could hardly claim that empathy and/or sympathy are the only sources of altruism, or that empathic and/or sympathetic emotions consequently lead to altruistic behaviour.

#### 1.2.5. Genuine Altruism

Hitherto the analysis displays that altruism is, by and large, egoistically motivated. Could there be genuine altruism? To Kant(1924/1963) genuine altruism is the result of practical love as distinguished from pathological or emotional love. Practical love consists in the disposition to exercise practical benevolence which consists in doing good for others from duty rather than from inclinations towards others. This is genuine altruism - altruism that

must be sharply distinguished from the one arising from sympathy. Nagel (1970) argues that *pure altruism* is attributed neither to self interest nor to general sentiments such as benevolence or sympathy. It is a rational requirement on action, consisting of "the direct influence of one person's interest on the actions of another, simply because in itself the interest of the former provides the latter with reason to act" (P.80).

Therefore, Nagel argues:

"By altruism I mean not abject self sacrifice, but merely a willingness to act in consideration of the interest of other persons without the need of ulterior motives". (P.07).

Culyer (1973) asserts that altruism (autistic exchange) is a quid without a pro quo, not self advancement nor reflections of charitable warmth. In Culyer's perception altruism means that the welfare of others has a positive weight in the person's set of preferences, but it does not indicate whether he/she will perform good work.

On the whole altruism is a debateable concept; in any discipline (eg. economics, psychology, sociobiology etc.) altruism has been perceived differently according to each writer's inclination; however the concept of altruism becomes more complicated as we move from one discipline to another. Presumably it is because these disciplines, from the very moment of their inception, lack the unity and do not share a single harmonious goal. Hence they are not expected to have a unanimous perception of any phenomenon.

### 1.3. Philanthropy

Etymologically, philanthropy connotes, according to the Oxford English Dictionary, "Love to mankind; practical benevolence towards men in general; the disposition or active effort to promote the happiness and well-being of one's fellow-men". Emphasis here is on the act itself rather than on the intention behind it. Rickaby S.J.(1929) suggests that the intention behind the act marks the distinction between philanthropy and charity; "charity differs from philanthropy in looking beyond the present life, and above creatures. A materialist and atheist may possess philanthropy but not charity"(P.239). However, the term philanthropy is often used interchangeably with charity and voluntarism, both referring to the act of choosing to donate funds, services, or goods to other individuals, organizations, or to the public weal, without direct pro quo. (Ross, 1968; Bolnick, 1975). Economically speaking, philanthropy denotes unilateral, one-way voluntary transfer of wealth or services. By voluntarism is meant the absence of use, or the threat of use, of legal or illegal coercive power by the state or illegal coercion by other individual or individuals. (Johnson, 1973).

It is argued (Ross, 1968) that the term philanthropy has become widely accepted, instead of charity, because of the derogatory connotation of the latter. In the daily usage of the term, charity is not a

synonym for love as it is used to be; this is understandable from popular phrases such as 'I am not giving charity', 'I am not asking charity'. Proudhon(1898) gave a historic picture of the degradation of the concept of charity,

"To perform an act of benevolence towards one's neighbour is called in Hebrew to do justice; in Greek to take compassion or pity; in Latin to perform an act of love or charity; in French to give alms. We can trace the degradation of the principle through these various expressions; the first signifies duty, the second only sympathy, the third affection, a matter of choice, not an obligation, the fourth caprice" (PP.226n-227n).

As such the principle of charity is changed from duty to just a passing fancy and thereby loses its significance. Visualized from the 'giver-recipient' relation, this degradation intensifies the *us-them* segregation which presumably inculcates the superiority of us (the givers) and the inferiority of *them* (the recipients). However, the mere replacement of charity by philanthropy does not, in itself, vanish the *us-them* discrimination unless the principle is generalized to the extent that both the givers and the recipients have a relative share therein.

It is often argued that philanthropic activity is more characteristic of the individualistic *laissez faire* society, or of a class society, than of the communist political economy. As Ross (1968) puts it, in countries where the rights of the community take precedence over

the rights of the individual, there is less need for voluntary philanthropy, because the state takes responsibility for most, if not all, of the needs of its people. The naivety of this view stems from a restricted conceptualization of philanthropy. Is helping neighbours or the elderly in times of disaster or distress incompatible with socialism, or does it undermine the role of the state? Proudhon (1898) rejects the philosophy of philanthropy outright, "love, benevolence, pity, sympathy, call it what you will, there is nothing in it which deserves esteem - nothing which lifts man above the beast" (P.225). To him, giving should not be out of benevolence but out of justice - by justice he means recognition of the equality between another's personality and our own. For Marx (1872), philanthropists, humanitarians and organizers of charity are placed within the attempts to redress social grievances in order to secure the continued existence of bourgeois society. Marx implicitly associates philanthropy to the 'us-them' (here bourgeoisie - proletariat) discrimination, which may not be the case. It is this narrow perception of philanthropy (which may be observed even today) which makes it a derogatory term and hence inculcates the 'us-them' segregation. Both the rich and the poor can act philanthropically towards each other. Presumably, in Proudhon's and Marx's perception, the economic problem is solvable by the mere eradication of

the bourgeoisie, or by the mere application of communist norms. However, neither communism nor the equality of the people mean that each man is an island.

### 1.3.1. Philanthropy and the Free-Rider Problem

Economists are of the view that the charity market wherein individuals voluntarily and collectively provide public goods<sup>8</sup>, is beset with the *free-rider* problem. It arises from the presumed incompatibility between the individual's self interest (the principle of rational egoism) and the collective interest (the principle of collective optimization). But what is it that is called the *free-rider* problem? If many persons want something done, some *good* that is non-rival in usage (eg, a public good), each person will be motivated to avoid contributing to it. Each person has an incentive therefore to become a *free-rider*; to secure the benefits of the public good without participating fully in the sharing of its cost. (Ireland,1973; Buchanan,1975; Tuck,1979). The *free-rider* problem as it is presented, overturns altruism and philanthropy altogether. Presumably the problem is to be identified as rooted in egoistic human motivation. To attempt a *free ride* is to be selfish. Therefore, the argument that the *free-rider* problem is a basic paradox in

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<sup>8</sup> Public goods, as distinguished from private goods, are those goods from the benefit of which no individual can be excluded and of which an individual's consumption does not decrease the amount available to other individuals, like defence for instance.

public finance (Ireland, 1973) could only be advanced on the assumption of egoistic human motivation. Moreover, public goods constitute a minor form of philanthropy, and even a disputable one (philanthropy, it will be recalled, signifies a quid without a pro quo).

Is the *free-rider* problem circumventable? Altruism might be expected to unite the selfish with the collective interest, thus overcoming the *free-rider* problem. In addition to the difficulties regarding the determination of the motives behind it, altruism, as it is perceived, will not solve the problem. To Olson (1965) the free riding holds true whether behaviour is selfish or unselfish, so long as it is, strictly speaking, rational; even the altruist will not rationally contribute towards the provision of any public good since his contribution would not be perceptible. Buchanan (1975) argues that collective decision requires unanimity which is achieved only at a high social cost. Collard (1978) asserts that altruism will not solve the problem, particularly if the action needed is of a mundane economic nature. The economy of altruists is presumably viewed as characterized by private egoistic exchange in ordinary commodities and voluntary cooperation in public goods. Suffice it to say that this duality stems from a narrow perception of altruism. However, the *free-rider* problem is said to be circumventable by ways other than altruism.

Social pressure has been proposed as a possible solution to the *free-rider* problem. The individual living in small community who attempts a free ride on the charitable contributions of others, will be confronted with more social pressure than one living in a large community. Johnson (1973) suggests that people will donate to avoid a societal cost, in forms of social pressure, religious beliefs and psychic unpleasantness. To avoid the *free-rider* problem a selective cost must be imposed on each individual, and the societal cost serves this function. Bolnick (1975) asserts that only through the transformation of the *economic man*<sup>9</sup> into a *social man* that decisions which the traditional economic theory would consider to be irrational might be explained. A *social man* having to contribute to charity will scrutinize the direct and indirect social pressure, and base his decision on the strength of them, and the utility derived from giving and the cost of choosing to contribute. The contribution will be made about a course of action within the limitations of man's *bounded rationality*<sup>10</sup>.

Can religious motives help to avoid the *free-rider* problem ? In other words, can religion motivate philanthropy ? Most religions influence the taste of the

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<sup>9</sup> As an economic concept, the *economic man* refers to the hypothetical man who behaves rationally. (cf section 1.4).

<sup>10</sup> Bounded rationality is a constructive replacement for the notion of maximization under certainty. The term is coined and first used by Simon (1955).



individual by teaching him to help the poor and treat neighbours as himself, and by providing a selective incentive for the individual to contribute. There is no free ride to heaven, or as Aldous Huxley, quoted by Johnson (1973) said "charity is a peculiar species of fire insurance". Hence charity has no drive; it is conducting an exchange. The presentation of religious motives in this manner makes it difficult to separate them from social pressure. Therefore, doubts arise regarding the viability of religious motives at least in the manner they are presented. For instance, Wright (1971) argues that many studies confirm the insignificant relation between altruism and religion specially in the Christian world. He further adds,

"It is now a well documented finding that, in the United States in particular but also in other countries, those who believe in Christianity and go to church are on average more racially prejudiced than atheists and agnostics".(P.147).

Could the desire to perform *good* deeds help to overcome the *free-rider* problem ? Titmuss (1970) believes that those who obtain psychic benefit from the mere act of giving blood are the main source of blood donatation in Britain. This psychic benefit is referred to as the Kantian motive, after the German philosopher Immanuel Kant (1924/1963). To Kant, the goodness in an act requires that the motivation for it must be divorced from all aspects of personal gain for the actor. The goal of the psychic or

Kantian motive is act utility, not the utility of the result the act brings about, i.e. the individual derives utility from the act of doing the good deed of contributing philanthropically. Collard(1978) emphatically asserts that, among all the motives, only the Kantian motive based on a sense of duty is strong enough to overcome the *free-rider* problem.

Individuals might, for political motives, contribute voluntarily. Individuals who seek corporate advancement, prestige or some specific government action are led to compete to gain the opportunity of providing personal support to philanthropic organizations.(Ireland,1973). This is primarily dependent on Kantian motive: both focus on the desire to appear to have done a good deed. The amount of satisfaction derived is a direct function of the contributions irrespective of what is finally provided.

The methods suggested to circumvent the *free -rider* problem are incompatible with philanthropy itself, and hence they are not strong enough to motivate it. They negate the principle of philanthropy as a quid without a pro quo. Philanthropy should not be forced by any means, it should be done voluntarily without any form of coercion or social pressure. To contribute to a cause is to identify with it, any reason behind this does the contributor a serious disservice, or to use O'Conner's (1987) rhetorical expression "when philanthropy undermines philanthropy, something is seriously amiss" (P.127).

Are the motives of private philanthropy equally applied to corporate philanthropy? The foundations, corporations, non-profit philanthropic agencies and governments are entities which operate within human rules. Therefore, they are greatly affected by human impulses and inclinations. In their philanthropic activities these institutions might be motivated by religious belief, psychic benefits, income motives or even guilt feelings. All these motives are easy to suggest but too subtle to prove. However, powerful motives, other than these, cannot be overlooked. Corporations and firms, for instance, are ruthless profit maximizers, nonetheless, they participate in philanthropic activities. Presumably, the tax deduction, argued Thorp (1962), acts as a multiplier and provides a considerable incentive. Thorp noticed that in the United States corporate contribution increased substantially during years of high corporate excess profit tax. If this is so, then the distinction between private and public contribution is misleading, since that part of a private gift which is offset by a reduced tax should be credited to the public or the government. Corporations usually receive funds from the donors and then administer them; to some extent this is merely a re-channelling of private giving. Vickrey (1962) asserts that the establishment of Philanthropic Foundations under friendly control may be the means of avoiding dissolution or loss of control of a family corporate empire. It has been claimed, according to

Vickrey, that this was a significant factor in the establishment of Ford Foundation. Besides love and benevolence, Boulding (1973) emphasises an unusual factor; fear.

"Foundations and charitable endowments may also be set up through threat and fear; in earlier times, for instance through the fear of hell; in modern times through the fear of inheritance tax and a preference for private grants over public grants enforced through taxation". (P.23).

Charitable institutions and governments may act philanthropically for political reasons. This is the principle of expansionism (Boulding, 1973); the desire of one particular community to have more people associated with it; the best example of this is the expansion of religious faith. However, expansionism may lead to imperialism. Commenting on the United States' aid to build a dam in Egypt, Alchian and Allen (1973) argue that,

"Of course, government officials of both the United States and Egypt understand all this [the strings on the use of the aid] and the 'conditional' form of the grant is employed primarily to try to induce the Egyptian government to behave more in accord with U.S. government's view of Egypt's interest". (P.10)

In addition, charitable institutions may collectively affect the thinking and the behaviour of the recipients; the resulting psychological orientation is likely to inspire religious, ideological and political expansionism. Generally speaking, philanthropy in theory is love manifested in a quid without a pro quo. However, the analysis shows that in practical terms it is a disguised self interest, a quid pro quo.

#### 1.4. Altruism, Philanthropy, and Economic Theory

Though many practical examples might be thought to weaken the universality of the egoistic human motivation, egoism has been widely believed to be the foundation postulate of economics. Economic theory, argued Stuart (1962) is an account of egoism in action, with altruism playing the part of more or less stubborn or disturbing intruder. Generally speaking, economists have been blamed for their negligence of a large area of gift actions as if they are of no exchange value (Mauss, 1954; Titmuss, 1970) and presumably for their underestimation of altruism and benevolence. Against this attack Cuyler (1973) claims that it "may be that economists have been slow to study such aspects of human nature, but it does not follow that economics is emasculated" (P.59). However, for economics not to be emasculated, economic theory itself should incorporate the different aspects of human nature, instead of using the conventional theory to investigate it. To use the words of Vickrey (1962), the pure competitive economic system must provide at least some softening of the corners and relaxation of the rigid role of self interest.

Altruism and philanthropy are of considerable importance to economics inasmuch as they affect the allocation of resources, the distribution of wealth and the flow of resources through both the private and the public sector. But why is the importance of altruism and philanthropy ignored in economic theory? Many economists

regard mankind as basically selfish and suppose that the economic man acts only in his own interest. Cooperative behaviour, is, argued Musgrave(1959), unrealistic and inconsistent with the premises of all other phases of economic analysis. Olson(1965) alleges that only altruistic or irrational individuals will forgo their self interest to provide for the common good. Closely related to this is the restrictive interpretation of the rational man who will not contribute voluntarily because of the *free-rider* problem (Johnson, 1975). However, the analysis of the *free-rider* problem presupposes an egoistic human motivation. The same egoistic argument is put differently by Fabricant(1962) who pessimistically claims that,

"We are more sinners than saints. It is all too evident that love of man in general, though it influences a great deal of behaviour, is in limited supply and is limited therefore in the economic and other aspects of life"(P.4)

Boulding (1962) provides a different reason for the economists' negligence of altruism and benevolence. Economists, he argues, have grown up around the phenomenon of exchange and its theoretical structure rests heavily on this process. Hence, the price (the ratio of the exchanged quantities) system is the basic theoretical tool to the extent that economists tend to regard society as being organized by it. However, the altruistic act (an unilateral exchange) carries no price. Economists in dealing with such phenomenon feel rather at sea because

they find themselves in an area of social life which is apparently priceless, they hardly know what to do. In line with Boulding's view one could argue that the economists' rejection of altruism is presumably based on its lack of conformity with economic efficiency inasmuch as the latter depends on the price mechanism.

Modern economic theory was developed in a utilitarian context which postulates that the happiness of the greatest number is the outcome, if not the object, of independent economic choices. But, as Bell (1981) has pointed out, it is by no means self evident that egoism and utilitarianism are so easily reconcilable (unless indeed by religion), or that it is an obvious truth that *'the interest of all is the interest of each'*. In addition to the irreconciliability of the interest of all and the interest of each, economic theory had been developed on the liberalism corollary that "the rules regulating the relation between individuals are to be procedural, not morally substantive" (Bell, 1981, p.47). Hence, religion is discarded from economics because of its moral and normative rather than instrumental and positive presumptions. After Alfred Marshall (1890) economics moved away from its utilitarian schema and become concerned principally with the egoistic interest of each. Besides its ontological commitment to individualism, contemporary economic theory posits axiological individualism whereby individuals are assumed to be self interested agents

motivated by self defined preferences and values. In the words of Buchanan and Tullock (1962, P.27) "self interest is recognized to be a strong motivating force in all human activity; and human action, if not bounded by ethical or moral restraints, is assumed more naturally to be directed towards the furtherance of individual or private interest".

The ontological and axiological individualism imbue the *economic man* with an egoistic human motivation.<sup>11</sup> Thus, the universal and fundamental element in the personality of the economic man is self interest, though many economists (eg, Machlup, 1972, Hollis & Edward, 1976) believe that to speak of the economic man as selfish or altruistic is to speak of another thing. Given the notion of maximization and the norm of exchange, the economic man is a rational maximizer in pursuit of self interest. When act x is chosen by person i and act y rejected, this implies that i's personal interests are expected by i to be better served by x than by y. The implied concept of rationality, argues Sen (1977, P.342), is based on three propositions. Firstly, acts are judged only by their consequences. Secondly, the assumption of act evaluation rather than rule evaluation; in other words, all rules of behaviour other than self interest are *ipso facto* ignored. Thirdly, the consequences considered in evaluating acts are those of one's own interest. This notion of rationality can be

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<sup>11</sup> The concept of the *economic man* will be discussed at length in ch.2.4.2. *infra*.



easily refuted if the egoistic presumption is relaxed. However, the egoistic presumption has been generalized as a theory of motivation, though the methodological status of the economic theory demonstrates that it is not the case (Parsons,1940) or that it is just a special case (Collard,1978). Economists, argues Vickrey (1953,P.149), often abdicate their responsibilities as moral beings and emphasize the self-interest maximization and material success in a *devil-takes-the-hindmost* world. Such a world is now ebbing away.

Though altruism has for long been recognized by anthropologists, sociologists and moral philosophers, its analysis is a recurring minor theme in economics. Edgeworth (1881) was the first economist to attempt an integration of love and sympathy into the theory of exchange. That interest in non-selfish economics is now in the air may be seen from the appearance of Boulding's *the economy of love and fear* (1973), Phelps' *altruism, morality and economic theory* (1975) and Collard's *altruism and economy* (1976). These writers, and many others, attempt to draw attention to the implication of nonselfishness for economics. Edgeworth emphasizes that each agent has, in a calm moments, some consideration for the welfare of others. Boulding suggests that grants are no longer 'unusual' and must be integrated into the economic theory. In their reformulation of economic theory, Edgeworth, Boulding and Collard allow for altruism when the agent experiences a

disutility in the commodity bundle(s). Moreover, they treat altruism and exchange as distinct bodies, but do not attempt to incorporate the norms of altruism into the theory of exchange itself. Presumably, in their perception altruism is not an inculcated human norm. Meade (1973) regards the ideal society as "one in which each individual developed a real split of personality, acting selfishly in the market place and altruistically at the ballot box"(P.52). Ironically, in Meade's society a ruthless businessman votes to help the poor who might be his own victims (as consumers or workers). Joan Robinson (1983) insists that altruism is not at all natural, but needs to be imposed upon individuals, the mechanism whereby it is imposed is the moral sense or conscience of the individual.

The rationality of non-selfish behaviour can be established by introducing the interrelation of utility functions(Schwartz,1970), or the assumption of attribution (Collard,1978). In general we may observe that,

$$U_i = U_i(C_i, C_j)$$

where  $U_i$  is the utility function of individual  $i$ ,  $C_i$  and  $C_j$  stand for the commodities consumed by individual  $i$  and individual  $j$  respectively.<sup>12</sup> This process shows that  $i$ 's

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<sup>12</sup> The utility function of the selfish person can be written as  $U_i = U_i(C_1, C_2, \dots, C_n)$  where  $C_i$  is the  $i$ 's consumption bundle(s)

utility is not isolated from j's welfare, if  $\frac{\partial U_i}{\partial U_j} > 0$ , then

i has altruistic taste pattern with respect to j

(conversely, if  $\frac{\partial U_i}{\partial U_j} < 0$ , then i discriminates against j).

This process is true for altruism inasmuch as it is concerned with tastes and preferences and not with actions. Thus altruism is distinguished from positive acts of benevolence. (Schwartz, 1970; Culyer, 1973; Collard, 1978).

The assumption of attribution or utility interrelationship does not involve a quid pro quo, though it does involve a direct psychological utility rather than an economic resource which is utility generating. However, this process of attribution is neither a necessary nor a sufficient condition for altruism. The person may be motivated by general considerations of humanity, or the pleasure of 'dining with you rather than dining alone', rather than sympathy for specific others.

The expression of individual preference can be generally analysed within the theory of externality. The manifestations of j's distress cause external diseconomies to individual i (i.e. serves to subtract from his utility) while i's relief of j's distress causes external economies to individual i (i.e. serves to add to his utility). This is a typical example of saying that individual i has an altruistic taste pattern with respect to individual j. However, libertarian economists reject this altruism - externality relation. James Buchanan (1959) argues,

"The mere fact that some members of the community are poor does not, in and of itself, normally impose an external diseconomy on many of the remaining members. What does impose such an external diseconomy is the way that certain persons behave when they are poor. It is not the low income of the family down the street that bothers most of us; it is the fact that the family lives in a dilapidated house and dresses its children in rags that imposes on our sensibilities. And we are willing to pay something to remove this external effect; it is relevant for behaviour". (P.189)

Buchanan's thesis is a clear example of disguised self interest. The distress of others makes one feel ill, i.e. causing him external diseconomies. In attempting to relieve others' distress the person is motivated to remove his own felt distress. Hence the external diseconomies caused by seeing others' distress is offset by the external economies of relieving one's own distress.

### 1.5. Concluding Remarks

A modest attempt has been made in this chapter to investigate the key concepts in nonselfish behaviour viz, altruism and philanthropy and their underlying economic significance. The analysis reveals that genuine altruism is rare; behind any so-called altruistic act there is an explicit or implicit self interested motives. Moreover, in many cases it is not at all clear where self interest ends and altruism begins. Many subtle arguments might be advanced *vis à vis* who determines whether an act is altruistic, the object, the subject, or the spectator. In principle, both genuine altruism and philanthropy are

conceived as a quid without a pro quo; however, analysis of their motives reveals that they are but a quid pro quo. The only significant difference between them might be that while altruism is a philosophical principle, philanthropy has been treated as an operational concept usually realized in a positive act of giving.

Many economists recognize the norms of nonselfishness, nonetheless, egoistic human motivation dominates modern economic theory. The attempts to incorporate altruism in economic theory are naive and inconclusive: individuals are assumed to behave egoistically in the market place and altruistically at the ballot box. The incorporation of the norm of altruism through the interdependence of social welfare functions is limited and unsatisfactory. It is not enough to add the welfare of others to one's own welfare function to christen the person altruistic. The economy of the altruist is characterized by the predominance of such norms as fairness, truthfulness, trustiness, lawfulness, brotherhood and cooperation. Such an economy is virtually immune from deleterious acts, such as profiteering, misallocation of resources and speculative hoarding of money and goods. The recognition (and the incorporation) of these norms would ultimately demand the reconstruction of the whole edifice of conventional economic theory.

## CHAPTER TWO

### THE ISLAMIC CONCEPTION OF BENEVOLENCE

#### 2.1. Overview

Benevolence and voluntarism<sup>1</sup> are issues central to the Islamic ethical system; they are the foundation postulates of the Islamic perception of human nature. Through its teachings, Islam inculcates these ethical norms and insists on their dominance in the whole spectrum of the life of the muslim. Hence, Islamically, non-selfishness is an underlying presumption of all economic activity. The present chapter is an exposition on the Islamic conception of benevolence and its philosophical significance for the Islamic Economics. The analysis here falls into four sections. The philosophy of benevolence is explored in section two, where an attempt will be made to develop an Islamic theory of benevolence. Section three covers the Qur'anic concepts of benevolence. Section four discusses benevolence *vis à vis* the basic foundations of Islamic Economics; it also attempts to reconstruct the concept of the *economic man* in the light of the *Islamic rationality*.

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<sup>1</sup> Note that voluntarism both in western moral philosophy (eg. Schopenhauer in his *will to live* and Islamic theology (eg. *Ash'rites*) has a different connotation according to which man has freedom of choice and action. Voluntarism is here used in a technical sense to refer to an attitude of mind wherefrom springs a certain pattern of behaviour where one gives out of his wealth to further the welfare of others without any ulterior motive(s) or external compulsion, rather out of one's religious commitment.

## 2.2 The Islamic Philosophy of Benevolence

### 2.2.1. Benevolence and Human Nature

Since Islam visualizes man as being created in the best of moulds, "We have indeed created man in the best of moulds"(Qur'an,95:4), he cannot be ill-natured. In the *ḥadīth*, "Every child is born according to the *fiṭrah*"<sup>2</sup> (al-Muwatā, P.117). On the face of these statements, man is, in his original nature, good. Hence man is likely to be altruistic, cooperative and righteous. Nonetheless, there are at least some verses in the Qur'an which, *prima facie*, contradict the above claim ; for example, "And men's selves are swayed by greed"(4:128), "And man is ever niggardly"(17:100), "Truly man was created very impatient" (70:19), "And violent is he (man) in the love of wealth" (100:8). In other words, the Qur'an seems to suggest that niggardliness, avarice and the like, are also there in human nature. Now it might appear to some that the Qur'an presents two antagonistic theses regarding human nature. The question is: are these theses irreconcilable? In order to answer this question it seems necessary to probe the depth of human nature from the Islamic perspective .

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<sup>2</sup> The Islamic concept of *fiṭrah* holds that every child is born pure, innocent and endowed with true understanding of God. Human beings are inclined to right and virtue but also caught in the meshes of customs, superstitions and false teachings . The problem before the prophets of God is to cure this crookedness and restore human nature to the state of *fiṭrah*. In the above *ḥadīth*, *fiṭrah* is used interchangeably with Islam, presumably because all the heaven-messages from Adam to Muhammad are called the 'religion of Islam' or the 'religion of *fiṭrah*.'

Man is composed of body and *rūḥ* (spirit), the harmonious progress and balanced evolution towards perfection require that attention should be paid to both aspects of man. Both al-Ghazālī (d. 1111, n.d.) and ad-Diḥlawī (d. 1762, 1933) maintain that man possesses angelic and animal nature. The former is *naḥkhah ilāhiyah* (a breath from God); it is yearning or hoping for the other world, hence it elevates man towards heaven. The latter safeguards and sustains the material demands of the body, hence it usually binds man to the earth. For life in this world to flourish, it is necessary that man should have this duality in nature. The Qur'ān states that the creation of man is purposive; "I have only created Jinns and Men, that they may serve Me" (51:56), "He brought you forth from the earth and made you husband it" (11:61). In yearning for spirituality, the angelic nature helps man worship God; the animal nature, through its materialistic tendencies, motivates man towards the material development of the earth.

The duality in nature involves man in a continuous struggle between the two natures, however, the duty assigned to him is that of limited freedom. According to Naqvi (1981a), the Islamic viewpoint of man's freedom is based on three distinctive, but related ideas. Firstly, man is theomorphic by nature with something God-like in him, "So when I have made him and breathed into him of My Spirit" (Qur'ān, 15:29). Secondly, man has been invested with free will; he has the freedom either to become



God-like by realizing fully his theomorphic nature or reject God, thus becoming the lowliest of the low, "We showed him the way: whether he be grateful or ungrateful (rests on his will)" (Qur'ān,76:3). Thirdly, man is held responsible for the use and abuse of his power of discretion, "Every self is a pledge for its own deed" (Qur'ān,74:38). However, in Islam, individual freedom is linked directly to the conscious act of discharging one's responsibility to help others. Failure to do so has been declared in the Qur'ān to be denial of *ad-dīn* (the Faith);

"Have you seen him who denies the Faith. It is he who repulses the orphan (with harshness). And encourages not the feeding of the indigent"(107:1-3).

Man is required to keep an equilibrium to his dual nature, since thereby the demands of both natures will be satisfactorily fulfilled, "But seek with whatever God has bestowed on you, the home of the hereafter, nor forget your portion in this world" (Qur'ān 28:77). Since the *rūḥ* is yearning for *ālam al-arwāḥ* - in the other world, wherein man demands *falāḥ* (success), the afore-mentioned equilibrium is not at all static; any Muslim continuously strives to foster whatever helps the *rūḥ* to attain its 'good brought back' to heaven. Having been created with a dual content, material and spiritual, man's *fiṭrah* (natural disposition) and emotions ought then to be rightly recognized. Essentially, *fiṭrah* rejects that which

is opposed to it <sup>3</sup>. Man should not give free rein to his emotions, otherwise his dual nature is likely to be imbalanced. Through self discipline man can rightly recognize his emotions while not distorting the balance of his dual nature<sup>4</sup>. To understand the significance of self discipline, it is necessary to elucidate further the concept of *rûḥ* and its synonym *nafs*.

The Arabic words *rûḥ* and *nafs* are semantically different, not only that, each individually has a number of connotations. Only in post Qur'ānic literature are *rûḥ* and *nafs* used interchangeably by some Muslim theologians like Ibn Taymiyah (d.1328) and Ibn al-Qayyim (d.1350) to mean human spirit or soul, though Ibn al-Qayyim also refers to the *nafs* as the ego (1986, P.264) According to them, each man carries a breath of life from God; it is called *rûḥ* because of its purity, and it is called *nafs* inasmuch as it manages and regulates the body. This perception of *rûḥ* or *nafs* forms the basis of Muslims ethics and psychology. Three ego states of *nafs* can be distinguished, viz, *nafs ammārah* (commanding to evil), *nafs lawāmah* (it upbraids) and *nafs muṭm'innah* (tranquil). (Ibn Taymiyah (1963), Ibn al-Qayyim (1986) and Badri(1987)). Note that, in Islam,

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<sup>3</sup> Since *fiṭrah* is originally good, all *fiṭrah*-dictated acts are necessarily good.

<sup>4</sup> The psycho-emotional feelings often motivate man to do *ma'rūf* (good acts) and/or *munkar* (reprehensible acts). Self discipline is of vital importance in fostering the former and restraining the latter.

man is originally good. Is he susceptible to temptations? The ego state of *nafs ammārah* motivates man to commit *munkar* (that which is reprehensible). Moreover, man is subject to Satanic power<sup>5</sup> which repeatedly evokes and motivates the ego state of *nafs ammārah*. *taqwā* (God-consciousness) and righteousness safeguard man from the ego state of *nafs ammārah* as well as from Satanic power and thereby help the *nafs* to be tranquilized. al-Ghazālī (n.d.) asserts that the *nafs* has an innate *fiṭrah* (that is, natural disposition) whose role is to recognize the good which helps achieve man's psychological balance. Psychological imbalance is inevitable when man's innate *fiṭrah* is stained or impaired. This explains al-Ghazālī's theory that through 'psychological surveillance', man tranquilizes himself by avoiding the temptations of *nafs ammārah* and evoking the righteous potentialities which are located in human *fiṭrah*.

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<sup>5</sup> Satan is a power and a creature of God deprived of His Grace and became in the spiritual world what an outlaw in a political kingdom. Satan has a power of devilish insinuation over man through a respite granted by God. However, man can also be a source of disobedience; in a figurative sense this is a Satanic power (cf. Qur'an (2:14; 6:112) The closeness of Satanic power (in its broadest sense) is described in the following *ḥadīth*, "verily the Satan circulates in the body of a man like the circulation of blood. (Bukhārī, vol. 3. P. 142). In contrast, the reader must notice that God is nearer to man than man's own jugular vein (Qur'an, 50:16). Man's freedom to choose between good and evil is exercised through the temptations and allurements put forward by Satan. This is for the period of man's probation on this earth. However, Satan has no power over sincere worshipers of God, who are purified by His Grace. (cf. Qur'an 15:36-40).

Since the Muslim is psycho-ethically committed to God as the basic source of normativeness, the *nafs* is always aspiring to spirituality and spirituality-laden motives and actions. However, man is not an island; man lives in a symbolic environment as well as a physical environment and can be stimulated to act by symbols as well as by physical stimuli. Thus the *nafs* is likely to be affected in the process of communication or interaction - the so-called *symbolic interaction*<sup>6</sup>. *Symbolic interaction* involves the emergence of the *significant others*<sup>7</sup> who imbue the mind of the person with this or that trait of character or mode of behaviour. The effect of the symbolic interaction on the *nafs* could be positive - leading to ethico-spiritual progress, or negative - causing ethico-spiritual degradation. The nature and strength of this effect depend on the *significant others* and the feedback from the others

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<sup>6</sup> The term *symbolic interaction* was coined by Blumer (1937); it refers to the process by which individuals relate to their own minds or the minds of others; the process, that is, in which individuals take account of their own or their fellows' motives, desires, knowledge, means and ends, and the like.

<sup>7</sup> Kuhn (1964) defines the *significant others* as those to whom the individual is emotionally and psychologically committed; those who provide him with his general vocabulary; those who provide him with his categories of self and other and their underlying roles; those who, through communication, sustain his self-conception.

whom the person regards as his or her *looking-glass self*<sup>8</sup>. In order to sustain spiritual progress a person must always choose the *mutaqīn* (the righteous) as his or her possible significant others; and refrain from interacting with the *mufsidīn* (the immoralists). The effect of such interaction on the *nafs* or the *rūḥ* is given by the following *ḥadīth*, "The case of a good companion and a bad companion is like that of one who has musk [perfume] and of one who blows a furnace [or an iron smith]" (Bukhārī, vol.7. P.315). In another *ḥadīth*, "A person follows the norms and customs of his bosom friend; so each one should consider whom to befriend" (Abu Dāwūd, vol.3. P.135).

Now we should remember that the Qur'ān might appear to some to be presenting two antagonistic theses regarding human nature; man is by nature benevolent and selfish. Given the duality in man's nature and the scarcity of resources<sup>9</sup> for man to achieve his purpose on the earth, a

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<sup>8</sup> The term *looking-glass self* was coined by Cooley (1902). Social interaction provides a person with others' reactions towards him or her. For the person in question, others' reactions serve as a reflected feedback; a measure of what he or she is really like. However, Cooley's view needs to be qualified. Unlike the mirror's reflection, others's feedback could be deceptive; it is only when the 'others' are trustworthy should their feedback be a true, mirror-like reflection.

<sup>9</sup> Resources are scarce relative to the demand for them. Therefore, individuals should order their preferences and make choice among them. Presumably, the relaxation of this assumption will mean that all the available resources are 'free' as distinguished from 'economic' resources. In such a theoretical society the analysis of egoistic/altruistic human behaviour will be meaningless.

somewhat selfish state of mind is an important prerequisite for man's probation on this earth. The selfish state of mind, which signifies a regard for the self and manifests itself in the love of wealth, motivates man towards the material development of the earth. But a regard for the self is not a disregard for the others; every person is required to mind his own self so that it might be of greater service to others. As Muslehuddin (1978) asserts, "this [self-interest] does not mean thoughtless development of self nor does it mean self destruction but it means a careful development having in mind one's duties to others'(P.88). Man is religiously required to love other creatures of God in the same way as he loves himself. However, love is not love unless it is manifested in positive acts to promote others' happiness. Love is in fact doing good to others in every way and abstaining from injuring them and their lawful interests (Ansari,1973). In other words, regard for self and regard for others are Islamically perceived as complementary rather than antagonistic. What is Islamically culpable is excessive regard for self accompanied by a disregard for others. By and large, both selfishness and selflessness are there in man's nature, but man is Islamically required to develop the latter and restrict the former to the minimum possible. The achievement of this depends on adherence to the Islamic injunctions vis à vis moral development.

### 2.2.2. Benevolence and tazkiyah

The process of *tazkiyah* and its induced psycho-ethical orientation is essential in 'maximizing' the goodness of non-selfish behaviour. *tazkiyah* is generally perceived as "purification of something (from adulterants), its growth and development and to bring it to the height of its perfection" (Islahi, 1982, P.19). This definition is neither accepted verbatim nor rejected outright. If it is applied to human *nafs* or *rūh*, Islahi's definition, though widely used, would be inconclusive and misleading inasmuch as it highlights the effects (the corruption of the *nafs*) while neglecting the causes. Self-discipline is a suitable term to be used for *tazkiyah*; self-discipline not only purifies the *nafs* but also eliminates the causes of corruption by restraining the *nafs ammārah* as well as safeguarding man from Satanic power. The Qur'ān explicitly relates man's success in the hereafter to the process of *tazkiyah* (self-discipline) because it elevates the *nafs* towards the world of spirituality.

"By the *nafs* and Him who perfected it, and inspired it (with conscience of) what is wrong for it and what is right for it. He is indeed successful who achieved *tazkiyah* " (91-7-9).

The Qur'ānic verses quoted taken in conjunction with the verse "We showed him (man) the path, be he grateful or ungrateful (rests on his will)" (76:3), form the basis of the psychological theory of Islam. Man is capable of doing what is good and what is reprehensible. External factors,

like divine messages, awaken the potentialities of doing good. The above verses also reveal that *tazkiyah* depends on *taqwā* (God consciousness)<sup>10</sup> and *imān* (devotion to God and belief in accountability in the hereafter). The principle of accountability, in the Qur'ānic phraseology, is expressed in terms of man being 'brought back' to God, "Did you think that we had created you in jest, and that you would not be brought back to Us (for account)" (23:115). The interaction between *imān* and *taqwā* evokes *tazkiyah* and helps the *rūh* attain its 'good brought back' to heaven.

*Tazkiyah* is of a major significance for the moral development and the moral behaviour of the Muslim, and therefore, it is vital in motivating him/her towards benevolence and righteousness. Since man seeks success in the hereafter, his acquisitive instinct cannot be allowed to degenerate into greed inasmuch as success is for "those who spend their wealth for increase in *tazkiyah*" (Qur'ān, 92:18). So long as man's *nafs* is yearning for spirituality, *tazkiyah* is vital in developing the *nafs muṭm'innah* and restraining the *nafs ammārah*. *Tazkiyah* thereby minimizes the effect of the selfish state of mind, purifies man from the vices of egoism and miserliness and endows him with virtues of benevolence and righteousness. *Tazkiyah* is hard to attain (for it needs much training and education),

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*taqwā* is unattainable unless the *arkān* (pillars of Islam) are satisfactorily performed. Further development in *taqwā* depends, *inter alia*, on righteous deeds.



nonetheless, it is indispensable for human development towards perfection. The Islamic emphasis on *tazkiyah* shows that pure reason is not enough to generate genuine benevolence. Without *tazkiyah*, the *nafs ammārah* is free, therefore benevolence, if any, is likely to be in the form of disguised self interest, if not only caprice. It could therefore be argued that genuine benevolence is an emanation of the *nafs/rūh* through the process of *tazkiyah*. Hence, for a true Muslim, benevolence is not at all *en passant* but deeply rooted in his salvation-seeking *nafs*.

### 2.2.3. Benevolence & the attributes of God

Benevolence is also as a manifestation of man's endeavour to imitate the attributes of God. This is based on the view that "the object of man's existence is that he should become a manifestation of God's attributes" (Khan, 1980 P.134). Indisputably, God is the ethical ideal and, therefore, the possessor of the best attributes, "the best attributes belong to God: so entreat Him by them" (Qur'an, 7:180). Presumably, based on this Qur'anic text, Muslims, especially the *sophist*, mistakenly devote their times to verbal remembrance of God's attributes. However, man's mere remembrance of God's attributes is not sufficient for his moral development unless they are reflected in social behaviour. To avoid possible misunderstanding, man can not reach the perfection of God's attributes, yet his moral development requires that whatever reflects a divine attribute is good and should be sought and fostered.

The Qur'ān repeatedly brings into focus the underlying moral significance of imitating the attributes of God. Some of these attributes are of a vital significance for the norms of benevolence. For instance, God is *rahmān* (most gracious) and *rahīm* (most merciful) (1:2). No man is an island, his mutual social interaction with others requires *muraḥamah* (compassionate kindness) which helps achieve peace, harmony and cooperation; "no pity is taken upon a person who does not take pity on other people" (Bukhārī, vol. 8. P. 18). God is *razāq* (sustainer) (5:58). His bounties are for all beings and closed not to any one. By imitating this attribute, man is not only motivated to help sustain others' needs, but it is also morally incumbent upon him not to discriminate among them. God is *wahāb*, Granter of bounties, (3:8). All that man possesses (tangible and intangible) belongs to God. To scrupulously perform *khilāfah* (trusteeship), it is incumbent on man to share his wealth with other fellow beings. Therefore, the norms of giving are the manifestation of imitating the attribute of God as *wahāb*. By and large, the purpose of man's creation is that he should receive the impress of God's attributes and should become a manifestation of them within the limits of his capacities. The underlying moral significance of these attributes is that, Islamically speaking, benevolence ought to be a governing principle of life.

#### 2.2.4. The Islamic theory of motivation

The foregoing discussion reveals that benevolence is a paramount ethical value in Islam. But what is it that motivates man, Islamically, to promote the happiness of others? Western behavioural scientists are not unanimous as to the question of human motivation; an act might be motivated by many ulterior motives (cf. ch.1. section 2.). Western (secular) theories of altruism and philanthropy regard acts and motives as ethically distinct; a benevolent act can not be void even though its hidden motives are not ethically substantial. In Islam, the motive behind an act is as important as the act itself. In the *ḥadīth* : "Acts are determined by their motives" (Bukhārī, vol.7.P.6.). Based on this *ḥadīth*, a benevolent act might be, Islamically, devoid of value even though it contributes to the welfare of others, because it is not in accord with the Islamic theory of motivation. The following Qur'ānic verses explain true and unpretentious benevolence and its underlying Islamic motivation.

"And they (the righteous) feed, for the love of God, the indigent, the orphan and the captive. Saying, we feed you for the sake of God alone. No reward do we desire from you, nor thanks" (76:8-9).

"Those (most devoted to God) who spend their wealth for increase in *tazkiyah*, and have in their minds no favour from any one for which a reward is expected in return. But only the desire to seek the countenance of their Lord Most High" (92:18-20).

Hence, benevolence should be motivated by the expected approval of God, that is, from the highest motives and without the least tinge of worldliness. If other motives, such as ostentation, show, material reward or psychological excellence, are experienced, the benevolent act will be devoid of its Islamic value irrespective of its positive effect on others' welfare. Benevolence thus becomes highly spiritualized.

### 2.3. The Basic Qur'ānic Concepts of Benevolence

From the early *suwar* (chapters) of the Qur'ān, Islam has laid special emphasis on many socio-spiritual virtues which help achieve brotherhood, fellow feeling and cooperation and thereby the social harmony and peaceful existence of a civilized society. Presumably, this would explain why the prophet of Islam, soon after *hijrah* (his emigration from Makkah to Madinah), instituted the *muwākhāh* - a type of brotherhood which bound together every two Muslims with a fraternal tie. This *muwākhāh* was primarily intended for establishing a norm of cooperation within the nascent Islamic society. However, as Sarwar (1969) remarks, *muwākhāh* has developed into a universal brotherhood (Qur'ān, 49:10), a brotherhood of one and all, built upon mutual love, affection, kindness, sympathy, selflessness, etc. with a readiness of everyone to rectify mutual social relations in the larger interest of all. To understand the Islamic emphasis on brotherhood and

cooperation, let us elucidate the benevolence significance of such virtues as *iḥsān*, *birr*, *iṭḥār* and *infāq*.

### 2.3.1. The concept of *iḥsān*

Lexically, the word *iḥsan* denotes perfection and the doing of good deeds. In its Qur'anic connotation, *iḥsan* includes all that is Islamically good. "God commands justice, *iḥsān* and liberality to kith and kin...." (Qur'an, 16:90). Based on this Qur'anic verse, *iḥsan* signifies the doing of good deeds even if they are not strictly demanded by justice. In many Qur'anic verses, the term *iḥsān* is related to God-consciousness and self restraint; those who are well acquainted with these qualities are necessarily aloof from ulterior motives, for they are only motivated by the expected approval of God. The Qur'anic expression of this motivation is given in an abstract form, "Is there any reward for *iḥsan* other than *iḥsan*" (55:60). The concept of *iḥsān* is of a comprehensive nature;

"*iḥsān* means good behaviour, generous dealing, sympathetic attitude, tolerance, humane and kind approach, mutual consideration, and regard for one another's interest, rendering to others even something more than their due right, contenting one self with even something less than one's own due right". (Siddiqi, 1979, P. 61).

As Izutsu (1959) observes, the Islamic usage of *iḥsān* implies two particular classes of goodness; profound piety towards God and all human deeds that originate therefrom,

and acts motivated by the spirit of *ḥilm*<sup>11</sup>. In fact, *iḥsān* is the most immediate manifestation of the spirit of *ḥilm*, "those who spend freely, whether in prosperity or in adversity, who restrain anger and pardon all men, for God loves those who perform *iḥsān*" (Qur'ān, 3:134). *iḥsān* and *ḥilm* are not difficult to reconcile; a person who always willingly helps others out of *iḥsān*, is, *ipso facto*, slow to anger, forbears from retaliating and forgives offenses. The concrete denotatum of *iḥsān* is explicitly described in the Qur'ān as various acts of pious devotion. Moreover, *iḥsān* is synonym to voluntarism; the Qur'ānic clarification of *iḥsān* is that of some 'good' deeds volunteered without any earnest request, compulsion or social coercion.

"As to the God-conscious, they will be in the midst of Gardens and Springs. Taking joy in the thing their Lord gives them, because before then, they were *muḥsinīn* (good doers)--- And in their wealth and possessions the right of the needy, him who asked and him who (for some reason) was prevented (from asking)" (51:15-19).

### 2.3.2 The concept of *birr*

In a very striking form the Qur'ān affirms that *birr* is unattainable in the absence of positive benevolent acts, "By no means shall you attain *al-birr* unless you give

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<sup>11</sup> *ḥilm* is an Arabic equivalent of the Greek '*ataraxia*', the freedom of the soul from all violent passions, the virtue of reining one's passionate nature from being moved and stirred upon the smallest provocation. (cf Izutsu, 1959)

(freely) of that which you love, and whatever you give, of a truth God knows it well"(3:92). As a wide concept, *al-birr* is not precisely translatable, however, as Izutsu (1959) notes, its basic connotation is kindness, affection, gentleness, justice, righteousness, honesty, veracity, considerateness and extensive benevolence. Generally speaking, *al-birr* is a comprehensive name for all actions motivated by love and righteousness and stipulated by the religious experience of *taqwā* (God-consciousness). It is through the process of *al-birr* that "man reaches the highest of generosity, liberality and noblest form of beneficence which can possibly arise from human spirit" (Qureshi, 1979, p. 73). The Qur'ānic emphasis on *al-birr* indicates that Islam does not accept the Western concept of altruism as a philosophical principle which is not necessarily manifested in positive acts towards removing the distress of others.

"It is not *al-birr* that you turn your faces towards East and West. But *al-birr* is to believe in God.....And to spend your substance out of love of Him, for your kin, for orphans, for the needy, for the wayfarer, for those who ask and for the reason of slaves and to practice regular voluntarism, to fulfill the contract which you have made. Such are the people of truth and *taqwā*"(2:177)

*al-birr* exhibits three fundamental dimensions (Ansari, 1973). Firstly, faith in God which establishes humility, moral courage and optimism in one's moral behaviour at the very start. Secondly, love for God; it establishes

unfailing love for doing good to humanity as well as for one's betterment. Thirdly, *taqwā*; it establishes a sense of responsibility and moral earnestness. Therefore, *al-birr* results from the interaction between the person's sense of God and his/her sense of fellow-men, and manifests itself in various forms of benevolence.

### 2.3.3. The concept of *ithār*

Lexically, *ithār* denotes giving others preference over one's own. As a moral concept it implies self-denial and self sacrifice for the welfare of others, removing the distress of others despite one's earnest need. Inculcated to that extent, *ithār* becomes an attribute of the *mutaqīn* (the God-conscious persons) whose selves are tranquilized and yearning for the approval of God. The moral theory of *ithār* could be deduced from the following Qur'anic text.

"But those who before them had homes (in Madinah) and had adopted faith, show their affection to such as come to them for refuge, and entertain no desire in their hearts for thing given to the latter, but give them preference over themselves, even though poverty was their own lot. And those saved from covetousness of their own selves, - they are the ones that achieve prosperity " (59:9).

As a moral behaviour *ithār* can be manifested in many forms. Man is not an island; people live in society wherein the need for peace and social harmony is indispensable. However, peace and social harmony are hardly attainable without law and order. The mere submission to



law and order is, in itself, a form of self sacrifice. This degree of *ithār* is a social necessity, though it is usually not noticeable in the real world. Ḥabankā(1979) distinguishes two types of *ithār*, 'a mother-child' and an 'ideal' type. The 'mother-child' type of *ithār* emerges from pure emotional affect, it is motivated by love, passion and sympathy. The main weakness of this type of *ithār* is that it is limited. A sympathises with B and treats him/her altruistically, however, others are unlikely to be treated in the same way as B, presumably because what motivates A to behave altruistically is confined only to B and not extendible to others.

The ideal *ithār* is a rational affection motivated by the sense of *imān* (conviction and devotion) and *taqwā* (God consciousness. Unlike the 'mother-child' type, the ideal *ithār* is comprehensive; a person promotes the welfare of others (conscious and unconscious beings) and does not discriminate among them. The paradox of self-sacrifice is resolvable through this ideal, *taqwā*-motivated *ithār*. The Islamic solution to this paradox is expressed in the following Qur'ānic verse. "Think not of those who are slain in God's way as dead. Nay, they live, finding their substance in the presence of their Lord" 3:169). Any motive other than this is irrational and devoid of Islamic

value. The Islamic spiritual solution to the paradox of self sacrifice is based on a certain presumption viz, Muslims ought to be motivated only by the expected approval of God.

#### 2.3.4. The concept of *infāq*

Islam has laid special emphasis on *infāq fisabilillāh* (spending in the way of God), whereby the norms of benevolence are translated into positive acts of giving. The concept of *infāq* is based on the proposition that all bounties proceed from God and therefore should be used in accordance with His commandments. "Believe in God and His messenger and spend (in the way of God) of that substance whereof He has made you trustees"(Qur'ān,57:7). From this follows the unique concept of *amānah* (trusteeship) which signifies that absolute ownership belongs to God and He 'delegated' the legal ownership (and hence the property rights) to mankind under specified terms. However, adherence to these terms, given the *nafs ammārah* and the somewhat selfish state of mind, necessitates *taqwā*. *taqwā* is the most important prerequisite of *infāq*, whereby continuous voluntarism is possible both in prosperity and adversity (Qur'ān 3:134). *taqwā* guarantees a continuous remembrance of God and thereby contributes to and evokes the norms of *infāq*. This is because the hearts of those who perform *infāq* will dwell with God as the heart of the

business man will dwell with his business. Therefore, *infāq* is "the most efficacious remedy of the negligence from God due to the love of the world and its paraphernalia" (Islahi, 1982, p. 191).

For a person to perform a genuine *infāq*, his/her self should be above the love of the mammon. One can hardly foster others' welfare if his heart is entangled with the love of mammon and miserliness. "And those saved from the covetousness of their own selves, -they are the ones that achieve prosperity" (Qur'ān, 59:9). It might, *prima facie*, appear to some, specially misers, that *infāq* contributes to the reduction of their wealth. The Qur'ān presents a psycho-spiritual logical answer; contributing to the welfare of others, for the sake of God, does not reduce the person's wealth, rather it increases the wealth manifold.

"The parable of those who spend their substances in the way of God, is that of a grain of corn; it grows seven ears, and each ear has a hundred grains. God gives manifold increase to whom He pleases" (2:261).

### 2.3.5. The grades of benevolence

Benevolence is of three grades, viz, fairness and equity, conscious benevolence and instinctive benevolence. (Khan, 1980, P. 136). Fairness is the doing of good equal to the good one receives from others. It is not only a minimum of benevolence, but also a condition for one's

spiritual progress; in the *ḥadīth*, "He has no faith who wishes not for his brother what he wishes for himself" (Muslim, vol.1.P.31). This fairness-benevolence relation is significant for Islamic economic theory, since it inculcates the norms of lawfulness, truthfulness, trustiness brotherhood and cooperation. Thereby, it restrains many forms of reprehensible behaviour such as profiteering, cheating, misallocation of resources and hoarding of money and goods speculatively<sup>12</sup>. Conscious benevolence is the doing of greater good in return for the good and the doing of good without an expectation of reward<sup>13</sup>. Instinct benevolence flows out from the person as love and affection flow out towards one's kindred. Cultivated to that degree, benevolence would eventually become a natural instinct, but having been acquired deliberately, it will be the highest moral quality. It will manifest itself towards a wrongdoers not only in

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<sup>12</sup> The economic significance of the fairness-benevolence relation will be discussed at length in chapter three.

<sup>13</sup> Islam rejects not the exchange of gifts provided they are not motivated by the laws of reinforcement and no societal cost whatsoever is imposed on the recipient if the latter fails to offer a gift in return for the one received. Many of the prophet's *ahādīth* encourage what might be called voluntary reciprocity which helps the spread of love and brotherhood.

forgiveness but also in benevolence. Inculcated to that extent, the norms of benevolence will be a necessary part of a person's code of moral behaviour.<sup>14</sup>

## 2.4. Benevolence & Philosophy of Islamic economics

### 2.4.1. The Philosophical Principles of Islamic Economics

#### 2.4.1.1. The Concept of *tawhīd*

The key to the economic philosophy of Islam is the concept of *tawhīd*; the recognition that there is no God but God. *Tawhīd* has two aspects, metaphysical and axiological (al-Fārūqī, 1982). The former purged religion absolutely clean of doubts regarding the transcendence and unicity of the God-head. The latter asserts that God is the sole and ultimate value, that everything else is only an instrument whose value depends upon God for its valueness. Abu Sulayman(1980) visualizes *tawhīd* as a coin with two faces: one implies that God is the Creator (and hence the Sustainer) and the other that men are equal partners or that each man is brother to another: "O! mankind be conscious of your Lord who created you from a single *nafs* (person) and from it created its mate and from them twain spread a multitude of men and women" (Qur'ān,

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<sup>14</sup> Conscious and instinctive benevolence help secure a continuous unilateral transfer of wealth from the haves to the have-nots. This voluntary capital pooling which forms a third market in the Islamic economy will be discussed in chapter three.

4:1). This Qur'ānic verse also implies that the man-man relationship should be based on brotherhood and equality. However, *tawhīd* has another dimension: everything in the universe is harmoniously moving towards one final end; that is, God. Applying this to the field of economics, then man's economic activities ought to be motivated only by the approval of God, with no room for other objectives as final ends in themselves.

#### 2.4.1.2. The epistemology of Islamic Economics

In Qur'ānic phraseology, man is incapable of knowing what is best for him(4:11). Man possesses a relatively absolute autonomy as opposed to the Kantian absolute autonomy<sup>15</sup>, for only God has perfect knowledge. Guidance comes through revelation, making *waḥy* (revelation) the basic source of knowledge. Man has power to choose between good and evil and he is responsible because God shows him what is good and what is evil. The 'positive' liberalistic economic paradigm dismisses all sources of knowledge other than human knowledge derived through the hypothetico-deductive process. Presumably, this explains

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<sup>15</sup> In his 'Fundamental principles of the metaphysics of ethics' Kant used the autonomy of the will as the supreme principle of morality. Autonomy of the will is that quality of will by which a will (independent of any object willed) is a law to itself. (the will being that kind of causality attributed to living agents in so far as they are possessed of reason). Man is, therefore, bound to laws of his own making. In other words, man is bound to act in conformity with his own will; a will which is designed by nature to give universal laws.

why liberal economists, notably Buchanan (1986), assert that distributional and redistributive judgements (on individualistic and non-individualistic/ external norms) are but "a hoodwink of the public of the existence of a hot line to God"(P.183).

Divine knowledge, it is believed, constitutes a hard core of sure knowledge which may be treated as a point of reference or criterion for judging the truth (Khan,1978). The truth of the principles laid down by the Qur'ān and the *aḥādīth* of the prophet need no verification; they are axioms used to judge human behaviour, that is, human behaviour is Islamic only if it is in accord with divine knowledge. However, this does not mean that human reason is invalid, but it should be within the bounds of over-all divine knowledge. It could be argued, therefore, that Islamic economics is necessarily value-loaded and hence man's economic activity should be kept within the bounds of Islamic epistemology. Accepting this, then benevolence should be a governing principle in all economic activities inasmuch as it is a divine-required value.

#### 2.4.1.3. The Principle of *al'adl*

The basic Islamic principle of rational human behaviour is the law of *al'adl* (justice and equilibrium). The Qur'ān states, "God commands justice, the doing of good and liberality to kith and kin"(16:90), "So establish weight

with balance and fall not short in the balance" (55:19). The divine law of *al'adl*, argued Naqvi(1981a), connotes the philosophy of the right. It specifies what is right and then within this ethical framework, allows an individual to choose the most beneficial course of action <sup>16</sup>. As a moral virtue, *al'adl* denotes a binding moral commitment of the individual to uphold a normative equilibrium in their over-all life spectrum<sup>17</sup>. It could, therefore, be argued that any economic choice in Islam necessarily involves an ethical choice as well. Moreover, the primary task of the individuals, according to the principle of *al 'adl*, should be to alleviate the least privileged persons (Qur'an 28:5). The economic implication of this justice-induced benevolence is the priority of justice over efficiency. This is because Islam allows for distributional and redistributive judgement as well as emphasizing both the fact and the quality of the equilibrium (unlike western theories of optimality which do not insist on the quality of the equilibrium).

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<sup>16</sup> In this respect *al'adl* produces an opposite to the utilitarian principle which first specifies what is good (eg happiness) and then calls whatever maximizes this good to be right.

<sup>17</sup> Unlike western economics, in Islamic economics it is not admissible to obtain equilibrium solutions which are trivial from a normative point of view.



#### 2.4.1.4. The Principle of Trusteeship

Islam has a distinguished concept of ownership; the true owner of all resources is God alone. The fundamental guiding principle in this regard is the Qur'ānic verse: "Unto God belongs the dominion of the heavens and the earth, and all that is therein" (5:120). From this follows the unique Islamic concept of *amānah* (trusteeship), "And spend whereof He has made you trustees" (57:7). Through the concept of *amānah*, property rights have been 'delegated' to mankind under specified terms. Ownership is, therefore, not absolute, rather it is limited and qualified. The resources at one's command (including one's own life) are bestowed upon one by God and have to be allocated in such a way and with the intention of achieving the approval of God (Arif, 1984). Hence the rule of trusteeship must be obeyed in the disposal of wealth because as the Qur'ān states: "And in their [the righteous] wealth and possessions the right of the needy, him who asked and him who (for some reasons) was prevented (from asking)"<sup>18</sup>

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<sup>18</sup> Based on this Qur'ānic verse, Naqvi (1981a) alleges that the right of the poor on the wealth of the rich applies retrospectively; social justice today requires the rectification of the 'historical' injustice if any. It might appear, *prima facie*, that this 'historical' principle of distributive justice has some elements of truth. However, nothing in Islamic teaching could be taken to change the initial allocation of endowments (other than voluntarism), provided, they result from uninjurious conduct.

(51:10). If the concept of trusteeship is fully realized, each person will voluntarily contribute to the welfare of the destitute; benevolence will, *ipso facto*, be a part of man's moral behaviour. Egoism is at least minimized because, as Muslehuddin (1974) observes, it will be "quite out of tune with the economic trusteeship envisaged by Islam according to which man is held a trustee for others-in-need and is bound to have regard for them in whatever he earns"(P.39).

#### 2.4.1.5. The Principle of Responsibility

Individual freedom, in Islam, is directly linked to the conscious act of discharging one's responsibility to help others. Failure to do so has been declared in the Qur'ān to be the denial of faith: "have you seen him who denies the faith? It is he who repulses the orphan (with harshness) and encourages not others to feed the indigent" (107:1-3). This is the essence of the Islamic principle of responsibility which requires man to consciously choose a course of action that enhances the welfare of others, even though such a choice might reduce his/her material welfare (Naqvi, 1981a). Responsibility here is not only what economists refer to as interdependence of individual welfare functions, that is the welfare of an individual is directly influenced by that of his neighbour: "By no means shall you attain righteousness unless you give (freely) of that which you love"(Qur'ān, 3:92). Responsibility is not

enlightened self interest or sympathy but rather a commitment. Hence, commitment is an alternative to egoistic human motivation<sup>19</sup>. Since the individual's welfare is redefined to include reward in the hereafter, commitment appears to be an entirely rational motivation. Egoism does not die out, however; it is most likely to be overcompensated by commitment.

The principle of responsibility denotes that individual and social welfare are complementary rather than antagonistic. Collective responsibility is a social as well as a religious necessity as may be understood from the following *aḥādīth*: "mankind are a fold, every member is a shepherd or a keeper unto every other and accountable for the welfare of the entire fold"(Bukhārī, vol.3.P.438) "A believer to another believer is like the brick of a building which holds one another"(Muslim, vol.5.P.1368)). These *aḥādīth* stress the point that one has to identify his interest with the interest of others; both interests are component parts of the person's responsibility in life. The complementarity between the individual and the social good is possible only when the individual and

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<sup>19</sup> The concept of commitment has been suggested by Sen(1977) as an alternative to egoistic and sympathetic behaviour since the latter is in an important sense egoistic. To Sen, commitment is the state wherein one feels that others' distress is wrong and he is ready to do something to stop it. It is only through commitment that an individual choose an act that he believes will yield a lower level of personal welfare to him than an alternative that is also available to him.

social welfare are closely linked up provided that the individuals maintain complete harmony between their individual and social good. (Afzal-ur-Rahman,1980). In accordance with the principle of responsibility, every person ought to strive for his and others' welfare even if he/she gets no benefit from others.

#### 2.4.2. An Introduction to the Homo Islamicus

The whole edifice of conventional economic theory is built on the presumption of rational human behaviour. Axiomatically, rationality is tantamount to the management and implementation of choices with a view of maximizing individual interest<sup>20</sup>. The ontological and the axiological commitment to self interest, and the utilitarian principle underlying economic rationality imbued the personality of the *homo economicus* with an egoistic human motivation. Methodologically speaking, the *homo economicus* becomes "the metaphoric or figurative expression for a proposition used as a premise in the hypothetico-deductive system of economic theory"(Machlup,1972,P.113). The *homo economicus* (the rational *primum mobile* of the neoclassical economics) is "the child of the Enlightenment' and so the self-seeking individualist of utility theory"(Hollis & Nell,1976,P.54). Implied in the concept of the *homo economicus* is the

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<sup>20</sup> For a detailed discussion on rationality *vis à vis* maximization see ch.4:2 *infra*.

psychological notion that all human needs are reduced to the common denominator of utility. (Lutz & Lux, 1979, P. 45).

It is the neoclassicists, Jevons(1871), Menger(1871), and Marshall(1890) who raised the *rational economic man* to the level of universal existence. Veblen(1915) rejects the materialistic path of the neoclassicists who perceive economic man as devoid of social motives. However, economic man has been 'born again' with Lionel Robbins(1935) and latter with Milton Friedman(1953). Robbins turns the *rational economic man* into a *consistent economic man*; a maximizer whose orders of choices are consistent. Note that this assumption upholds the separation of ends and means. The logical positivist, Milton Friedman, imparted new life into economic man by insisting that all talk of his outmoded psychology and inhuman, overly mechanic and unreal character has been "largely beside the point"(P.31). In line with the thinking of the logical positivists, "if he [the economic man] behaves according to predictions, he exists, whether we like him or not" (Lutz & Lux, 1979, P. 67).

The *homo economicus*, it is presumed, is endowed with complete, fully ordered preferences, perfect information and an undefiled computing power<sup>21</sup>. His behaviour is to be

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<sup>21</sup> The fact that these assumptions are invalid and unrealistic has motivated many economists, notably Herbert Simon and the managerial economists thereafter, to propose a different concept of rationality and hence a different portrayal of economic agent. (cf. ch. 4:2 *infra*).

explained as a series of attempts to satisfy his desires<sup>22</sup>, The value considerations (the nature of wants, the welfare of others, etc.) are presumably beyond the scope of rational discussion insofar as they are subjective and arbitrary. Thus "value-free calculus of utility becomes a natural way of applying strict scientific methods to the economic behaviour of individuals"<sup>23</sup> (Hollis and Nell, 1976, P. 49).

As a maximizer, the *homo economicus* is rational in an instrumental sense; "rationality is a means-to-ends notion, with no questions raised about the source or worth of preferences" (Hargreaves-Heap and Hollis, 1987, P. 54). Put in this way, means are indisputably rational insofar as they help achieve the objective(s) of the *homo economicus*. This utility-motivated behaviour is said to govern human behaviour in general; "all human behaviour can be viewed as involving participants who maximize their utility from a stable set of preferences and accumulate an optimal

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<sup>22</sup> As Hargreaves-Heap and Hollis (1987, P. 55) put it, in supposing that only desires motivate agents, the economists are taking sides in a continuing philosophical dispute between Humeans, who regard reason as the slave of the passions, and Kantians, who make room for the rational monitoring of desire.

<sup>23</sup> The positivists' models of man which presuppose the rational calculation of self interest are based on three epistemological foundations. Firstly, value judgements are not only unscientific but simply make no sense. Secondly, means and ends are logically distinct. Thirdly, the findings of reason are universal and absolute.

amount of information and other inputs in a variety of markets" (Becker,1976,P.14). Eventually, the fictitious *homo economicus* becomes a *homo sapiens*. The assumptions underlying the concept of *homo economicus* (instrumental rationality, self-interest, rigorous calculation ....etc.) are, to say the least, in substantial disagreement with the Islamic philosophy of human life. The behaviour of the *homo economicus* is thoroughly alien to the Islamic behaviour, and a new conceptualization of an Islamic agent is thus indispensable.

According to the philosophy of the Qur'ān, human activities ought to be motivated by the achievement of *falāḥ* : "So give what is due to kindred, the needy and the wayfarer. This is best for those who seek the countenance of God. And such are those who are successful (*muflīḥīn*)" (30:38). *Falāḥ* is a comprehensive concept denoting all-sided welfare of this life as well as that of the hereafter (Siddiqi,1979). Since the Muslim's time span extends to include this life and the life to come, his/her welfare function exhibits both material and spiritual satisfaction. The moral significance of this is that a Muslim usually capitalizes on whatever contributes to his and others' satisfaction (in the two worlds) and abstains from the negative values that cause *mafsadah* (mischiefs). Muslims, therefore, are prompted to benevolence as a virtue of paramount spiritual satisfaction. The Qur'ānic

emphasis on spiritual progress is based on the principle that the life to come is far more important than the ephemeral pleasure of the present life: "Nay, you prefer the life of this world. But the hereafter is better and more enduring" (87:16-17). Therefore, adopting material progress as a supreme objective of life is thus alien to the Islamic framework. Material progress is not undesirable; on the contrary, it is demanded so long as it is subservient to the achievement of *ḥalāl*.

Now let us attempt to explore the behaviour of the *homo Islamicus*. In Qur'ānic phraseology, Muslims entreat to God for the provision of that which is good in this world and that which is good and in the hereafter. (Cf. Qur'ān, 2:201). Thus the *homo Islamicus*, as a representative Muslim economic agent, behaves in such a way as to further his and others' *ḥalāl* over a two-stage life model; success in this world and success in the hereafter. Unlike the western concept of *homo economicus*, the concept of *homo Islamicus* typifies a real not a hypothetical, fictional man. Note that the *homo economicus* was never thought to be a whole man, only a man-in-the market place. Moreover, the concept of *homo economicus* does not imply that such a man in fact exists. As Naqvi (1981b, P.62) put it "the term is used as a logical abstraction to highlight a simulated model of economic activity, in which man is the principal actor". The emphasis on the real man is because,



Islamically speaking, human behaviour must be visualized objectively. It is the real and not the *fictional* man who is created with a purpose and accountable for his actions. Moreover, the diverse modes of human behaviour observable in the real world can hardly be abstracted in one ideal behaviour. Hence Islamic objectivity rejects the *fictional* man inasmuch as it is an inadequate symbolization of real human behaviour.

The *homo Islamicus* behaves in such a way as to attain *falāḥ* through rational economic choice. The *homo Islamicus* knows, primarily, the supremacy of his spiritual concerns over his worldly pursuits; that is, economically speaking, the *homo Islamicus* has a high marginal utility for spirituality (Nasr, 1986). Recall the Islamic theory of human motivation (the expectation of the approval of God) by which human beings ought to strike a just balance between theirs and others' interest. Thus there emerges the Islamic perspective of the inter-dependence of individual welfare functions. In the *ḥadīth*:

"Be cautious of harming your neighbour by the smell of your cooking unless you ladle out food for him. Give him from the fruit you have brought, if not, hide it and prevent your children from out-doors eating in order not to make your neighbour's children become grieved to look not to have it" (Al-Mundhiri, 1968, vol. 3. P. 357).

Hence, the *homo Islamicus*' welfare depends not only on his material and spiritual satisfaction, but also on others' material and spiritual satisfaction. Others' welfare is not a mere parameter in the *homo Islamicus*' welfare function, but he or she is Islamically obliged to contribute positively to their welfare and abstain from the negative acts that cause distress or external diseconomies to others. Material satisfaction is to be restrained if it causes external diseconomies to others. The *homo Islamicus* takes into consideration the social cost and external diseconomies of his material welfare. Therefore, the *homo Islamicus* eschews voluntarily all forms of consumption and production activities that cause (or might cause) deleterious effects (i.e. external diseconomies) on others.

Now the *homo Islamicus*' welfare function could be written in its general form as:  $W = W [M_i, M_j, S_i, S_j]$ , where  $M_i$  and  $M_j$  stand for his/her and others' material satisfaction respectively;  $S_i$  and  $S_j$  stand for his/her and others' spiritual satisfaction respectively. measurement of  $S$  might pose a question. spiritual satisfaction is insatiable; the *homo Islamicus* is unable to measure it, nonetheless, he/she can be psychologically conscious thereof. The *homo Islamicus*' rational behaviour is governed by the condition that,  $\frac{\partial W}{\partial M} > 0$ , and  $\frac{\partial W}{\partial S} > 0$ ,

that is pure ascetic (if  $\frac{\partial W}{\partial M} = 0$ ) and pure materialistic

(if  $\frac{\partial W}{\partial S} = 0$ ) behaviour are both irrational and Islamically

reprehensible. Since the *homo Islamicus*' utility function exhibits a high marginal utility for spirituality; it

follows that  $\frac{\partial W}{\partial S} > \frac{\partial W}{\partial M}$ , This assumption implies that

the *homo Islamicus*' preferences (or choices) are ordered lexicographically. This would eventually lead to a unique consumer theory. (cf. section 4.3.2.3. *infra*)

## 2.5. Concluding Remarks

The Islamic perception of human nature reveals that both egoism and benevolence are there in human nature. However, Islamic teachings insist that for man to attain a higher position in the spiritual scale, benevolence ought to be a sacrosanct ethical value. Therefore, Islam does not accept the assumption of egoistic human motivation; individuals are motivated by the anticipated approval of God and aspire *falāḥ* in a two-stage life model. The economic significance of this highly spiritualized benevolence is that the *homo Islamicus* is rational if and only if he/she behaves to further others' as well as his material and spiritual satisfaction.

## CHAPTER THREE

### THE ISLAMIC 'BENEVOLENCE MARKET'

#### 3.1 Overview

On the basis of the arguments developed in the previous chapter, an attempt will now be made to propose a 'benevolence market' as a unique 'third' market in Islamic economy. This market is assumed to emerge *paco a paco* from two imperative norms viz, the unilateral transfer of wealth, a *quid* without a *pro quo*, and the predominance of the rules of fairness. The following analysis falls into two sections. Section two explores the Islamic imperatives that secure and enhance the flow of unilateral transfer of wealth. The welfare effect derived therefrom will also be examined. Section three elucidates the economic significance of the 'fairness-benevolence' relation.

#### 3.2 The Unilateral Transfer of Wealth

This section explores the basic Islamic institutions whereby wealth is unilaterally and voluntarily transferred from the haves to the have-nots, viz, *zakāh*, *ṣadaqah*, *hibah* and *waqf*. Through these institutions, conscious and instinctive benevolence is likely to be manifested in positive acts of giving. The analysis here is confined to the *modus operandi* of these institutions and is not concerned with their underlying jurisprudence (unless otherwise it seems necessary) which is to be found in the diffused literature on *fiqh* (Islamic jurisprudence).

### 3.2.1. The Institution of *Zakāh*

*Zakāh* is the third among the five immutable pillars of Islam and indeed the foremost socio-economic pillar. Lexically, the word *zakāh* denotes growth, purity, improvement, and blessing (Anis et al, 1970, vol.1, P.396). In its Islamic connotation, argued al-Qaradāwī (1977), *zakāh* is "the certain portion of wealth which God has prescribed for the beneficiaries, it also refers to the act of paying that portion". (PP.37-38). Hassan (1988) visualizes the institution of *zakāh* as "a pure transfer operation which siphons off from the rich into the hands of the poor and the needy" (P.54). It is worth-noting that the term *zakāh* has been mistranslated (and hence misconceived) as charity (Qureshi, 1979), poor-tax (Mannan, 1984), organized charity, (de Zayas, 1970), while others like Abu Saud (1980) and Choudhury (1983) regard it as a tax. However, *zakāh* is neither a charity nor a tax nor it is confined only to the poor<sup>1</sup>. 'Institutionalized-benevolence' is the appropriate translation for *zakāh*.

The norms of giving are symbols for man's responsibility towards his fellow-men. Through *zakāh*, a form of giving has been made a divine-duty. The Qur'ān

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<sup>1</sup> While the act of charity is an act of love which is avoidable without a societal cost, *zakāh* must be paid willy-nilly, and as a form of 'ibadah (worship), it can neither be evaded nor avoided without a societal and a religious cost. Moreover, *zakāh* is a quid without a pro quo while tax is an implicit quid pro quo, inasmuch as the tax-payer expects a return in the form of public goods.

states, "take *zakāh* of their wealth wherewith you may purify them and may make them grow"(9,103). Addressing his envoy to Yemen, the prophet is reported to have said "Inform them that God has made it a divine-duty to pay *zakāh*; to be taken from the well-to-do and to be distributed to the poorer sections of the people"(Bukhārī, vol.2,P.272). The most distinguishing feature of *zakāh* is that it fosters the welfare of the needy, whereas the duties resembling it in other religions(cf. Rouse,1921, Zarqa,1988) are basically meant to support the priesthood and the religious institutions.

As a divine-duty, *zakāh* might, *prima facie*, appear to some as irrelevant to benevolence. To resolve this superficial paradox, two points need to be clarified viz, the *haq-zakāh* relation, and the etymological relation between *zakāh* and *tazkiyah*. The Qur'an states, "And in their [the God conscious] wealth a *haq* for the needy, him who asks and him who asks not"(51:19). It is a *haq* (a divine-duty) of the well-to-do to pay *zakāh*. Likewise, it is a *haq* (a socio-economic right) of the beneficiaries to receive and even to claim *zakāh*. The moral commitment to *zakāh* as *haq* is a real manifestation of the ethical principle of *al'adl*, and since the latter is the minimum of benevolence, it follows that the relation between *zakāh* and benevolence is self-evident.

The *zakāh*-benevolence paradox could also be resolved by scrutinizing the significance of the etymological

relation between *zakāh* and *tazkiyah*. In his explanation of the far-reaching effects of *zakāh*, Abdalati (1975, PP. 95-96) proposes that *zakāh* has a tremendous purification effect on wealth, the givers, the recipients and society at large. Abdalati's argument is herein developed further in an attempt to understand the *zakāh-tazkiyah* relation. (*tazkiyah* will be used to imply both purification and self-discipline). Giving *zakāh* voluntarily and consciously not only restrains man's egoistic behaviour but also evokes his consciousness of other beings. The Qur'an emphatically relates *zakāh* to the growth of wealth, "And whatever you lay out by *zakāh* seeking the pleasure of God, those- they receive recompense manifold" (30:39). This *zakāh*-induced growth is presumably generated by the blessing of God (the Grantor, the Sustainer) and by the investment motivation inherent in *zakāh*. On a *ceteris paribus* assumption, idle wealth diminishes annually by the amount of *zakāh*<sup>2</sup>. (*mutatis mutandis*, depreciation in the value of money and the opportunity cost should both be noted). Through *zakāh* the recipients are helped to develop a sense of self-discipline; their socio-spirituality is elevated and their rancor, envy, and hatred are thereby diminished. Moreover, through *zakāh* the recipients are

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<sup>2</sup> It might be argued that if the wealth is large, given man's average life expectancy, the annual diminution of wealth is trivial and hence the *zakāh*-induced investment is insignificant. This is resolved Islamically through the prohibition of *kanz* -hoarding-(cf. section two *infra*). This *zakāh-kanz* relation is the built-in investment motivation.

given a chance not only to cater for their welfare but also to be benevolent. Helping others to be benevolent is indeed benevolence *par excellence*. With the predominance of *zakāh*, a special society will eventually emerge; a society wherein each individual feels morally responsible for the material and the spiritual welfare of others. Having said all this, if *zakāh* is not a form of benevolence, what is it then that is called benevolence?

The basic feature of *zakāh* is its comprehensiveness inasmuch as it covers a wide spectrum of wealth, contributors, and beneficiaries. As far as wealth is concerned, the *zakāh*-base is widened so that a large amount of wealth participates in the welfare of the needy. Wealth is subject to *zakāh* if the following conditions are satisfied (al-Kāsānī, d.1189, n.d. vol.2.; al-Qaradāwī, 1977, vol.2). Firstly, it is in the total ownership of the would-be contributor. Secondly, it is productive (either because of its nature or due to investment); that is, yielding or capable of yielding a return, income or profit. Thirdly, it satisfies the *nisāb*<sup>3</sup> (the minimum exemption limit). The prophet has been reported to have

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<sup>3</sup>The *nisāb* is 5 *awsuq* (approx. 653Kg) of the land produce, 40 *dinār* (approx. 85gm) of gold, 200 *dirham* (approx. 595gm) of silver. The *zakāh* incidence varies with reference to different kinds of property. For instance, the incidence is 2.5% on capital, savings, and money incomes; 5% of the produce of the irrigated land (provided labour and capital are employed in the irrigation process) or 10% if the land is irrigated by rainfall.



said: "zakāh is only levied on the grounds of richness" (Bukhārī, vol. 2. P. 291) According to al-Kāsānī (n.d. vol. 2. P. 911) this richness is synonymous with the ownership of nisāb, while ad-Dihlawī (1933, Part, 2. P. 43) equates the nisāb to a one year adequacy level for a four-person family. Fourthly, regarding capital and savings, given nisāb, zakāh is due once a year. zakāh on incomes and earnings, according to the most authentic view, is due on the spot (cf. al-Ghazālī, 1963, al-Qaradāwī, 1977). As far as the contributors are concerned, all Muslims are duty-bound to participate in the welfare of the needy and the destitute, provided their wealth satisfies the above-mentioned conditions. The prophet is reported to have said: "the orphans's wealth should be invested in order not to be substantially diminished by zakāh" (al-Muwatā, P. 123). If there is any Muslim to be exempted from zakāh, it is doubtless the orphan, and since the latter is not exempted, it follows that no one is.

The institution of zakāh is unique inasmuch as the dispersement of zakāh funds covers almost all possible types of 'need'. The Qur'ān states,

"ṣadaqat(zakāh) are for the poor and the destitute, and those employed to administer it, and those whose hearts have (recently) reconciled (to Islam), for those in bondage and in debt, in the way of God, and for the wayfarer; a duty imposed by God. God is Knower and Wise"(9: 60)

Muslim jurists are not at all unanimous as to the definition of *zakāh* beneficiaries (mentioned in the Qur'ānic verse), nonetheless, they regard them as categories of disadvantage persons. The following definitions are based on the opinion that has gained considerable consensus among the majority of Muslim jurists, as seen in al-Qurtubī (d.1273.n.d. 8/167-92) ,al-Māwardī(d.1054, n.d. PP. 122-124), and al-Qaradāwī (1977, vol.2. PP.544-694). The *faqīr* (the poor) is the one who has no income, while the *miskīn* (the needy) is the one whose income is to be supplemented to meet his basic needs. In other words, the *faqīr* and the *miskīn* belong to the same category, but the poverty of the former is comparatively greater. The officials employed to collect and administer *zakāh* funds (*al'āmilūna 'alayyhā*), whether poor or rich, are entitled to a remuneration therefrom. Those who recently accepted Islam (*almu'llafatu qulūbuhum*) are given *zakāh* in order to neutralize their hatred against Islam and to help them rehabilitate in the Islamic society. The term *firriqāb* signifies that those seeking freedom from the bondage of slavery have a recognizable share in *zakāh*. Debt-ridden persons are entitled to *zakāh* whether the debt is incurred for personal purposes, or for the interest of the society, such as reconciling others' conflicts and thereby standing as a guarantor. All selfless activities undertaken solely for the service of Islam and for the benefit of the

society, that is, *fiṣabilillāhi*, could also be financed from *zakāh*. The wayfarer is the traveller who has lost his/her means of subsistence, be he/she rich or poor in his/her homeland.

The claim that the beneficiaries are categories of disadvantage persons is indeed an utter misconception; eventually the eligibility criterion for the dispersement of *zakāh* would be ill-defined. A profound examination of Qur'ānic verse (9:60) suggests that the beneficiaries mentioned are categories of 'need' rather than of persons.

It could therefore be argued that 'need' (in its economic sense) forms the eligibility criterion of receiving and/or claiming *zakāh*.<sup>4</sup> The *faqīr* and the *miskīn* are symbols for all people living under poverty-induced need. The share allotted to *al'amilūna 'alayyāhā* signifies that *zakāh* is not at all a burden on the government budget. It exhibits the need for efficient and effective administration of *zakāh* itself. The share prescribed for *almu'llafatu qulūbuhum* symbolizes the societal need to safeguard itself from its weak-hearted members. Those in bondage, *firriqāb*, could be regarded as a simplification for all exploitation-related 'needs'. All forms of 'need' that arise (or might arise) due to unexpected or unanticipated cause(s) are included in the terms *alqārimīn* (the debtors), and *ibnussabīl* (the wayfarer). *fiṣabilillāhi* is a symbol

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<sup>4</sup> The genesis of this view is acknowledged to Ahmad(1981).

for all needs associated with *jihād* (all forms of physical and mental exertion motivated by the approval of God and the protection, consolidation, and development of Islamic society). By and large, the 'need fulfilment' is the underlying welfare significance of *zakāh*.

In addition to *zakāh* on wealth, Islam enjoins a special *zakāh* which is imposed on individuals; that is, *zakātul fiṭr*, which is to be paid to the needy on the completion of fasts of *Ramādān*. As reported by *Bukhārī* (vol.2.P.339) and *Muslim* (vol.2.P.468), "the prophet prescribed *zakātul fiṭr*, for every freeman or slave, male or female among the Muslims- one *ṣā'* of dried dates or one *ṣā'* of barely" (one *ṣā'*=3Kg approx.). Muslim jurists are unanimous as to the payment of this *zakāh* in kind (from ordinary kind of food), but they are less so as to its payment in cash. However, as *al-Qaradāwī* (1977, vol.2.P.949) argues, the best course for fulfilling the purpose of this *zakāh* is to pay it in cash. Concerning its wisdom, Muslim jurists often draw on the fact that the "prophet prescribed *zakātul fiṭr* as a purification of the fasting from empty and obscene talk and as food for the needy" (*Abu Dāwūd*, vol.2.P.421). Hence, it is a token of thankfulness to God and a compensation for any deficiency in the fasting. Moreover, it shows sentiments of brotherhood and affection for the needy. (*al-Qaradāwī*, 1977, vol.2.P.922).

However, a thorough scrutinization of *zakātul fitr* reveals its far-reaching benevolence implications. Its significance revolves around the concept of *tazkiyah* (self-discipline). It is claimed that the Qur'anic verse, "prosperous is he who performs *tazkiyah*"(87:4), was revealed in connection with this form of *zakāh* (cf. al-Qurtubī, n.d. vol.20. P.21 ). Though al-Qurtubī has questioned the validity of this claim without questioning its essence, the '*zakāh-tazkiyah*' relation is indeed irrefutable. Purification as an established wisdom (or reason) behind *zakātul fitr* is questionable; its acceptance poses the question whether infants are in need of such purification. Three factors might account for the underlying benevolence significance of *zakātul fitr*. Firstly, the *zakāh*-base is broadened and the amount due on every person is so meagre. The implication derived therefrom is that none is exempted from voluntary contributions towards the social good. Secondly, it educates Muslims (even children) to develop a sense of self-discipline as an indispensable prerequisite for the positive manifestation of the norms of benevolence. Thirdly, its connection with fasting exhibits a subtle implication of benevolence. For the Muslim, fasting is an opportunity to feel the 'deprivation' often experienced by the needy, whereby he/she is self-stimulated to foster the happiness of others. Presumably, this explains why fasting

appeared as an alternative to spending for the needy in all forms of expiation mentioned in the Qur'ān (cf. 2.196; 4.92; 5.89; 5.95 and 58.4).

### 3.2.2. The Institution of *ṣadaqah*

The institution of *ṣadaqah* constitutes the kernel of Islamic voluntarism. Lexically, the word *ṣadaqah* is derived from the root *ṣdq* which denotes truthfulness, its reciprocal form *ṣādaqa*, means to befriend, its reflexive form, *taṣādaqa*, means to trust one another (Anis, et al, 1970, vol.1.P.510). Muslim jurists maintain that *ṣadaqah* includes every form of righteous deed; nonetheless, in their analysis the term is restricted to voluntary contributions, as distinguished from divine duties such as *zakāh* (cf. al-Kāsanī, n.d. vol.2.; al-Qurtubī, n.d. vol.8) However, other jurists like al-Māwardī (n.d.) allege that *ṣadaqah* and *zakāh* are indeed synonymous (P.113). It is worth noting that the two concepts appear as synonyms three times in the Qur'ān (cf. 9:58,60,103). Nonetheless, the two concepts are not interchangeable; the relation between *ṣadaqah* and *zakāh* is a whole-part relation; *zakāh* is only a subsection of *ṣadaqah*. deZayas (1970,P.6) defines *ṣadaqah* as "an attitude of mutual appreciation, an act of loyalty to God and to one fellow beings, a sense of true humanhood".

Both in its etymological and Islamic connotation, *ṣadaqah* is a witness to truthfulness, which eventually

equates the Muslim's heart-concealed belief with his or her revealed behaviour. The Qur'ānic verse (2:177) insists that righteousness is attainable only when the person's faith is revealed in positive acts of *ṣadaqah*. Ostensibly, this is the spirit of the *ḥadīth*, "*ṣadaqah* is a proof (of one's conviction)". (Muslim, vol.1. P.184). This perception of *ṣadaqah* implies that benevolence is necessarily an operational concept as well as a philosophical principle. Unlike the western secular concept of charity, *ṣadaqah* is not restricted to the norms of giving. *ṣadaqah* is rather a spontaneous benevolence which includes all forms<sup>of</sup> helping others or fostering their happiness; hence, to translate it as charity or alms is incorrect. The prophet has said: "every act of goodness is *ṣadaqah*" (Muslim, vol.2.P.482). As such, *ṣadaqah* is broadened so that no Muslim feels (or considers himself) exempted therefrom. This might explain the prophet's *ḥadīth* that "*ṣadaqah* is incumbent upon every Muslim, and whoever finds nothing to give, should do a good deed" (Bukhārī, vol.2.P.300). By and large, *ṣadaqah* is an attitude of mind which instigates the person to promote the welfare of others, presumably as a spiritual-moral commitment.

*ṣadaqah* is not confined to Muslim beneficiaries; universal brotherhood and cooperation necessitates that both conscious and unconscious beings are eligible for it. The non-Muslim who bears no malice to Muslims is eligible for the latter's benevolence (Qur'ān, 60:8). Through

*ṣadaqah* the sense of other beings is inculcated to the extent that Muslims are required not to discriminate between conscious and unconscious beings. In the *ḥadīth*, "In every animal having a liver fresh with life, there is *ṣadaqah*" (Bukhārī, vol. 8. P. 25). Hence, *ṣadaqah* is enjoined whenever a need for it arises, irrespective of who the beneficiary is. This psychological theory of *ṣadaqah* exhibits absolute benevolence. However, the dependents of the giver are more eligible to his/her *ṣadaqah* than others. "Whatever you spend (of wealth) is for parents and kindred and orphans, the destitute and for the wayfarer" (Qur'ān, 2:215). In the *ḥadīth* reported by Abu Dāwūd (vol. 2. P. 440) "and begins with those for whom you are responsible (for sustenance)", i. e. in the disbursement of *ṣadaqah*. In another *ḥadīth* the prophet said, "*ṣadaqah* to the non relative is mere *ṣadaqah* but to the relative is both *ṣadaqah* and a link" (Bukhārī, vol. 2. P. 321). This is the essence of the often-quoted proverb *ṣadaqah begins at home*. The emphasis on 'relatives' does not negate absolute benevolence as might, *prima facie*, appear to some. Firstly, the dependents of the giver are more eligible to his *ṣadaqah* inasmuch as their sustenance is a divine-duty and hence takes precedence over voluntary acts towards others. Secondly, the giver who sustains his dependents and thereafter promotes others' happiness is likely to prevent societal cost such as rancor and hatred which would otherwise exterminate the family ties.



Can the act of *ṣadaqah* be Islamically devoid of value? As a test of truthfulness, the subject-matter of *ṣadaqah* ought to be of high marginal utility to the giver. "O you who believe spend of the good things which you have earned,....And seek not the bad (with intend) to spend thereof (in *ṣadaqah*) when you would not take it for yourself save with disdain"(Qur'ān,2:267). Hence, any act of *ṣadaqah* the subject-matter of which is impure, unlawfully earned, or inferior to the giver, is devoid of value. Moreover, the act itself ought to be above ostentation and dissimulation and cause no injury whatsoever to the recipient (cf. Qur'ān, 2:262-264). Failure to avoid these reprehensible traits will eventually nullify the Islamic value of *ṣadaqah*. However, the Qur'ān enjoins both the disclosure and the concealment of *ṣadaqah*, "If you disclose *ṣadaqah*, it is well, but if you conceal it and give it to the needy, it will be better for you"(2:271). As al-Ġhazālī, (n.d., vol.1.P.205) asserts, the preferability of either disclosure or concealment (of *ṣadaqah*) depends on the person's intention which varies according to the ruling circumstances.

However, the institution of *ṣadaqah* is beset with two catastrophic misconceptions. Firstly, the prophet has said "the upper hand is better than the lower hand, the upper hand being the one which bestows and the lower one which receives"(Muslim, vol.2.P.495). This *ḥadīth* is often quoted *vis à vis* beggary (cf. al-Qaradāwī, 1977; Babliblī, 1982).

Nonetheless, it is maintained that the giver is superior to the recipient. 'As if he is living on *ṣadaqah*' is a phrase often used as a figurative indication of disgrace. The positive act of giving is indeed better than the negative act of receiving inasmuch as benevolence is a paramount ethical value. However, the spirit of the Islamic legislation suggests that this is true if and only if the recipient would have been better off even without receiving *ṣadaqah*. Therefore, the prophet's *ḥadīth* should be conceived only as an incitement to benevolence. Should it be understood to mean the superiority of the giver it will undermine the Islamic philosophy of benevolence.

The second misconception is related to the *ḥadīth* "verily *ṣadaqah* is the offscouring of mankind and it is permitted not for Muḥammad and the family of Muḥammad" (Muslim, vol. 2, P. 519). The majority of Muslim jurists are of the opinion that this *ḥadīth* covers both *zakāh* and *ṣadaqah*. However, after scrutinizing the different views, al-Qaradāwī (1972, PP. 729-39) claims that the *ḥadīth* was valid so long as the prophet was alive; that is, it had a special significance for the prophet and his family during his life time. al-Kasani (n.d. vol. 2.) alleges that, as an offscouring of mankind, *ṣadaqah* is impure and God glorified the prophet and his family by allowing them not to receive it (P. 915). However the above *ḥadīth* needs reexamination in the light of the fact that people are equal brethren and differ in their grades and closeness to

God according to *taqwā*. Firstly, the mere fact that God enjoins *ṣadaqah* negates its impurity. Secondly, "*ṣadaqah* is an offscouring of mankind" is simply a figurative expression. A dollar of *ṣadaqah* might be an offscouring of the giver, but the dollar itself is not impure. Thirdly, the *ḥadīth* implies that *ṣadaqah* is a means of 'need fulfilment' and not a means whereby a person is brought nearer to the prophet or his family. Had this been allowed, *ṣadaqah* would have been accumulated in the hands of *spiritual leaders*, and thus ceased to serve its purpose.

### 3.2.3 The Institution of *hibah*

A substantial amount of both tangible and intangible wealth is expected to flow unilaterally and voluntarily in the benevolence market through the institution of *hibah*. *hibah* is defined as "a contract whereby a person disposes, without consideration, of property belonging to him during his life time to an other person" (Sābiq, 1985, vol. 3. P. 534). *hibah* is, *ipso facto*, synonymous with gift *inter vivos*, a quid made with no conditional quo. (However, its broadest connotation is not confined only to the gift proper as will be mentioned later in this section). It might, *prima facie*, appear to some that *hibah* is synonymous with *ṣadaqah*; the difference is, however, very subtle. Ibn Quddāmah (d. 1222. n.d. 5/649) argues that the two concepts are distinguished according to their motivation; that is, while *ṣadaqah* is motivated by the approval of God, *hibah*

is motivated by rapprochement and mutual affection. This is a superficial difference inasmuch as all acts ought to be motivated by the approval of God. While 'need' is the eligibility criterion of receiving *ṣadaqah*, both the needy and the well-to-do are possible beneficiaries of *hibah*. Moreover, the spiritual weight of *ṣadaqah* outweighs that of *hibah*. The *hibah* (gift *inter vivos*) is meant to develop the spirit of brotherhood and to cement the bonds of social harmony and cooperation. In the *ḥadīth*, "give gifts to one another, for gifts take away rancor" (Mishkat, vol. 1. P. 646).

*hibah* is subdivided into two forms, viz, *hibatul 'ayn* (gift of the substance) and *hibatul manfa'ah* (gift of the usufruct). *hibatul 'ayn* is not always a *quid* without a *pro quo* (Ibn Rushd, d. 1198, 1981, vol. 2. P. 331); the expected *quo* is either in the form of the approval of God or remuneration from the recipient. According to some jurists, argued Ibn Rushd, a remuneration-related gift is devoid of value inasmuch as it resembles a speculative sale (a contract involving uncertainty). Other jurists, like Imam Mālik, maintain that a fair compensation for a gift received is a prevailing custom that becomes an acceptable, socially imposed condition. The denotative implication of this view is that *hibah* (gift *inter vivos*) is a sale contract rather than an act of benevolence, indeed a contract involving uncertainty. Presumably, failure to comply with this coercive compensation might cause severe societal cost to

the recipient. It is true that "the prophet used to accept a gift and to give a compensation for it" (Abu Dāwūd, vol. 2. P. 1004). This ḥadīth signifies that the prophet taught voluntary gift exchange; it does not presuppose reciprocity as a necessary condition in gift exchange. Moreover, giving with an expectation of reward is utterly forbidden, "and bestow not favours, seeking greater benefit" (Qur'ān, 74: 6). By and large, gift exchange is a paramount social virtue, its *raison d'être* is to strengthen the bonds of social relation between members of the society as well as to serve as a tool of voluntary distribution of wealth.

Another form of *hibatul 'ayn* is the institution of *waṣīyyah* (bequest); a genuine *quid* without a *pro quo*, often misconceived as a mere mechanism whereby the decedent's wealth is disposed. "It is prescribed for you, when death approaches one of you, if he leave wealth, that he bequeath unto parents and near relatives in accordance with justice; a duty incumbent upon the God-conscious" (Qur'ān, 2: 180). Muslim jurists define *waṣīyyah* as "a gift made by a person to another of a substance, a debt or a usufruct, in such a way that the beneficiary shall take possession of the gift after the death of the testator" (Sābiq, 1985. vol. 3. P. 584). This definition raises the question whether the bequest of the usufruct is Islamically acceptable. Some jurists reject the *waṣīyyah* of the usufruct, arguing that the decedent no longer owns the substance, hence he

or she has no right to bequeath what is virtually owned by others (the heirs) (Ibn Rushd, 1981, vol. 2, P. 335). Indeed, this view has some elements of truth in it; the bequest of the usufruct causes serious ambiguity regarding ownership; the substance is owned by one person while its usufruct is owned by another<sup>5</sup>.

Two conditions are imposed on *waṣiyyah* in order not to violate the rules of *al'adl* (fairness/justice). Firstly, the beneficiaries are necessarily non-heirs; *waṣiyyah* to a would-be heir is utterly void according to a *ḥadīth* of the prophet (cf. Bukhārī, vol. 4, P. 6). Secondly, on the authority of an other *ḥadīth* the bequest shall not exceed one-third of the estate (cf. Bukhārī, vol. 4, P. 3). It is said that this condition is valid so long as there is a legal heir. (Al-Qurtubī, n.d. vol. 2, P. 261; Ibn Rushd, 1981, vol. 2, P. 336). Motivated by the sense of benevolence, *waṣiyyah* should satisfy the rules of *al'adl*. Through *waṣiyyah*, the testator is attempting to foster the welfare of others (non-heirs), with no ulterior motive(s) other than the approval of God. But the latter requires commitment to the rules of *al'adl* (cf. Qur'ān, 4:12-14). However, the decedent's wealth belongs, *jure divino*, to the legal heirs. Virtually,

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<sup>5</sup> To avoid possible misunderstanding, this view is herein considered valid so long as the recipient has a property right over the usufruct with no legal ownership whatsoever on the substance. However, the gift of the usufruct is irreproachable if the recipient's possession of the usufruct is terminable i.e. valid only for a specified period of time.

the testator's act of benevolence should not be at the expense of the would-be heirs, "And let those who, if they leave behind them feeble offspring, would be afraid for them, be wary. Let them hence fear God and speak [in *wasīyyah*] with conscientious justness" (Qur'ān, 4:9). The prophet expresses the spirit of this verse in a stylistic *ḥadīth* which awakens both the individual's sense of benevolence and his or her commitment to *al'adl*. "To leave your heirs rich is far better than leaving them poor begging the people" (Abu Dāwūd, vol. 2. P. 1004).

Two forms of unilateral transfer of the usufruct are worth mentioning, viz, *'āriyyah* (gratuitous loan), and *qarḍ ḥasan* (interest-free loan). *'āriyyah* is generally perceived as a contract whereby a person hands over to another person without consideration, a non-consumable item for the latter's use during a specific time, or for a specific purpose, to be returned after use (Sābiq, 1985, vol. 3. PP. 293-40). More specifically, *'āriyyah* is a terminable grant of the usufruct of a productive asset to a needy person. Its cooperative denotation could be deduced from the Qur'ānic verse, "Help each other in righteousness and God-consciousness" (5:2). However, the Qur'ānic verses (107:6-7) emphatically warn Muslims against refusing to grant the usufruct of their assets to the needy (al-Qurtubī, n. d. vol. 20. P. 214). *'āriyyah* is a recommended voluntary initiative; nevertheless, it is mandatory whenever the need of others become urgent.

'*āriyyah* might appear to some as a form of granting the surplus, and its underlying benevolence assumption is, *ipso facto*, disputable. Recall that giving out of the desired most is the *sine qua non* of the Islamic benevolence. This maxim distinguishes between '*āriyyah* and the granting of the surplus. In the words of Zarqa (1988, P.185), the marginal utility of '*āriyyah* is substantial for the donor, while the utility of the surplus for the grantor is negligible. Therefore, '*āriyyah* involves a much larger transfer of real income. Another benevolence-related problem is whether the recipient is liable to any damage or loss caused to the borrowed object. Muslim jurists are not unanimous as to this matter, presumably because of the conflict in the reported *aḥādīth*. At one pole we find the *ḥadīth* that "there is no compensation [for '*āriyyah*] on the donee" (Abu Dāwūd, vol.2, P.1009). At the other pole, we encounter the *ḥadīth* that '*āriyyah* is "a loan with a guarantee of its return" (Abu Dāwūd, P.1010). The first *ḥadīth* is not *mashhūr* (famous) according to the majority of jurists who therefore hold that a fair compensation should be paid for any loss or damage caused to the object borrowed. (Ibn Rushd, 1981, PP.313-14). However, this view jeopardizes the whole philosophy of Islamic benevolence. In fact the *aḥādīth* mentioned are not irreconcilable. In accordance with the principle of *al'adl*, the payment of a fair compensation is imperative if it is proved that the object is lost or damaged by the recipient intentionally



(note the difficulties facing this condition). In normal circumstances, the principle of *al'adl* and the principle of benevolence motivate the donor to remit any claims as they equally motivate the donee to pay a fair compensation. Put the two arguments together, the more benevolent the donor, the higher the probability of remission, and the more benevolent the donee the higher the probability of compensation.

The second form of granting the usufruct is what is referred to as *qard ḥasan* (interest-free loan). *qard ḥasan* is a contract whereby wealth (particularly money) flows unilaterally and voluntarily from one person (the lender) to another (the borrower), on condition that the latter agrees to repay (provided he has the ability). (Sābiq, vol. 3. P.144). Muslims are enjoined to provide interest-free loans to the needy; in Qur'ānic phraseology, *qard ḥasan* is regarded as a loan advantageous to God (2:245; 64:17). Savers who might worry about their future welfare should they grant their savings to the needy in the way of *ṣadaqah* could, through *qard ḥasan*, satisfy their benevolence impulses while not jeopardizing their future welfare. Hence, *qard ḥasan* exhibits a twofold benevolence act; the act of providing the needy with the necessary loans and the act of forgoing the opportunity cost of their savings (their profit-share). The donor expects no remuneration from the donee; nonetheless, the loan is profitable and lucrative; in Qur'ānic phraseology, God

will multiply these loans manifold (2:245;84:17). In the *ḥadīth* of the prophet "if anyone removes his brother's anxiety, God will remove from him one of the anxieties of the Day of Judgment"(Abu Dāwūd, vol.3.P.1376). By and large, *qarḍ ḥasan*, as an act of benevolence, is of vital socio-economic significance for both the lender and the borrower.

Generally speaking, there are three moral principles governing the *modus operandi* of *qarḍ ḥasan*. Firstly, due to the adverse effect of being in debt, interest-free loans are allocated on the basis of genuine need. To many Muslim economists, notably Mannan(1980) and Chapra(1985), *qarḍ ḥasan* is viable and effective only in the provision of consumption loans. Only the barest psychological needs, argues Mannan (P.263), are to be financed through *qarḍ ḥasan*. Such a naivety narrows both the concept of need and the concept of benevolence; human needs change through time, and the possibility of interest-free loans could not be eliminated so long as the assumption of benevolence is not relaxed. Secondly, debts should be written down in accordance with the Qur'ānic verse, "when you deal with each other in contracting a debt for a fixed time, write it down. Let him who owes the debt dictate" (2:282). This procedure is said to be effective in avoiding any disputes regarding the rights and the obligations of the lender and the borrower respectively. (al-Qurtubī, n.d. vol.3.P.383). The far-reaching implication of the debt document is to

safeguard the rights of the heirs. Thirdly, given the borrower's ability, the repayment of the principal loan is an imperative moral responsibility. "The wealthier's procrastination [in debt repayment] is injustice" (Bukhārī, vol.3.P.343). The principal loan could be guaranteed against risk of default, however, the lender enjoys no guarantee whatsoever on the market value (or the purchasing power) of the loan<sup>6</sup>. Any stipulated or demanded excess over and above the principal, is indistinguishable from interest and hence prohibited (Abbas, 1987, PP.66-67). However, the borrower is allowed to express his benevolence impulses by repaying in excess; in the ḥadīth "the best among you is he who pays his debts in the most handsome manner"<sup>7</sup> (Bukhārī, vol.3.339.). Should the debtor be in difficulty, the lender is morally required to behave in accordance with the Qur'ānic verse, "If the debtor is in difficulty, grant him time till it is easy for him to repay. But if you (the lender) remit it by the way of ṣadaqah, that is best for you if you only knew" (2:280).

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<sup>6</sup>Some Muslim economists suggest loan's indexation at least to maintain the latter's market value (cf. Chapra, 1985, PP.39-42). Some western economists, for instance, Pryor (1985), questioned the possibility of interest free loans unless a fee system is devised. However, those who call for indexation or a fee system are rejecting the Islamic prohibition of interest as well as relaxing the assumption of benevolence.

<sup>7</sup>This practice should be restrained to the minimum possible, because if it is allowed to be a socially-imposed custom, it would eventually resemble the predetermined interest.

### 3.2.4. The Institution of *waqf*

Lexically, the term *waqf* (endowment) means to prevent, or restrain. Islamically, *waqf* connotes "the detention of a property (whose usufruct is exploitable without impairing it) and the complete dedication of its usufruct to a form (or forms) of benevolence and voluntarism". (Abu Zahrah, 1972, P.5). It is claimed (sh. *Ency. of Islam*, P.626) that Muslims found Byzantine's endowments in the conquered lands and adopted the system for the practice of *ṣadaqah* recommended by their religion. However, the system of *waqf* is as old as the Pharaonic period (Abu Zahrah, 1972) and it was known to pre-Islamic Arabia, though it was motivated by ostentation and vainglory (ad-Dusūqī, d.1822, n.d. vol.4. P.75). Islam is not credited with many economic institutions (including *waqf*), as it is indeed credited with rectifying and modifying their *modus operandi* and their underlying motivations. The first Islamic *waqf* was instituted by 'Umar ibn al-Khatāb (later the second Caliph) who, in compliance with the prophet's recommendation, made a piece of land "inalienable (not to be sold, nor given away as a gift, nor inherited) and dedicated its usufruct to the needy, the relatives, those in bondage, in the way of God, for the wayfarer and for the entertainment of the guests" (Bukhārī, vol.4. P.27). 'Umar's philosophy of *waqf* forms the solid basis for the jurists' deduction that *waqf* property is virtually perpetual, inalienable, and irrevocable.

Generally speaking, *waqf* is either *ahli*, in the interest of one's own family and descendants, or *khayri*, designated for general benevolence purposes. However, this distinction is not peculiar to *waqf*; recall that *ṣadaqah* is for one's own family as well as for the needy at large. Principally, these forms of *waqf* constitute a perpetual manifestation of *ṣadaqah*. History witnessed many attempts to dissuade *waqf ahli* from its spirit of benevolence; that is, some *waqf* properties were meant to disinherit women and/or to avoid property seizure (cf. Abu Zahrah, 1972, pp. 8, 19-22). Nonetheless, one could hardly agree with Williams (1987, p. 338) and Mintjes (1977, p. 30) that *waqf ahli* has been deliberately instituted to avoid the laws of inheritance and/or to avoid property seizure. Nor should one accept Anderson's (1951, p. 292) claim that *waqf ahli* exhibits no beneficence or *qurbā* (approach to God). In accordance with Islamic ethics, any act which transgresses the divine laws and/or violates the rules of *al'adl*, is not only *ab initio* void but also equally reprehensible. Property seizure or confiscation is without doubt a severe infringement upon the *jure divino* rights of private property, except where the property in question has been earned through unjustifiable practices<sup>8</sup>. Ironically,

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<sup>8</sup>This is not to claim that confiscation of private property for the public good is reprehensible. However in this particular case the payment of fair compensation is imperative.

*waqf ahli* has been subjected to many attempts of non-compensation property seizure. (Cf. Abu Zahrah, 1972, PP. 16-19).<sup>9</sup>

The fact that *waqf ahli* has been misused by some donors or infringed upon by some rulers, consciously or unconsciously motivated by their greed, does not detract from the venerability of the institution. *waqf khayri* has been tremendously effective in the provision of public goods at a zero market price, as well as in fostering the welfare of the needy (both conscious and unconscious beings). as-Siba'i (1982, PP. 121-128) mentioned thirty fascinating examples of public utilities financed by *waqf*. Notable among these utilities are mosques, schools, hospitals, asylums, feeding and curing stray animals, marrying off the needy, financing infrastructure, and assisting indigent mothers. Some of these arrangements still survive but many are disappearing.

What are the peculiarities of *waqf* that make it a most venerable institution? *waqf* exhibits a far-reaching spiritual-economic significance for the donor(s) as well as for the donee(s). In the *ḥadīth* of the prophet, "when a person dies, his [spirituality-generating] deeds terminate except, a perpetual *ṣadaqah*, or 'ilm [intellectual work]

<sup>9</sup> Note that Ahmad (1987, PP. 139-40) attempted to scrutinize the legal-historical polemic of *waqf* seizure. He concluded that the snatched *waqf* lands, originally conquered lands, belonged to *Bayt al-Mal* (i.e. state-owned). Though this view might justify the confiscation of *waqf ahli*, it can hardly justify the confiscation of *waqf khayri* inasmuch as the latter becomes effectively a public property.

wherefrom benefit is acquired, or a pious child who prays for him"(Abu Dāwūd, vol. 2. P. 812). Muslim jurists are unanimous that the perpetual *ṣadaqah* is synonymous to *waqf*. However, this *ḥadīth* has not been given the scrutiny it deserves. The spirit of *waqf* is there in the beneficial 'ilm, in the pious child, as it is indeed in the perpetual *ṣadaqah*. Note the assumption that while the benevolent expects no reward from the donee, nevertheless his or her spiritual aspiration (the approval of God) is undeniable. The donor generates a perpetual *thawāb* (reward in the life to come) from these deeds and hence a perpetual contribution to his spiritual progress. *waqf* generates a perpetual, unilateral flow of wealth to the beneficiaries. Unlike *ṣadaqah* (*inter vivos*) the flow of unilateral wealth from *waqf* is not terminable by the death or the inability of the donor. (ad-Dihlawī, 1933. 2/116). In other words, should the donor institute a *waqf*, the flow of unilateral wealth to the needy will be relatively immune from any uncertainty arising from the former's death or inability.

However, those who fail to grasp the spirit of *waqf*, misconceivedly inveigh against it. It is alleged that *waqf* implies the removal of a large part of wealth from industry and commerce to lie moribund under the 'dead hand'. Moreover, *waqf* is said to be characterized by a lack of incentives for its proper development (cf. Anderson, 1951, PP. 297-298). The claim that *waqf* property is necessarily idle, is devoid of any support. *waqf* is, *ipso facto*,

productive, and its further development is necessary to ensure a perpetual *thawāb* (to the founder) and a perpetual flow of wealth (to the beneficiaries). With the exception of a naive Maliki view, the majority of Muslim jurists maintain that unproductive *waqf* should be substituted for a more productive one. (Abu Zahrah, 1972, PP. 154-57). In other words, the perpetual *thawāb* and the perpetual flow of usufruct is incompatible with the lack of incentives to develop the *waqf*. It is true that *waqf* properties have been mismanaged: this is hardly ascribed to the lack of incentives, as it is indeed ascribed to their ambiguous form of ownership<sup>10</sup>. However, if any institution is to be described as 'bad' or ineffective because it happens to have been mismanaged, few institutions would have survived.

Vickrey (1962, P. 56) alleges that endowments may have a depressing effect on the economy; they may reduce the level of expenditure of the donor or those who would have been his beneficiaries in the absence of the endowments, and hence reduce the economy's expenditure at the macro level. However, Vickrey's worrying is unjustified inasmuch

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<sup>10</sup> Muslim jurists are not unanimous as to the legal ownership of *waqf*. According to the Hanafi and the Shafi'i school, *waqf* is the sole property of God. (note the naivety of this view). The Maliki hold the view that *waqf* remains the possession of the founder or his heirs, but they are blocked from the usual rights of ownership. *waqf* is the sole property of beneficiaries according to the Hanbali school. (cf. Abu Zahrah, 1971, PP. 89-92). Ironically, the mismanaged *waqf* in the contemporary Muslim world is owned by the state.



as this reduction is at least compensated by the increase in the expenditure of the beneficiaries. Moreover, the improvement in the needy's level of living is likely to increase the effective demand, thereby stimulating the level of investment and production in the economy. Presumably, because, in western societies, life estate and discretionary trusts are means of avoiding estate or death duties, and because charitable institutions enjoy a considerable tax exemption (Hockley, 1979, PP.251-255), western economists inveigh against endowments mainly because they are likely to cause a substantial reduction in the inland revenue. However, this western perception of endowments does not necessarily fit in the Islamic concept of *waqf*. Since *waqf* is not exempted from the payment of *zakāh*<sup>11</sup>, it follows that it is not exempt from any government-imposed tax.

By and large, the venerability and viability of *waqf* stem from its crystalizing of the spirit of *ṣadaqah*. Due to methodological inconsistency, *waqf* has been misconceived and thereafter widely misused. It is worth noting that *waqf* is generally governed by the divine imperatives regarding *ṣadaqah*, yet its *modus operandi* is a product of the jurists' intellectual reasoning, hence, it

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<sup>11</sup> All forms of *waqf ahli* (family endowments) are subject to *zakāh*; *waqf khayri* is said to be exempt from *zakāh* so long as it fosters the welfare of the needy (Ibn Qudamah, n.d. vol.2.P.633). As long as *waqf* is for the needy in general, and *zakāh* is meant for need fulfilment, it seems that paying *zakāh* on *waqf* is the same as paying *zakāh* to one's own self.

enjoys no sanction and can be modified without distorting the spirit of *ṣadaqah*. The classical problem of *waqf* is ambiguity as to its ownership which could be resolved by transferring the legal ownership to a group of trustees representing both the founder(s) and the beneficiaries. The suggested procedure will secure the productive capacity of *waqf* and thereby safeguard the interest of the founder and the beneficiaries. Appropriate measures and directives are to be issued by the state to ensure the efficiency of *waqf*. The state should also reserve the right to interfere in *waqf* if the latter does affect the social good.

### 3.3 The Economics of Unilateral Transfers

To start with, we should clarify Buchanan's (1983) thesis that non compensated transfers (including all unilateral transfers) are rents to the recipients, and are likely to motivate rent-seeking behaviour which would eventually dissipates economic value (P.71). Such behaviour is socially ineffective inasmuch as it creates no value while utilizing scarce resources (P.83). Buchanan's thesis goes as follows: Suppose that it is widely known that a potential donor plans to make a substantial gift to unidentified beneficiaries. A rent-seeking competition will arise among those who place a positive value on the prospect of being among the recipient group. However, a substantial portion of the investment of effort, time and resources, in this activity will be socially ineffective

and wasteful. The higher the probability of being a recipient, the lower the rent-seeking investment and hence the lower the social waste. In accordance with Buchanan's thesis, unilateral transfers to non-relatives or to the needy in general, where the number of potential recipients is great, are economically ineffective and socially wasteful.

Buchanan's thesis is not necessarily applicable to the Islamic concept of voluntarism inasmuch as the thesis relies, implicitly, on three invalid suppositions. Firstly, the subjective claim that only compensated transfers are economically and socially effective, implies a relaxation of the assumption of benevolence. Given Buchanan's view, it follows that bribes, as compensated transfers, reflect minimal resource wastage compared to that of gifts for instance. (Presumably, bribes are resource-wasting only if they are regarded as morally and legally inappropriate). Secondly, in Buchanan's perception, the recipients of unilateral transfers are, *ipso facto*, gamblers. Thirdly, the donors are assumed to launch a pre-gift publicity. Any society accepting these three suppositions is likely to be beset with Buchanan's thesis. The Islamic 'benevolence' market' is beyond this thesis because its ethical norms categorically reject Buchanan's presuppositions.

Islam's ultimate aim of unilateral transfers is to foster the needy's welfare (both material and spiritual).

The objective of *sharī'ah*, according to *ash-Shātibī* (d.1390, 1969), is the promotion of the welfare of the people by safeguarding their faith, life, intellect, posterity and property (vol.2.P.5). Any distortion caused to one (or more) of these fundamentals is likely to affect the material and the spiritual well-being of the individual. The individual's welfare, argued Chapra(1979), may be realized if there is proper enrichment for a fuller realization of Islamic spiritual values (in the individual as well as in the society), and adequate fulfilment of all basic material needs of life.(P.8). Muslim jurists are not unanimous as to the exact limits of needs' fulfilment, however, many jurists espouse the view that needs should be fulfilled to the adequacy level (Ibn Ḥazm, d.1064. n.d. vol.6.PP.155-56; al-Qaradāwī,1972,PP.567-71). Some Muslim economists (eg.Chapra,1979 and Salamah,1984) insist that it is the responsibility of the state to ensure the adequacy level of welfare to each individual. This view is philosophically inconclusive. Without the individual's initiative the state could hardly foster the welfare of society. The state cannot escape reliance on taxation and borrowing if the assumption of benevolence is relaxed. However, taxation will prove ineffective because of the high probability of tax evasion, tax avoidance and free

riding<sup>12</sup>. Since interest on loans is not allowed and non-profitable public goods cannot be financed through profit-sharing, borrowing will be ineffective as interest-free loans will diminish with the relaxation of the individual's initiative.

What is the most effective form whereby unilateral wealth is efficiently transferred from the haves to the have-nots? This is the perplexing question of efficiency; the 'in money' versus 'in kind' distribution. Liberal economists espouse money transfers on the grounds that they maximize the recipient's freedom of choice and constrain the dictatorship of the giver. (Cf. Hochman and Rodgers, 1969). In other words, money transfers are efficient from the recipient view point. The functionalists, argues Culyer (1973), who visualize unilateral transfers from the giver's point of view, propose that any form of transfers is efficient should it most effectively enable the giver to reveal his/her altruistic impulses. Note that the Liberals presume the rationality of the recipient whereas the functionalists'

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<sup>12</sup> Is there a free-rider problem even under the assumption of benevolence? While Naqvi (1988) insists that free-riders will not disappear, Mannan (1988) calls for the minimization of such behaviour. Since there is no free ride to heaven, there is no temptation to avoid unilateral transfers as long as the latter are bonds of the approval of God. In an ideal society where all individuals are God-conscious, free riding, which is negatively related to commitment, will eventually disappear. Put it this way, in a fully-fledged Islamic society, the free-rider problem will not die away, however, it will be of a negligible effect.

view exhibits a disguised self-interest. Since, Islamically speaking, transfers are initially meant to uplift the recipients, it follows that the utility of the result (not the utility of the act) ought to be considered. This, *inter alia*, gives rise to the basic need approach whose objective is to provide opportunities for the full physical, mental and social development of the individual. Siddiqi (1988), highly influenced by this approach, favours transfers in kind inasmuch as it raises the efficiency and the productivity of the labour force, increases social production, raising the income-generating capacity of the poor, thus decreasing the need for income transfers.

However, the recipients' rationality is not always guaranteed. Johnson (1973, P.87) observes that despite the precautionary measures taken on food stamps issued to the poor in U.S., the poor often sold their stamps to non-recipients and used the money for unqualified purposes. "consumers are not always efficient optimizers, especially concerning nutrition and health.....Additional cash income is sometimes spent on food of lower nutritional value....., or on items other than food." (Streeten, 1979, P.137). Mannan(1988) develops a fascinating proposal by virtue of which the giver evaluates the alternative forms of allocation and chooses the one that yields a maximum result-utility. This view is acceptable:

the giver's evaluation does not really affect the recipient's decision provided that the latter is not irrational (insane, simple-minded or feeble-minded). However, if the recipients are irrational or not capable of choosing the best course of action, according to the rules of *al'adl*, their freedom of choice should be circumscribed in their own interest<sup>13</sup>. By and large, the efficiency of unilateral transfers (whether in kind or in money) are to be judged by their ultimate contribution to the welfare of the needy.

Unilateral transfers raise an ethico-economic dispute, viz, the viability and efficiency of 'person-to-person' vis à vis 'institution-to-person' distribution. Could *zakāh* collection form a relevant frame of reference for all forms of unilateral transfers? Since its introduction, *zakāh* had been centrally collected and distributed. This practice exhibits the responsibility of the state for the management and control of *zakāh* fund. However, in the course of time the state responsibility for *zakāh* was discontinued and it was (and still is), generally speaking, left to the individual conscience. However, the donors have to choose between two possible types of distribution, that is, direct transfers to the recipients

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<sup>13</sup> I derived this opinion from the spirit of the Qur'ānic verse "And give not the feeble-minded [persons] your wealth which God has made a means of support for you, but feed and clothe them therewith and speak to them words of kindness and justice." (4:5)

or indirect transfers through an intermediary institution. Siddiqi(1988) alleges that person-to-person transfer is ineffective in modern time due to the lack of direct contact especially in urban societies. According to Siddiqi, it is comparatively easy for the needy to approach an intermediary institution. (Presumably, Siddiqi does not mean that the person-to-person transfer might displease the needy and/or the giver - a view once held might imply a derogatory view of unilateral transfers). However, direct transfers crystalize the deep meaning of brotherhood, cooperation and social integration which the intermediary institutions could hardly achieve. Institutions have their own problems and demerits; political and social upheavals, the subjectivity in funds allocation, the costs of running the institution, ....etc. By and large, both direct and indirect transfers serve the social good very effectively in some situations, but are inappropriate in some others; in other words, they must necessarily co-exist.

The Islamic emphasis on unilateral transfers shows that every Muslim is morally responsible for the welfare of the needy, but it does not indicate that Islam tolerates or encourages *ṣadaqah*-seeking behaviour. Fostering one's own welfare is an uncompromised moral imperative, and it is indeed a necessary prerequisite for a benevolent attitude towards others. In the *ḥadīth*, "One would rather cut and carry a bundle of wood on his back



than ask somebody who may or may not give him" (Bukhārī, vol.3. P.183). Begging is not only a disgrace but also reprehensible, nonetheless, it is 'obligatory' if, without it, the person is likely to jeopardize one (or more) of the five, basic objectives of *sharī'ah* (that is, the maintenance of faith, life, intellect, posterity and property). In the *ḥadīth*, "A beggar has a right though he may be riding a horse" (Abu Dāwūd, vol.2.P.437). In other words, given the derogatory nature of begging, the beggar is, *ipso facto*, in a state of dire need and ought not to be sent away empty-handed. It is the moral responsibility of the individuals to help and uplift those who have failed to foster their own happiness. In the *ḥadīth*, "A Muslim is a brother to a Muslim, he neither oppresses him nor leaves him helpless" (Muslim, vol. 4.P.138).

### 3.4 The Economics of the 'Fairness-Benevolence' Relation

This section introduces the assumption of benevolence to reciprocal transfers; that is, exchange. Note that the assumption of egoistic human motivation usually generates the '*devil-takes-the-hindmost*' type of economy wherein the *homo economicus* simply a ruthless maximizer. Islamically, the process of exchange is governed by the ethico-economic framework; individuals stand firm on the norms of *al'adl* and benevolence and abhor egoistic motivation. Should these norms be ensured, 'exchange' will be determined and

completed under the umbrella of lawfulness, truthfulness, trustfulness, brotherhood and cooperation. This procedure helps to restrain such negative norms as profiteering, rent-seeking, deception, chicanery and fraudulent dealings, and misallocation of resources. Thus, in his/her pursuit of a *satisfactory gain*, the *homo Islamicus* is, *ipso facto*, honest and fair; he or she does not make (or attempt to make) the other party worse off.

#### 3.4.1. The Establishment of *al'adl*

Islam lays unique emphasis on the quality of *al'adl*, absolute justice; in Qur'anic phraseology, the whole universe has been created in *al'adl*, and the sole purpose of all *risālāt* (divine messages) is to ensure the establishment and the predominance of *al'adl*(15:85;57:25). It is quite natural to apply this principle to human activities. Thus, all human economic relations are necessarily governed by the ethical norms of *al'adl*. In addition to its ontological and cosmological connotations (i.e. balance and harmony), *al'adl* also implies rendering to each what is his due. Siddiqi(1979,P.42) asserts that *al'adl* signifies the removal of unjustified injury to others or to one's self. However, the concept of *al'adl* as an injury-free state is a three-dimensional concept; it encompasses the relation between the parties involved (the parties enjoy equal power when the contract is determined), the relation between the parties and the rest

of society (the individual versus the social good), and the relation between the parties and God (the immutability of the ethical imperatives).

However, the non-injury state is not self-explanatory. Provided that *al'adl* represents the minimum requirement of benevolence, economic conduct is assumed to be injury-free if and only if it satisfies the following conditions. Firstly, it should be Islamically permissible, otherwise it will be devoid of value. Secondly, it should be free of all forms of *gharar*. *Gharar* means deception, and a *gharar* contract is the one that involves uncertainty and gambling (Sabiq, 1985, vol,2. P.79). This is a misspecification and a misrepresentation of the contract whereby one party is relatively immune from uncertainty, while the other party is not. Thirdly, given the above conditions, the parties involved should be mutually agreed, provided that they have equal power when the contract is determined. "O you who believe, devour not your wealth among you in vanities, except it be commerce by mutual consent"(Qur'an, 4:29). This verse emphatically enjoins the removal of *fasād* (mischief) from all business contracts. The above conditions represent the basic determinants of the 'fairness- benevolence' relation. In order to ensure that *al'adl* prevails, all impediments to its establishment must be removed.

### 3.4.2. Fair Market Valuation

Fair market valuation is indispensable if the economy is to function efficiently within the rules of *al'adl*. The Qur'an emphatically condemns the fraudulent use of unjust weights and measures, "Woe betide the skimpers, who exact full measure from other people, but give short measure and weight themselves"(83:1). Benevolence in business dealings demands, at the very least, proper valuations which ensure to each individual his or her due. "Give full measure and be not one of those who measure short. Weigh with the true balance and do not under value other people's things, and do not go about causing mischief".(Qur'an,26:182). This verse also illuminates the need for a proper medium of exchange without which fair exchange is simply impossible. No doubt, without fair valuations and symmetric business relations, each individual will act fraudulently in an attempt to compensate for the loss incurred. However, the needy are the real victims of this unjust system since they can hardly find equal opportunities to compensate.

### 3.4.3 The Rejection of *ribā*

The basic ethico-economic example of removing an impediment towards *al'adl* is the rejection of *ribā*. The Qur'an states, "O! you who believe, be God-conscious and give whatever remains of *ribā* if you are indeed believers, yet if you desist you shall have your capital; neither wrong nor be wronged"(2:275-279). The word *ribā* denotes

excess or addition, however, in Islamic *sharī'ah* it has been used in a sense other than the lexical one; it deals with the ethics of business *vis à vis* loans, sales with deferred prices, barter exchange and currency conversion. According to al-Jassās (d. 981, 1910) "It is known that *ribā* of *Jāhiliyah* [pre-Islamic era] was a loan with stipulated excess paid for time and God has prohibited it" (P. 465). This form of *ribā* is called '*ribā* of the Qur'ān', or '*ribā* in debt'. A careful reading of the Qur'ānic texts on *ribā*, taking into account the pre-Islamic economic system, reveals that *ribā* is characteristically indistinguishable from interest (the predetermined capital compensation). (Abbas, 1987, P. 49).

It is beyond the scope of this study to elaborate upon the socio-economic dimensions of *ribā*, however, it is worth while, at this juncture, to identify the egoistic morality underlying the predetermination of capital compensation<sup>14</sup>. *ribā* contracts involve *gharar* and hence infringe the ethical norm of *al'adl*. Regarding productive loans, the capital rentiers are risk-averters, striving to make themselves immune from business uncertainty, while the capital users (entrepreneurs) are risk-bearers. Put in this way, in a *ribā* contract, the rentier-entrepreneur relation is asymmetric. Regarding the *ribā*-based

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<sup>14</sup>For a philosophical and thought-provoking study of the predetermination of capital compensation see Abbas (1987) especially ch.1-2.

consumption loans, the rentiers are flourishing on the basis of others' distress rather than benevolently relieving it. This is indeed egoism *par excellence*. Only the wealthier can weather the adversity of business misfortune, and so argued Mishan(1972) "it would be irrational for lenders to be willing to lend as much to the impecunious as to the rich members of society, or to lend the same amounts on the same terms to each"(P.250). In the rentier's mentality honesty is not a panacea, and since perfect foresight is ontologically and epistemologically impossible, business finance requires that borrowers are perfectly honest and equally rich. Through this subtle selfishness, the bulk of finance would be spontaneously channeled towards the well-to-do. Consequently, wealth becomes a circuit between the rich among the people(cf. Qur'an, 95: 7).

The rejection of *ribā* does not mean that Islam negates the mere fact of capital compensation; unlike other economic systems, Islam insists on the quality of the reward. Consumption loans are to be provided as unilateral transfers (recall the Islamic concept of *qard ḥasan*). As far as productive loans are concerned, Islam lays a unique emphasis on symmetric relations; since uncertainty is a business reality, to avoid *gharar* and to ensure *al'adl*, both the rentier and the entrepreneur ought to be risk bearers. This is the kernel of profit-sharing which relates

capital compensation to the actualities of production<sup>15</sup>. Through the profit-sharing mechanism, capital is spontaneously supplied to the most feasible and productive projects rather than being allocated on the basis of the entrepreneur's ability and wealth.

In line with the Qur'ānic rejection of 'ribā in debt', the prophet has imposed certain restrictions on commodity exchange and currency conversion in an attempt to distinguish the conditions under which they may effectively entail ribā. In the ḥadīth, "Gold is to be paid for by gold, silver by silver, wheat by wheat, barley by barley, dates by dates, salt by salt, like for like and equal for equal, payment being hand in hand. If these classes differ, then sell as you wish if payment is made hand in hand". (Muslim, vol. 3, P. 834). This ḥadīth has been interpreted as an explicit rejection of the so-called 'ribā in excess' (cf. Ibn Rushd, vol. 2, PP. 129-33). However, no rational man is expected to participate in a spot-exchange of two commodities of the same kind, weight and value. Therefore, the ḥadīth mentioned is meaningful only if it is interpreted as referring to different amounts of the same kind of goods. Put it this way: the exchange of different amounts of the same kind of goods is prohibited. Furthermore, exchange of different commodities should be on the spot, otherwise it may implicitly

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<sup>15</sup> For more elaborations on this point see ch. 5. *infra*.

generate an stipulated excess (ribā). In another ḥadīth, the prophet said, "Beware there can be an element of ribā in credit" (Muslim.vol.3.P.839). Thus, the exchange of commodities on credit is allowed only if they are valued currently through a common denominator (money).

As to the avoidance of ribā in currency conversion, the prophet is reported to have said, "Let dinar be exchanged for dinar with no addition on either side, and dirham be exchanged for dirham with no addition on either side"(Muslim,vol.3.P.834). However, the spot exchange of one dinar for an equal dinar could hardly be conceived. al-Ghazālī(n.d.) argues that "the exchange of dirham for an equal dirham is allowed since it is a work that no rational man would desire, nor could a merchant deal therein"(vol.4.P.80). Again currency conversion is allowed if it is on the spot. So, although the exchange of equal amounts over time is not reprehensible in itself, it is prohibited because it will eventually lead to undesired transactions that cannot be monitored.

By and large, the Qur'ānic injunctions on 'ribā in excess' reflects the necessity of rejecting the advance fixation of capital compensation inasmuch as it impedes the establishment of al'adl. The exchange restrictions imposed by the prophet are meant to avoid gharar and all forms of concealed impediment to the establishment of



*al'adl*. This process necessitates the avoidance of barter (via the use, instead, of a proper medium of exchange), and the use of the spot currency conversion.

#### 3.4.4. The Prohibition of *maysir*

The removal of market improprieties necessitates the rejection of *maysir* which includes all kinds of gambling and hazardous business dealings. "O you who believe! Intoxication and *maysir* [gambling].....are an abomination of Satan's handiwork. Eschew such (abomination) that you may prosper "(Qur'an,5:90). The essence of *maysir* is "the acquisition of another person's property while it is uncertain whether that person would get the fair recompense "(Ibn Taymiyah,1969,19/283). Business contracts should be non-injurious, that is, mutually agreeable and gharar-free. Adequate knowledge is, therefore, a necessary prerequisite for the establishment of *al'adl*. In addition to its violation of the ethical norm of *al'adl*, *maysir* is likely to cause enmity, jealousy and disputes in the market and this then affects its proper functioning. (ad-Dihlawī, 1933, 2/106). Such egoism would motivate the rent-seeking behaviour; individuals fraudulently accruing parasitical gains without creating or adding economic value.

#### 3.4.5. The Elimination of Bribery

Bribery, whether undisguised or concealed, is another impediment to *al'adl* and it cannot be justified on moral or socio-economic grounds. The Qur'an states, "And devour

not your wealth among yourselves unjustly, nor slip it to the rulers to devour sinfully part of the people's wealth, while you know(2:188). Efficiency in resource utilization demands perfect honesty on the part of the individuals. As Chapra (1979,P.25) argues, this necessitates the complete elimination of all forms of corruption and bribery which are intended to gain an undue advantage in money, position, jobs or contracts. Recall Buchanan's (1983) claim that bribes, as compensated transfers, reflect minimal resource wastage. Presumably, Buchanan visualizes bribery only from the briber's point of view. However, bribery reflects many vices. Firstly, the briber reprehensibly violates the rules of fairplay. Secondly, the briber is selfish because as he or she fraudulently pays to have what would have been the share of others. Therefore, the act of bribery is injurious and likely to cause jealousy, hatred and rancor and thereby affects the social good.

#### 3.4.6. The Elimination of Hoarding

Another form of removing impediments towards the establishment of al'adl is the elimination of hoarding. To avoid possible misunderstanding, we have to differentiate between two types of hoarding, viz, *iktināz* and *ih̄tikār*. The Qur'an states, "and those who hoard [making *iktināz*] gold and silver, and spend it not in the way of God: announce unto them a grievous penalty"(9:34). There is no

unanimity among Muslim jurists as to the exact connotation of the term *iktināz*; while some understood the term to denote the non-payment of *zakāh*, others insist that it refers to the state of idle wealth (Al-Qurtubī, n.d. vol. 8 P.125). Idle wealth has a far reaching negative effect on the economy; it depresses the level of expenditure in the economy, reduces the flow of capital and hence affects the level of investment and production. Because of gestation lag, the injection of capital into the economy does not lead to instantaneous growth, hence, argued Alhabshi (1987), "hoarding for a period  $t$ , will not only stagnate the economy for the same period  $t$ , but, due to economic retrogression during the stagnation period, will stagnate the economy for an even longer period" (PP.10-11). However, a lapse of time is needed before the retrogression is completely nullified.

The two definitions of *iktināz* are not irreconcilable. Idle wealth and the non-payment of *zakāh* both affect the social good and violate the ethical principle of *al'adl*. A rational Muslim would not pay *zakāh* while keeping his wealth idle, nor would he decline the payment of *zakāh* whether his wealth is idle or not. So long as *zakāh* is an immutable duty whose payment is imperative, rationality requires that wealth must not be kept idle (which becomes

necessary even to maintain the real value of wealth holdings). This subtle *zakāh-iktināz* relation is the inherent investment motivator in an Islamic economy.

The second type of hoarding is *iḥtikār*; withholding of goods speculatively. In the *ḥadīth*, "only the misguided hoards " (Abu Dāwūd, vol.2.P.980). The majority of jurists misconceivedly restrict the prohibition of *iḥtikār* to the basic necessities of life such as foodgrains. (cf. Sābiq, 1985, vol.3.P.107). The jurists maintain that *iḥtikār* is prohibited only if the following conditions are satisfied. Firstly, the hoarder is a buyer, that is he is not the producer of the object hoarded. Secondly, the object hoarded is a foodgrain. Thirdly, the with-holding of the object is injurious to the consumers. (Ibn Quddāmāh, n.d. vol.4.P.244.; Sābiq, 1985, vol.3.P.107). However, the essence of *iḥtikār* is that it interrupts the process of fair exchange, thereby creating artificial scarcities and arbitrary manipulations of the markets. This is likely to happen irrespective of who hoards what. Hoarding of goods speculatively exhibits egoistic extremity; the hoarder causes deep distress to genuine consumers and parasitically extorts his or her earnings therefrom. This profiteering behaviour must be inhibited.

#### 3.4.7. Other Market Imperfections

The prophet laid three ethical guidelines for fair exchange. Firstly all forms of speculative dealings have

been rejected in an attempt to remove all kinds of market imperfections which impede the ethical norm of *al'adl*. For instance the prophet prohibited *mulāmasah* (sale-at-a touch), *munābazah* (sale-at-a-toss), *mukhādarah* (the sale of grain before their benefit is evident), *muḥāqalah* (the sale of wheat still in ears for pure wheat), *muzābanah* (the sale of fresh dates for dried dates by measure) (Bukhārī, 3/224). These contracts are prohibited mainly because of their indeterminacy and ambiguity; the subject-matter is not properly valued and one party is likely to be deceived. Thus all forms of speculative business dealings (which involve *gharar*) should be removed. Secondly, the business contract is void unless the subject-matter is present and in complete possession of the seller. In the *ḥadīth*, "do not sell what you do not possess" (Abu Dāwūd, vol. 2. P. 995). Thus bill of exchange sale is strictly prohibited; in this type of exchange the commodity is sold without full possession and the bill of exchange is then sold and circulate in the market without the commodity being moved to any buyer. There is an element of *ribā* which cannot be monitored; selling the bills of exchange is simply selling money for money. Thereby speculators accrue fraudulent gains through artificial manipulations in the market and hence artificial rises in market prices. (Note that in this case market prices depend on artificial manipulations rather than on the market forces of supply and demand).

Thirdly, prices should be determined by the market forces with no intervention either in the supply or in the demand side. In the *hadīth* "Do not meet riders (carrying merchandise) to buy therefrom until they reach the market, you ought not to bid against each other, and a town dweller must not sell for a desert dweller [i.e. the former should not act as a broker to the latter]" (Muslim, vol.3.P.799). Many socio-economic implications could be drawn from this *hadīth*. Firstly to avoid *gharar* and deception, buyers and sellers should have an *a priori* knowledge of the market prices. Secondly, brokers are not allowed to intervene with the supply side of the market, causing artificial manipulations in the market price and hence accruing fraudulent and parasitical gains. Bidding against each other ought to be inhibited as an egoistic behaviour. Bidding with no intention to buy (*najash*) is an artificial intervention in the demand side which usually affects the genuine consumer.

### 3.5. Concluding Remarks

Benevolence as a paramount ethical value has many socio-economic implications. The all-encompassing concept of benevolence has been used in the development of the 'benevolence market' where each individual, rich or poor, is expected to contribute. Two forms of benevolence are likely to interact in this market, viz, unilateral transfers intended to uplift the needy, and the establishment of the

ethical norm of *al'adl* in market exchange. Unilateral transfers not only foster the welfare of the needy, but also contribute to the spiritual progress of both the donors and the recipients. Exchange relations between individuals are based on *al'adl*, and all impediments thereto should be completely nullified.

## CHAPTER FOUR

### CONSUMER AND ENTREPRENEURIAL BEHAVIOUR ON THE ASSUMPTION OF BENEVOLENCE

#### 4.1. Overview

The preceding analysis(ch.2.4.2) concludes that the *homo Islamicus* typifies the Islamic economic agent if and only if he or she strives to promote others' welfare (both material and spiritual) besides his/her own. We should remember that benevolence is a sacrosanct ethical value in an Islamic economy. The following analysis endeavours to provide an insight into the behaviour of the *homo Islamicus* as a decision taker (consumer/producer). Section two is an essential coverage of the concept of economic rationality and its intertwined principle of maximization. Section three is an exposition on consumer behaviour. Section four is an elucidation on entrepreneurial behaviour. An attempt will be made in sections three and four respectively, to identify the *homo Islamicus*' consumption and entrepreneurial behaviour.

#### 4.2. Rationality and the Principle of Maximization

Traditional economic theory postulates a *homo economicus* who, as a decision taker(consumer/producer), is assumed to behave rationally. Rationality is so pervasive that it is pertinent to determine its economic meaning before embarking on any discussion *vis à vis* the decision



taker. The term *rational*, according to the Oxford English Dictionary, denotes "agreeable to reason; not absurd, preposterous, extravagant, foolish, fanciful, or alike; intelligent, sensible". The assumption of rationality is not peculiar to economics, but, argues Simon(1978,P.5), is endemic, and even ubiquitous, throughout the social sciences. However, it seems that economists are taught to emphasise a specific form of rationality: Traditional economic theory conceptualizes rationality under certainty as a consistent maximization of a well-ordered preference function such as a utility or a profit maximization. (Becker,1962,P.1; Arrow,1987,P.71; Sen,1987,P.69). Thus the principle of maximization is one of the most fundamental assumptions of economic theory. So much so that it has almost come to be regarded as an equivalent to rational behaviour. To the classical economists, such as Smith (1776), rationality had the limited meaning of preferring more to less; in modern terminology, this is equivalent to profit maximization <sup>1</sup>

Rationality, under certainty, could be seen as maximization in pursuit of self interest. It is one of the most fundamental characteristics of an individualistic

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<sup>1</sup> Note that consumer rationality is a term coined by the marginalists, Jevons(1871) and Walras(1874); presumably, it was unknown to their classical counterparts. Consumer rationality, in its marginalist connotation, is identical to the maximization of utility under a budget constraint.

capitalistic economy that it is rationalized on the basis of rigorous calculation, directed with foresight and caution towards economic success(Weber,1974,P.76). In its utilitarian usage, economic success implies the making of money, for "Man is dominated by the making of money, by acquisition as the ultimate purpose of his life" (Weber,1974,P.53). This instrumental rationality recognizes no values save those which enhance the achievement of the proposed ends. Virtues are virtues only in so far as they contribute to self interest; "Honesty is useful because it assures credit; so are punctuality, industry, frugality, and that is the reason they are virtues"(Weber,1974,P.52). (Unnecessary surplus of these virtues thus appears as an unproductive waste). As Sen(1987,P.69) asserts, rational behaviour under the self interest approach is a special case<sup>of</sup> rationality under the axiom of consistency. If a person does pursue self interest, his or her behaviour might have the consistency needed for the maximization of a cogent function. However, a person can be consistent without necessarily maximizing self interest.

Economic rationality is based on the assumptions of omniscience (perfect knowledge of what there is to be known) and perfect competition. To use the words of Arrow(1987), rationality becomes strained and possibly even self-contradictory if these assumptions cease to hold. Though unrealistic, the assumption of an omniscient

*homo economicus* is crucial to the conventional economic theory. "His [*homo economicus*] most fatal limitation, from the point of view of real-world applicability, is his omniscience"(Hutchison,1984,PP.2-3). Perfect competition is another loop hole in the concept of rationality <sup>2</sup>. The indivisibility of goods, imperfect mobility of factors of production, advertisement, product differential, and positive information cost, are practical impediments to perfect competition. Imperfect competition is thus "the permanent and ineradicable scandal of economic theory". (Simon,1979,P.9). Unfortunately, a theory whose very assumptions are thoroughly unrealistic is used as a criterion of economic behaviour. It seems that economists are enamoured by abstraction and simplification; economists give no heed as to whether the assumptions are realistic, let alone the applicability of the theories. "Rationality is seldom so definite that one can be sure that the assumptions of any theory are closely met in practice" (Newman,1965,P.7). In reality, the assumption of

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<sup>2</sup>The concept of perfect competition is based on four, unrealistic assumptions. Firstly, the anonymity of firms and consumers, ie. homogeneous commodities and identical consumers. Secondly, firms and consumers are numerous; no individual producer/consumer can effect the market price. Thirdly, perfect information, which, given the assumption of maximization, leads to the prevalence of a single price. This assumption implies zero information cost. Fourthly, free entry into and exit from the market, which implies an unimpeded flow of resources between alternative occupations, that is, perfect factor mobility.

value neutrality is vacuous, yet, it is crucial to positive economics. Economists are, therefore, either plain utopians, in whose perception humans must behave symmetrical to their counterparts in the hypothetical society, or they are 'reality-phobian', for reality is a *stormy petrel* whose introduction might open the *pandora box* of normative considerations which can not be monitored by the positivists.

The notion of maximization interwoven with the concept of rationality is not applicable under the conditions of uncertainty or imperfect competition. As it has been conceived, rationality is incompatible with the limits of the human beings, even augmented with artificial aids (Arrow, 1987). Simon (1955) suggests bounded rationality as an alternative to global and omniscient rationality. "Rationality [argues Simon, 1979] is bounded when it falls short of omniscience. And failures of omniscience are largely failures of knowing all the alternatives, uncertainty about relevant exogeneous events, and inability to calculate consequences" (P. 502) <sup>3</sup>. To help remove this difficulty, the maximization of subjective expected utility, put forward by Neumann and Morgenstern (1944), has been introduced as a criterion of rationality

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<sup>3</sup> This bounded rationality leads to the emergence of 'satisficing' rather than 'maximizing' as a base for the managerial theories of the firm.

and come to dominate the economic theory of resource allocation under uncertainty. In the words of Sen (1987, P.72), the subjective expected utility (SEU) takes the form of weighing the value of each of the outcomes by the respective probabilities of the different outcomes. The probability-weighted overall 'expected value', thus derived, is then maximized in this approach to rational choice under certainty. As Simon (1978, P.9) asserts, the optimal solution provided by the SEU depends on all of the moments of the frequency distribution of uncertain events. Empirically, when it has been subjected to test in the real-world, even in relatively simple situation, the behaviour of human subjects has generally departed widely from it. It is this total rejection of global rationality (under both certainty and uncertainty) that explains why Simon (1947) suggests the replacement of the *homo economicus* by an organism of limited knowledge and ability (an organism of bounded rationality).

Is rationality an objective concept? Is there such a thing as trans-cultural consistency-related rationality? Rationality demands more than just consistency, "It must, at least, demand cogent relation between aims and objectives actually entertained by the person and the choices that the person makes" (Sen, 1987, P.73). Economists perceive rationality as a theory of means, not a theory of ends. In choosing between the alternatives, each individual

can be rational in the sense that, given the expected costs and benefits, he will choose the course of action which guarantees the highest possible expected benefit. (Whyne,1984,P.198). As people differ in their valuation of costs and benefits, rationality is neither universal nor objective; it is a value-loaded, subjective concept. Rationality is indeed a cultural concept (Weber,1974), and rationality as maximisation, even if its assumptions hold, could be an ideal only for a capitalistic society in which self interest is a sacrosanct ethical value. Thus economic systems of different paradigms could have different concepts of rationality.

Islam does not reject the concept of rationality as a criterion for the individual's economic behaviour, rather it negates the western concept of rationality and its intertwined assumptions, viz, egoistic human motivation, the individual is the best judge upon his actions. (Note that the fundamental tenet of modern liberalism is that human beings are to be regarded as independent, self determining beings, each the judge of his own actions; a corollary of this tenet, argues Bell(1981,P.47), is that the rules regulating the relation between individuals are not at all morally-substantive). Unlike the utilitarian principle, the Islamic principle of *al'adl* specifies what is right, and within this ethical framework allows an individual to choose the most beneficial course of action. Moreover, the epistemology of Islam reveals the limitation

of human knowledge and emphasises the necessity of divine knowledge, hence man cannot be a judge of his actions, let alone decide what is and what is not rational. Therefore, it is imperative that a new concept of rationality is deemed necessary.

Muslim economists present some naive and inconclusive views as to what economic rationality is. According to Kahf (1978) and Dunia(1984), economic rationality is the maximization of material and spiritual satisfaction within the Islamic ethical framework. Siddiqi (1979) argues that Islamic rationality implies orientation of actions towards maximal conformity with Islamic norms. Haykal(1983) proposes that man, Islamically perceived, is *ipso facto* rational in the sense that he is capable of choosing a course of action which is appropriate to his religious concept of the *good*. However, to avoid methodological inconsistency, economic rationality ought to be analysed in the light of *convictional rationality*; the realization of man's purpose on the earth. Both the means and the objectives of any economic choice are subjected to the constraint of convictional rationality and ought to evoke those intrinsic positive values which help tranquilize the individual's *nafs*. Therefore, means and ends are neither logically distinct nor morally neutral.(This is a fundamental departure from the *homo economicus* who faces no constraints regarding the means). The ultimate objective of the Islamic rationality is the achievement of

*al'adl* (equilibrium). Hence, to agree with Ghānim(1985), Islamic rationality is neither a positive nor a normative concept; rather it is objective inasmuch as the Islamic principles are objective because they motivate human behaviour towards the realization of *al'adl*. Given *convictional rationality*, the *homo Islamicus*' behaviour is rational if and only if it furthers his and others' material and spiritual satisfaction. By and large, by presuming egoistic human motivation, modern economic theory axiomizes the rationality of the agent; that is maximization. Islamic ethics, on the other hand, insists on adding the rationality of behaviour as an indispensable element.

#### 4.3. Consumer Behaviour

##### 4.3.1. The Neoclassical Consumer's Behaviour

The neoclassical consumer theory is based on the libertarian norms of hedonism, rationalism, individualism and freedom. Given these norms, the consumer (i.e. households and unattached individuals) is said to be rational in the sense that he or she maximizes utility or satisfaction. Again we have to learn to walk before we can run, and attempt, initially, to determine the meaning of utility. In the words of Robinson(1983), "Utility is a metaphysical concept of impregnable circularity; utility is the quality of commodities that makes individuals want to buy them, and the fact that individuals want to buy commodities



shows that they have utility"(P.48). For the purpose of economic analysis, utility has been defined as the satisfaction or benefits derived by a person from the consumption of wealth. Nevin (1978,P.43), however, argues that satisfaction and benefits are introspective terms relating to inner sentiments or emotions and not to a thing having an objective, physical existence. Others assert that "utility is a want-satisfying power; it is some property common to all commodities wanted by a person. In this sense it resides in the mind of the consumer who knows it by introspection"(Watson and Getz,1981,P.76). Being a product of one's own feelings and thought, can one venture to claim that, given libertarian norms, utility is simply egoistic? Bell(1981,P.79) perspicuously maintains that utility implies egoism and self interest. Others, like Rothenberg (1966) emphatically reject the claim and insist that utility maximization does not imply selfish hedonism; one's concern for others is as much a part of one's utility function as one's concern for oneself.(P.228). Already it has been asserted (cf.ch.1. *supra*), that this interdependence of utility is not genuine inasmuch as it exhibits a disguised self interest.

By and large, the concept of utility, as it is used in economic analysis, is personal, subjective and vague, nonetheless, it determines what is and what is not an economic good (or commodity). "A commodity does not have to be useful in the ordinary sense of the word; the

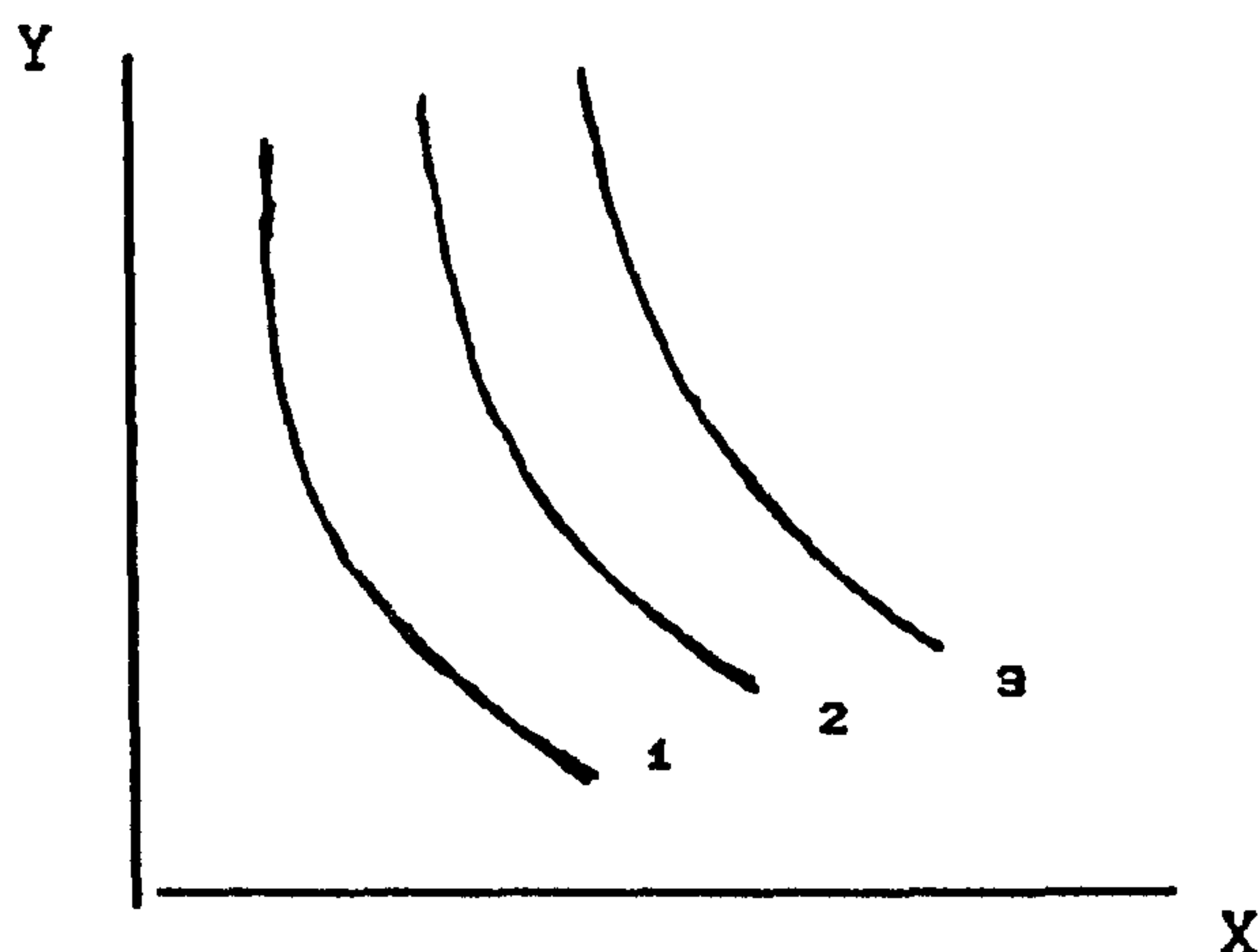
commodity might satisfy a frivolous desire or even one that people would consider immoral. The concept is ethically neutral. If one wants it, a good or service has a utility for that person"(Watson and Getz,1981,P.76). Implied in this definition is the presumption that a good or service is an economic good or commodity in so far as its marginal utility is positive. Thus any good is an economic good at a particular time for a certain person and non economic (or even causing disutility) for the same person at a particular time. Moreover, the fact that A derives utility from the consumption of wine does not necessarily imply that B must derive utility therefrom; yet wine is an economic good! It is indeed a real weakness that the whole edifice of the neoclassical economic theory is based on such an amorphous and capricious concept as utility.

Since utility is an introspective concept it cannot be measured, thus the technique of indifference curve analysis has been evolved.<sup>4</sup> By ranking his/her subjective

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<sup>4</sup> Note that the classical cardinal utility approach carries within it the assumption of measurability; it gives numerically comparable estimates of the intensities of preferences. The arbitrary units of measurements are called utils. Many economists fired heavy shells at cardinal utility, eventually 'ordinal utility' was set on a throne consisting of tools containing indifference curves. Ordinal utility means that the consumer is assumed to order or rank the subjective utilities of goods. Thus the indifference curve replaces the curve of diminishing marginal utility. (Asimskopoulos, 1978,ch.5; Watson and Getz,1981,ch.5-6).

utilities of good and services, the consumer is able to form an indifference map representing his taste. The indifference map shows each and every one of his indifference curves; the locus of commodity combinations from which the consumer derives the same utility(Fg.1). It



Fg(1) The Indifference Map

is customary in indifference curve analysis to make the following assumptions about the consumer's psychology. (Baumol,1972,PP.210-11; Mansfield,1975,PP.22-32). Firstly, completeness; the consumer is able to set up a preference ranking of the possible combinations. Secondly, consistency or transitivity; if bundle A is preferred to bundle B, and B is preferred to C, then A must be preferred to C. Thirdly, nonsatiety; the consumer is not over supplied with either commodity, ie. he prefers to have more of commodity X and/or commodity Y. Fourthly, diminishing marginal rate of substitution<sup>5</sup>, this assumption amounts to

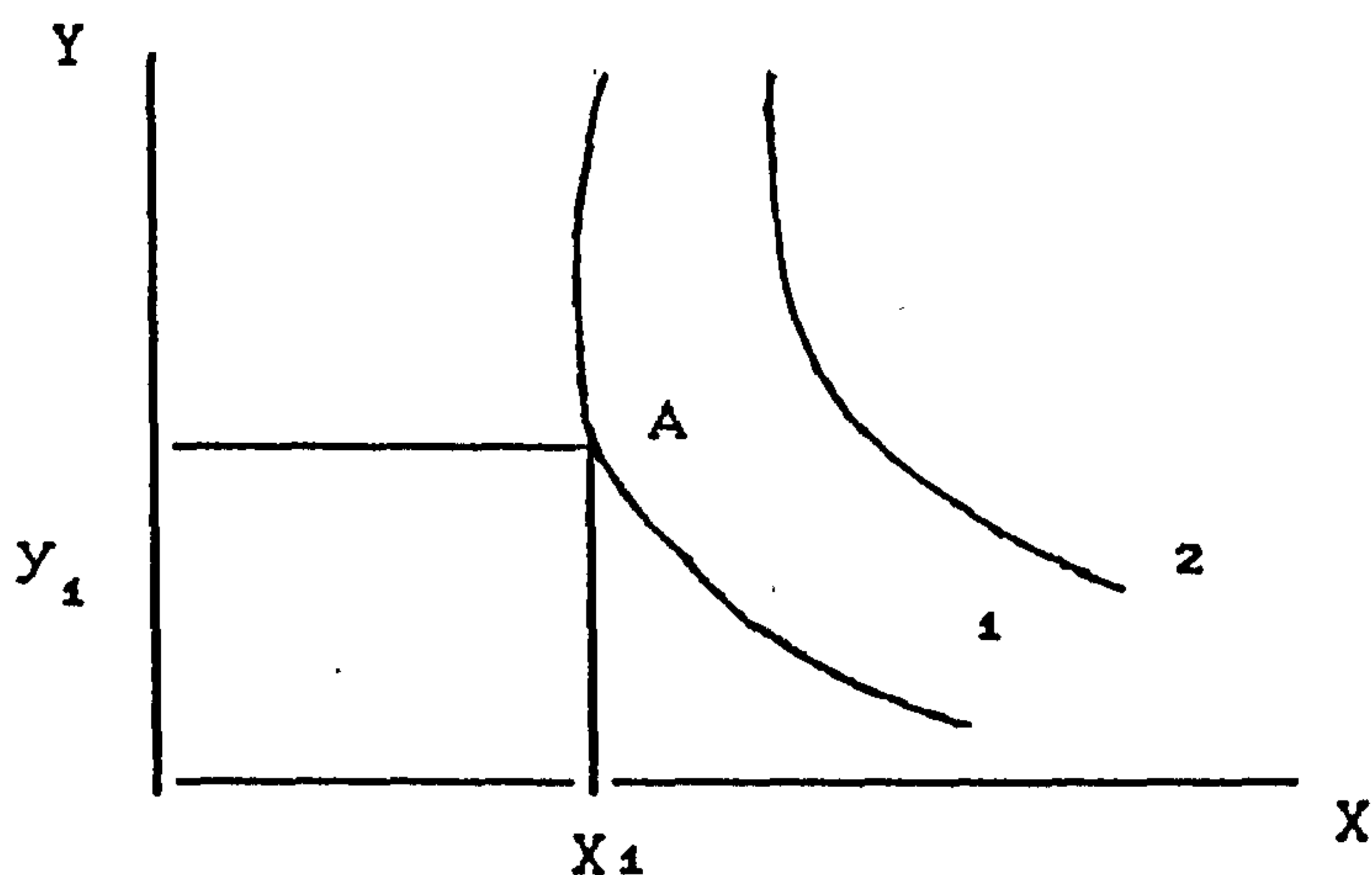
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<sup>5</sup> The marginal rate of substitution is defined as the number of units of a certain good that must be given up if the consumer, after receiving an extra unit of another good, is to maintain a constant level of satisfaction.

assuming that the more the consumer has of a particular good, the less important to him (relative to other goods) is an extra unit of this good. From these assumptions four properties of indifference curves can be deduced. Firstly, indifference curves must have a negative slope. Secondly, higher indifference curves represent greater satisfaction than the lower ones. Thirdly, they cannot intersect. Fourthly, they are convex to the origin. One could venture to say that the so-called plausible assumptions about the consumer's psychology are neither realistic nor objective; they are as subjective as their *sine qua non*; utility. Hence, indifference curves analysis is not a universal representation of the consumer's psychology, thus economic systems of different paradigm and ethical norms could have different apprehensions of consumer theory.

However, the consumer is assumed to maximize utility under the constraint of his income and the price of the commodities. The rational consumer, in a two-commodity example, is in equilibrium (i.e. choosing an optimal bundle) when the marginal rate of substitution is equal to the ratio of the prices of the two commodities. This is usually known as the equimarginal return. (Nevin, 1978, pp. 54-56). It follows that, technically speaking, optimality indicates that the marginal utility of income is the same for the two commodities. Note that the equimarginal condition does not differentiate between the types of consumption, i.e. whether they are necessities or luxuries.

As Zaman(1986,P.1) puts it, in neoclassical consumer theory there is no theoretical difference between an additional Rolls Royce for a multi-millionaire and an additional loaf of bread for a starving person. In a diagrammatical presentation, the consumer's optimality is defined by the tangency of an indifference curve to the budget line or the consumption possibility curve (Fig.2).



Fig(2) The Equilibrium of the Consumer

In the words of Mansfield(1975,P.39), the indifference map shows what the consumer's preferences are; the budget line shows what the consumer can do.<sup>6</sup> This budget line is not value-neutral as it might, *prima facie*, appear to be; it is based on the presumption that, in his longing for utility maximization, the consumer exhausts his available income.

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<sup>6</sup> The budget line is the boundary to the consumer's choice for acquiring commodity X and/or commodity Y. Its slope is thus equal to the price ratio of two commodities.

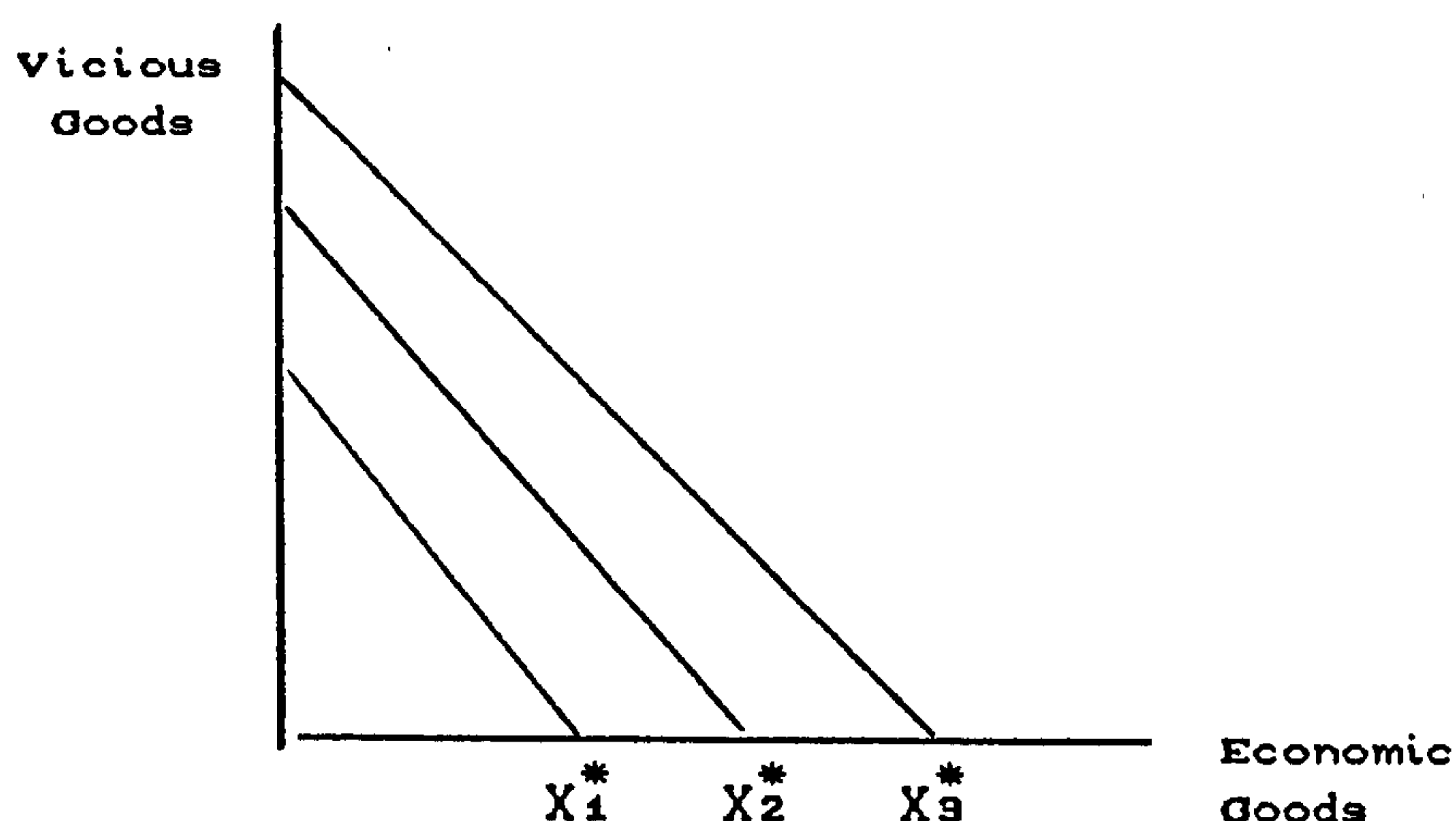
At point A (Fig.2), the consumer maximizes his utility; a maximum constrained by the consumer's limited budget and by the prices that have to be paid. The mere fact that the consumer is in equilibrium does not necessarily imply that the consumer satisfies his wants. The equimarginal returns emphasise the fact of the equilibrium, not its quality, thus it is open to criticism on the grounds that it is ethically trivial. A consumer, rich or poor, whether he satisfies his wants or not, is in equilibrium and hence rational, if the marginal utility of his income is the same for all goods. Does it make any sense to say that a consumer, living below the poverty line, is maximizing his or her utility? Indubitably not.

#### 4.3.2. The homo Islamicus' consumption behaviour

##### 4.3.2.1. *Maṣlahah* versus Utility

In line with the ethically loaded objectives of the *homo Islamicus*, the concept of *maṣlahah* is introduced as an alternative to the traditional concept of utility. All matters (be they activities or things) generate *maṣlahah* if and only if they help achieve the objectives of human life (Zarqa,1980,P.13; Ghānim,1983,P.35). Put in this way, *maṣlahah* is that quality of goods and services which enhances or safeguards the objectives of *sharī'ah* or the individual's *ḥalāl* (felicity in this life and the life to come). The opposite is *mafṣdah*(mischief); a characteristic of all Islamically banned, vicious goods whose demand and

supply elasticities are virtually zero. Fg(3.) shows that the optimal bundle for a consumer facing a choice between economic and vicious goods is  $X^*$  which contains no vicious goods; ie. a corner point solution. Note that mere adherence to Islamic injunctions regarding vicious goods generates *maṣlahah*.



Fg(3) vicious goods and corner solution

Though *maṣlahah* is a subjective concept it is not as vague and ambiguous as utility. Four reasons are said to account for the superiority of *maṣlahah* over utility. (Khan, 1987, pp. 9-10). Firstly, the consumer is relatively free as to the determination of *maṣlahah*; the criterion of judgement is not left to his or her subjective whim. Put in this way, individualistic and non-individualistic (divine) judgements interact in determining *maṣlahah*. (the individual is not the best judge of his actions). Secondly, the individual's *maṣlahah* is, *ipso facto*, consistent with social *maṣlahah*, unlike the individual's utility which will often be in conflict with social utility. This point needs to be qualified; consistency

between the individual's and social *maṣlaḥah* is ethically desired, however, its possibility necessitates a further assumption, viz, altruistic human motivation. Thirdly, the concept of *maṣlaḥah* underlies all economic activities in society. Thus, it is the objective underlying consumption, production and exchange. Note that in neoclassical microeconomics, utility underlies consumption while profit underlies production. Fourthly, many economists maintain that it is impossible, even in principle, to compare the utility enjoyed by one person with the utility enjoyed by another <sup>7</sup>. (Batson and Getz, 1981, PP.90). The utility represented by £5 to a poor man may mean a great deal; to a rich man, it may not be worth picking up. For reasons of this kind, it is impossible to make a comparison of rigorous scientific validity between the utilities enjoyed by different people (Nevin, 1978, P.43-44). However, it is relatively possible to compare the *maṣlaḥah* derived by two persons, one consumes to ward off hunger and the other consumes to improve his health; the former's *maṣlaḥah* is comparatively greater.

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<sup>7</sup> The interpersonal comparison of utility or *maṣlaḥah* is important in judging whether individuals are better off or worse off as a result of a certain economic policy. Such comparisons are indeed necessary in 'maximizing' social benefit and minimizing social injuries.



#### 4.3.2.2. The Structure of Islamic Consumption

Islamically, consumption is ethically-oriented, thus, it is not at all structureless<sup>8</sup>. Consumers face an ethical allowability constraint besides the traditional (technical) feasibility constraint. The core of ethically-oriented consumer behaviour is the *balance doctrine*. The Qur'an states "And let not your hand be bound to your neck (like a niggard) nor stretch it wide least you become blameworthy and destitute"(17:29), "And those who, when they spend neither squander nor are they parsimonious, but hold a (just) balance between those extremes"(25:67). The *balance doctrine* is a middle course between asceticism, which denounces worldly pleasure, and materialism, which warrants unstructured sensuous cardinal pleasures. Asceticism is an intolerable, negative attitude towards life; "virtue is not in running away from life, but in making life run along the right path"(Ahmad,1970, P.7). The rigours of hedonistic desires are mitigated since "Lust for wealth, lust for power and lust for position and prestige, are alien to the Islamic scheme of things" (Siddiqi,1979,P.7). Muslims are enjoined to avoid niggardliness and spendthrift and to maintain a relatively satisfactory standard of living; thereby expedite the flow of unilateral transfers and stimulating investment to enhance sustained earnings for future generations.

<sup>8</sup> The term was introduced by Smelser(1963);it denotes that consumers are essentially free to choose the consumption bundles, and their demand is constrained only by their income and the prices of the commodities.

The 'balance' doctrine could be construed as exhibiting the Islamic emphasis on the rationality of the consumer's behaviour. (Note that in conventional economic theory, only the consumer's rationality is axiomatically sacrosanct). Islam takes notice of possible behavioural impediments which might deflect consumers from the 'balance' doctrine.

Firstly, Islam explicitly prohibits consumption of *khabā'ith* (vicious goods), such as dead meat, blood, swine's flesh, intoxications and any abomination dedicated to other than God. (Qur'ān, 2:173; 5:9; 6:145). The *maṣlahah* derived from the consumption of these goods is negative, i.e. causing *mafsadah*. Essentially, the commodity space will be redefined to exclude all vicious goods; this implies that the *homo Islamicus* consumer face a bounded social consumption menu; a contracted commodity sub-space (Naqvi, 1981b, P. 63; Alhabashi, 1987, P. 6).

Secondly, benevolence and the sense of other fellow men restrain greed and envy. "This [greed and envy] is an outcome of a purely materialistic attitude towards life and cuts at the roots of the Islamic concept of balanced life. This result in a craze for artificially raising the standard of living" (Ahmad, 1970, P. 11).

Thirdly, *isrāf* (extravagance) and *tabzīr* (squander) are frowned upon by Islam. "----And eat and drink, but be not prodigal for God loves not the prodigals" (Qur'ān, 7:31); "And squander not (your wealth) wastefully, surely the

squanderers are the devil's brethren"(Qur'ān,17:26-7). Some jurists distinguish between *isrāf* and *tabzīr*; *isrāf* is exceeding the limit on spending beyond the genuine needs; *tabzīr* is the expenditure on the frivolous and unlawful. Others, however, use the two terms interchangeably to denote wasteful and inappropriate spending. (Al-Qurtubī, nd. vol.10.P.248). The ethical constraint of avoiding wasteful consumption indicates further that the social consumption menu for each individual consumer is essentially bounded.

Fourthly, Islam inhibits conspicuous consumption; that is, the use of consumer goods in such a way as to create a display for the purpose of impressing others rather than the satisfaction of normal consumer demand.<sup>9</sup> (Donaldson, 1984,P.154). This ostentatious display of wealth "has very pernicious 'demonstration effect' upon other sections of the society(Ahmad,1970,P.11). It is likely to cause social unrest in the form of envy, rancor and hatred among members of the society. Real-world observations show that conspicuous consumption (extreme affluence) occurs only at the expense of others being exposed (under consumption). Instead of being derived from conspicuous consumption that implies a negative attitude towards others, psychological

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<sup>9</sup> Conspicuous consumption leads to what has been termed 'Veblen effect' (after Thorstein Veblen(1857-1929); Veblen effect is the phenomenon whereby as the price of an article falls, some consumers construe this as a reduction in the quality of the good or loss of its exclusiveness and cease to buy it.

excellence, in its Islamic perspective, is derived from benevolent behaviour (positive attitude towards others). "-----So, vie with one another for the good deeds"(Qur'ān, 2:148; 5:48). Conspicuous consumption is an outcome of the concentration of wealth in the hands of few to the neglect of the masses and/or the lack of investment opportunities. Under-consumption often arises due to lack of purchasing power and/or the lack of goods and services. A fully-fledged Islamic society is virtually immune from the concentration of wealth, due to the ethical norms of benevolence and *al'adl.*(cf. Qur'ān, 59:7). The unilateral transfers, the employment opportunities promoted by the entrepreneurs' creativity, would, *ceteris paribus*, ensure sufficient purchasing power to each individual in the society. Fair factor compensation (cf, ch.5. *infra*), entrepreneurs' moral commitment, and their longing for after-life reward, would, *ceteris paribus*, invigorate the entrepreneurs' creativity and thereby secure employment opportunities and a sustained flow of goods and services. Thus, "while there is no conspicuous consumption leading to wastages in an Islamic economy, there is no place for under consumption either"(Mannan,1984,P.90)

#### 4.3.2.3. Consumer Choice and Income Allocation

Intrinsically, the *homo Islamicus* is constantly aspiring *maṣlahah*. Since the concept of *maṣlahah* exhibits the interdependence of social welfare functions, benevolence

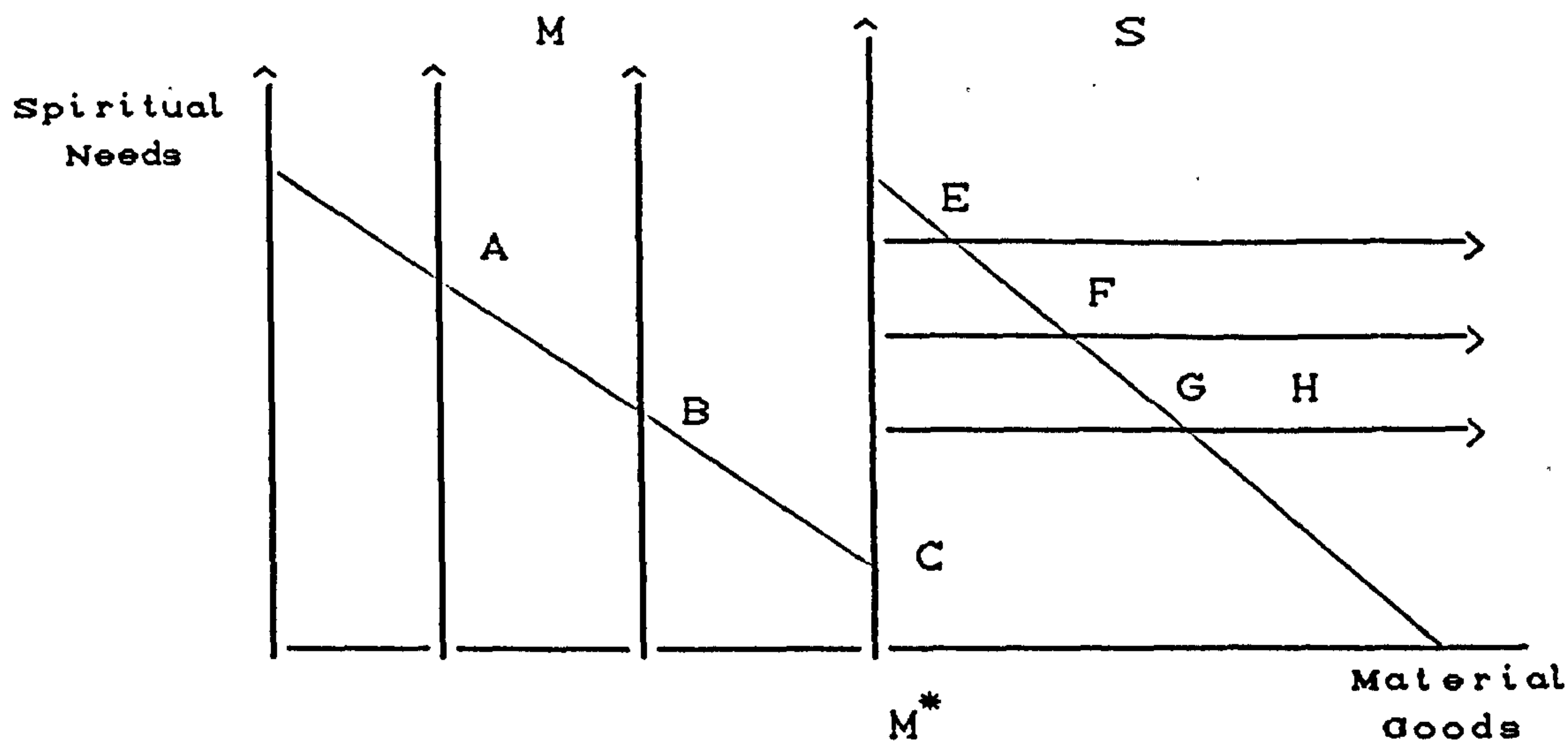
appears as a centrepiece of economic activity. Benevolence is not confined to others-oriented behaviour; it reveals itself even in promoting one's own welfare. Inculcated to that extent, benevolence would effectively necessitate the reconstruction of consumer choice and budget allocation.

The first choice facing the *homo Islamicus* is unique; income should be allocated, primarily, between satisfying wordly needs and spending in the way of God. Since the *homo Islamicus* is not ready to trade off after-life reward for wordly pleasure, his choice exhibits a lexicographic ordering<sup>10</sup>. This implies that the equimarginal analysis is virtually a vacuous concept. Economists often eschew this ordering on the grounds that it is a bizarre choice (Newman, 1965, P.24). Suffice it to say that in an Islamic perspective this choice is not bizarre inasmuch as it is, *jure divino*, imperative. The choice between material and spiritual satisfaction (Fig. 4) appears in a lexicographical order. Any point on a vertical line to the right (zone M) is preferred to all points on a lower line to the left. Moreover, any point on a higher horizontal line (zone S) is preferred to points on a lower line. Note that points

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<sup>10</sup> Lexicographic ordering purports that alternative X is better than Y if and only if X is better than Y on the most important criterion on which they differ. This form of ordering has been criticized on the grounds that strict adherence to it prevents the trade-off, or balancing, between criteria. (Fishburn, 1974, P.1444). This claim is valid only if substitutability is possible and permissible.

on the same line are not equivalent, *maṣlahah* increases in the direction of the arrows. Moreover, the *homo Islamicus*



Fg(4) Income Allocation Between Material and Spiritual Satisfaction

is assumed to fulfil a minimum level of material satisfaction  $M^*$ . In zone M the *homo Islamicus* is biased towards material satisfaction up to  $M^*$  (provided that spending in the way of God is positive). Beyond  $M^*$  the *homo Islamicus* behaviour would exhibit an unbounded bias towards spending for the cause of God. Consequently, the *homo Islamicus* optimal choice is on a higher horizontal line to the boundary of the vertical line  $CM^*$ , such as point E. If this is generalized to all members of the society then, at least, a semi-egalitarian society would be attainable.

The second choice facing the *homo Islamicus* is the allocation of the *wordly needs* budget between saving and present consumption. Conventional economic theory presumes

that people are myopic by nature and therefore pay little attention to future happenings. Thus, people, on average, are likely to experience a disutility in saving unless they receive a positive remuneration; interest.<sup>11</sup> One could venture to argue that this myopia-induced time preference is compatible only with materialistic individualism and egoistic human motivation. Given the norms of benevolence and *al'adl*, the individual's responsibility towards others (including his kith and kin), and his unsatiated longing for spirituality, the proposed myopia is likely to induce saving. Muslim economists, notably Siddiqi(1983), Zarqa (1983) and Khan(1987) maintain that the expected rate of return is more effective than interest in stimulating private savings.<sup>12</sup> One could hardly accept this view verbatim. The rate of return, or the capital reward in general, is neither the *raison d'être* nor the *sine qua non* of saving or investment, nevertheless, it is there inasmuch as it is required by *al'adl*. Since hoarding is banned and, due to *zakāh*, mere saving is an economically-negative act (Kahf,1978), the intimacy of saving and investment implies

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<sup>11</sup> This is precisely the time preference explanation of the phenomenon of interest though, philosophically speaking, a rather fallacious justification thereof. (Abbas,1987,ch.2).

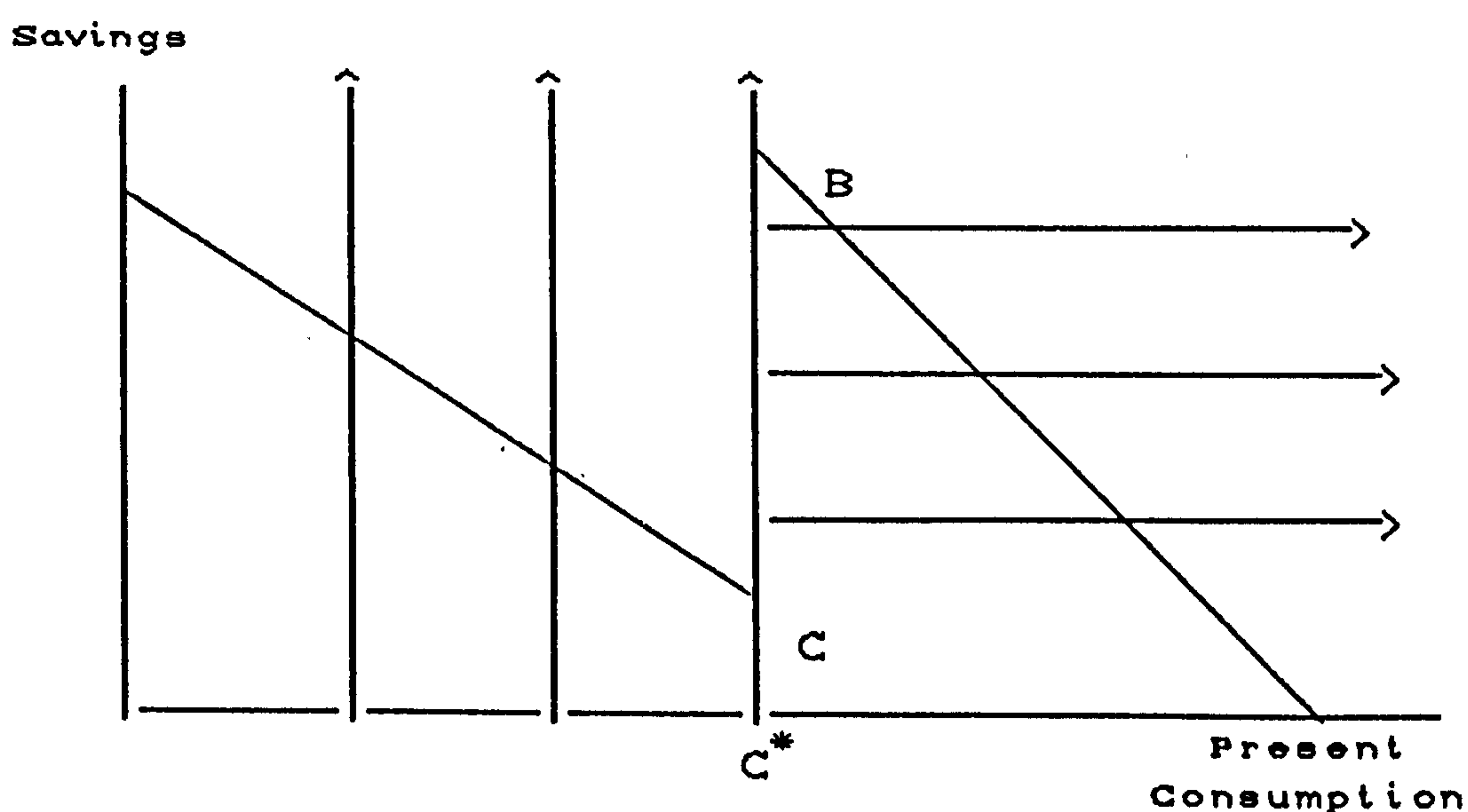
<sup>12</sup> This view needs to be qualified; the rate of return is ambiguous; in an economy composed of multi-firms it is impossible to speak of a single rate of return. It is more appropriate to use the average rate of return, but even this is beset with the difficulty of determining it.

the absence of the saving-investment gap (Khan, 1987). (Note that the saving-investment gap is unavoidable in dynamic analysis involving time).

To what extent could the *homo Islamicus* trade-off between saving and present consumption. This, asserts Kahf (1980, 25), depends on the drive or tendency for saving and/or consumption. Kahf constructed an income-allocation indifference curve (in a rather conventional manner) as a locus of all points of combination of saving and final spending which exhibit the same level of satisfaction. Since final consumption, in Kahf's view, includes spending in the way of God, the *homo Islamicus* is perceived as trading-off after-life reward for worldly satisfaction; a behaviour indubitably alien to the *homo Islamicus*. Consumption is herein defined to include only spending on goods and services, nonetheless, the equimarginal analysis is inappropriate. The following arguments are worth-emphasizing. Firstly, present and future consumption are not spiritually-neutral; caring for one's own welfare and eschewing the dependency on others is in itself spiritually-positive act. Moreover, saving and investment invigorate the provision of unilateral transfers. Secondly, present and future consumption are essentially governed by the *balance doctrine* (Qur'an, 25:67). Put the two arguments together, each combination of saving and investment is indifferent to itself. This lexicographic ordering is



explained in (Fig. 5) which is drawn on the same assumptions of (Fig. 4).  $C^*$  is the minimum consumption level required by the norms of benevolence and *al'adl*. Beyond  $C^*$  any combination having more saving is preferred to the ones with less saving. Thus combination B is the optimal allocation. Again point B reveals a semi-egalitarian society given the individual's firm adherence to the proposed behaviour.



Fg(5) Income Allocation Between Saving and Consumption

Having determined the present consumption budget, the *homo Islamicus* pursues the choice of possible bundles of commodities (given his commodity sub-space), where each commodity can be obtained in non-negative amount.<sup>13</sup> Before

<sup>13</sup> Note that the analysis herein is restricted to choice under certainty as distinguished from choice under uncertainty, such as the best bet in a gambling situation.

embarking on a discussion of this issue, it is worth emphasising that the vague concept of *wants-satisfaction* (the basis of utility maximization) is incompatible with the concept of *maṣlahah*. It is a standard assumption in economic theory that resources are scarce relative to the demand for them. Human wants springing from biological and psycho-cultural needs are unlimited. Thus, given the fact that many wants cannot be fulfilled instantaneously (the opportunity cost), human wants cannot be fully satisfied even if resources are abundant. This presumption gives rise to 'economizing' or 'efficiency' in economic analysis. "Economy, or economizing, means to achieve a given objective with the fewest resources- at least cost. ....Efficiency means to achieve the maximum possible benefit from given resources"(Watson and Getz,1981,P.9). Economy and efficiency thus mirror each other.

The scarcity-wants fallacy is, by and large, alien to the Islamic perspective. Inconclusively, Mannan (1984,PP. 108-12), asserts that scarcity forms a basis of Islamic economics, however, wants are restricted not only by one's ability to buy but also by social and moral norms. Many Muslim economists (chief among them, Chapra, 1979; Khan, 1987; Siddiqi,1988) suggest *needs fulfilment* as an Islamic alternative to *want satisfaction*. As to whether resources are sufficient for basic human wants, Khan's (1987) answer is an emphatic yes. This view does not lack support,

even from the mainstream of western economics. If the producers' sovereignty is restrained (Galbraith, 1972), or if the affluence-induced desires are curbed (Hellbroner and Thurow, 1975), and thereby the individual's wants are restricted to the essentials, the rigors of the problem of scarcity and unlimited wants would eventually disappear. The fulfilment of basic needs for all members of the Islamic society is imperative. Implied therein is a clear demarcation between one's fulfilment of basic needs and his or her ability to pay. Presumably, the unilateral transfers are stipulated to bridge the gap, should there be any. It is worth-noting that conventional economic theory presumes that at a zero (or very low) income, a minimum consumption is attainable only through borrowing (dissaving). Thus, poor people would die of hunger should they accept not to live on debt, while others (the rich) are affluence-afflicted.

The emphasis on basic needs fulfilment violates Pareto optimality (the economists most sacrosanct concept)<sup>14</sup>, and thereby actuate a unique consumer theory. Three factors

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<sup>14</sup> This is the rule of optimization formulated by Vilfredo Pareto (1848-1923). It states that perfect competition would automatically maximize *collective ophelimity* in the sense that no reallocation of resources could make anyone better off without at least making one person worse off. The rule is not independent of ethical value judgements as it is alleged to be. Pareto optimality emphasises the fact of equilibrium but does not insist on its quality. As Sen (1970) puts it, an economy can be Pareto optimal even when some are in affluence and others are starving as long as the starvers cannot be better off without cutting into the pleasure of the rich.

account for the invalidity of Pareto optimality (Naqvi, 1988, P.289). Firstly, the basic needs fulfilment requires the use of the *maximin* criterion whereby the needs of those who have the minimum will have to be maximized. (It is worth noting that the redistribution of wealth from the haves to the have-nots is a sacrosanct Islamic norm; it stems both from individualistic and non-individualistic (divine) judgements. (Pareto optimality does not recognize such judgements). Secondly, in the *maximin* calculus, the needs of all individuals will not carry equal weight - indeed, those of the poor carry most weight. Thirdly, the norms of *al'adl* and benevolence assign top priority to the satisfaction of basic needs, thus, social justice gets priority over efficiency.

How is the present consumption budget allocated to the *homo Islamicus*' needs? Recall that the five objectives of *sharī'ah* (the maintenance of human life, property, faith, intellect and posterity) can be fulfilled at three levels, viz, essentials, complementarities and amelioratories. Two levels of preference ordering are worth emphasising. (Khan, 1987, PP.10-13). Firstly, necessities must be fulfilled on high priority basis, followed by the complementarities and the amelioratories respectively. (This preference ordering is not based on normative presuppositions; it is positive inasmuch as it is empirically verifiable. The fact that people assign priorities to their needs is self-evident).

Thus, the choice between essentials, complementarities and amelioratories exhibits a lexicographic ordering. Secondly, regarding the choice within the three categories, the equimarginal analysis is again a vacuous concept. The *balance doctrine* will remain valid throughout the three categories. Those who satisfy their basic needs are obliged to foster the necessities of others. In the *ḥadīth*, "If anyone residing in a region sleeps hungry [due to destitution] the people of that region will fall out of the grace of God" (Ibn Hanbal, 1971, vol. 7, P. 4880), It is only when all individuals' basic needs are fulfilled that one should proceed to the complementarities. The socio-economic implication of this constraint is that society moves collectively from one standard of living to a better one, in a semi-egalitarian norm.

#### 4.4. Entrepreneurial Behaviour

##### 4.4.1. The Conventional Theory of the Firm

Traditionally, economists have posited the entrepreneur as the locus of decision-making in the firm. "The textbook picture of the firm", argues Donaldson (1984, pp. 138-9), "is of a single-plant, single-product enterprise run by a single-minded 'entrepreneurs' with the sole object in life of maximizing profits". Except in individual proprietors, the concept of entrepreneurship, as conceived above, seems strained; it is hard to determine exactly who is responsible for entrepreneurial tasks in large

partnerships, corporations and joint-stock companies. Nonetheless, the entrepreneur is identified with the firm; the former being an abstract, maximizing calculator. Note that the assumption of profit maximization is symmetrical to the assumption of utility maximization for consumers, presumably due to economic rationality. By their very nature, entrepreneurs organise the factors of production, determine what and how much to produce (and sometimes the product price) and thereby bear the risk and uncertainty. Unlike the other factors, the entrepreneur, being a residual claimer, might receive a negative reward<sup>15</sup> (Nevin, 1978, P.92). In maximizing their profit, entrepreneurs (firms) are confronted only by the traditional feasibility constraint; ethical and moral considerations are no more than vacuous judgements. Presumably, this explains the use of *ethically-neutral entities* (firms) instead of entrepreneurs; indeed, the assumption of *ethically-neutral human calculator* (entrepreneur) is rather paradoxical and even self-contradictory.

Some economists have challenged the assumption that the maximization of profit holds the key to the explanation of

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<sup>15</sup> This view needs to be qualified. The entrepreneur is maximizing profit as a residual (or what is called pure or extraordinary profit), which is equal to the total revenue minus the total cost. However, the latter includes the wage of entrepreneurship, or what is usually referred to as the normal profit. Hence the entrepreneur's negative reward is possible only should the incurred loss exceed the normal profit, in which case the entrepreneur will not only forgo his profit (residual) but he will be fined too.

entrepreneurial behaviour. Scitovsky (1943) questions the psychology of profit maximization; "By attributing to the entrepreneur the desire to maximize his profit we also attribute to him a particular psychology, which, though very plausible, is rather special"(P.57). Furthermore, to assume that maximization of profit is identical with the maximization of satisfaction is only to assume a Puritan psychology of valuing money for its own sake. Contemporary entrepreneurs, who derive satisfaction from their work (an implied zero income elasticity for the supply of the entrepreneurship), are likely to be motivated by factors such as ambition, a spirit of emulation and rivalry, pride in work, etc.

Herbert Simon (1959) rejects profit maximization on the basis of *bounded rationality*; uncertainty and imperfect knowledge. A firm may aspire to satisfactory levels for its profit, market share, etc, without thought of maximizing any objective function at all. Firms which are satisfied to achieve such objectives are *satisficing* (or *Simonizing*, to use a modern term) instead of maximizing. The Carnegie school, notably Cyert and March(1963), makes use of Simon's hypothesis to develop a behavioural theory of the firm; to show how firms really act, not just how they ought to act if their decisions were all optimal.

The fact that most modern firms are characterized by the separation of ownership from control has contributed to the theoretical deviation from profit maximization. It has

been suggested (Baumol,1959) that firms will attempt to maximize total sales rather than profit. Sales represent a measure of management's success, and there is a clearer correlation between the salaries of the executives and the company's sales than between their salaries and profit. Marris (1964) and Williamson (1964) maintain that the behaviour of the firm will be dictated in part by the interest of the management group. Galbraith (1972) argues that large corporations are run by the *technostructure* (professional managers, engineers); the corporation's goal is thus the survival and autonomy of the *technostructure*.

Nonetheless, profit maximization remains the standard assumption in microeconomics, because, to use the words of Mansfield (1975,P.148), it is a close enough approximation for many important purposes, and it provides rules of behaviour for firms that choose to make as much money as possible. If this justification contributes any thing to the issue, it is its advocacy of Puritan psychology. Note that none of the alternative theories of profit maximization negate the idea of profit as a driving force. Moreover, whether the firm is motivated by profit (maximized or satisfied) or by the sole interest of the management group, the notion of self interest is there. Entrepreneurs are thus egoistically motivated; nothing constrains their behaviour other than the usual technical feasibility. In such an environment, benevolence, if there is any, is only expressed in the ballot box!



#### 4.4.2. The Behaviour of the Homo Islamicus Entrepreneur

Indubitably, the ethical norm of benevolence plays an enormous role in moulding entrepreneurial behaviour in an Islamic perspective. The *homo Islamicus* entrepreneur is essentially benevolent; top priority is assigned to social good over personal gains. Ultimately, entrepreneurs will forgo profitable alternatives which are less conducive to the social good. A benevolent entrepreneurial behaviour, argues Siddiqi(1979,P.65), is manifested in two different but correlated forms, viz, altruistic services to others, and cooperation with others in furthering social interest. This view needs to be qualified in order to avoid a possibly hazardous dichotomy between 'our' and 'their' welfare. Entrepreneurial altruistic behaviour is restricted neither to times of disaster nor to the ballot box; it must be consistent from within and without. This ethical restriction is essential to be free of the eccentricity of the egoistic (and maximizer) businessmen who, ironically, occasionally reveal some philanthropic impulses to their 'victims' (consumers and/or workers). Entrepreneurial altruistic behaviour exhibits the following vital economic implications.

Firstly, since the supply elasticity of the 'banned' goods is zero, and extravagant and conspicuous consumption is inhibited, it follows that the social production menu is contracted symmetrical to the consumers' contracted

commodity sub-space. Thus, as Naqvi (1981b,P.63) has pointed out, the free disposal assumption of neoclassical economics does not hold in an Islamic economy <sup>16</sup>.

Secondly, *homo Islamicus* entrepreneurial behaviour eliminates unfair practices; profiteering, artificial market manipulations, misallocation of resources, selfish exploitation of resources (undermining future generations) (cf.ch.3.4.2. *supra*), and unfair factor compensation (cf. ch.5.2. *infra*). Furthermore, as Naqvi (1981b,P.65) and Alhabashi(1987,P.8), have noticed, entrepreneurs cannot lower the social welfare by dictating price and output configurations or by keeping production level below the socially optimal one.

Thirdly, since benevolence reveals the interdependence of social welfare functions, production activities which involve deleterious third-party effects (that is, external diseconomies, such as waste, pollution, noise, etc) are virtually curbed. Individuals must be vulnerable to proper compensation if the third-party effects are inevitable and practically unavoidable. To Naqvi(1981b,P.69) the presence of externality is justification for greater, though less,

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<sup>16</sup> The neoclassical *free disposal* assumption states that firms and individuals can reduce their holdings of goods without cost. Hence, no one will pay the negative price and so free disposal ensures that no price is negative. (Gravelle and Rees,1981,P.179). In an Islamic perspective, the ethical cost assigned to vicious goods represents a negative price, therefore the free disposal assumption does not hold.

coercive government intervention. Nonetheless, unless the entrepreneurs' benevolent initiative is efficacious, all measures of controlling the deleterious third-party effects will be abortive.<sup>17</sup>

Fourthly, production *must* be symmetrical to basic needs fulfilment. Producers' sovereignty is virtually abandoned. The self-interested, profit-seeker producers create tastes, affect the individuals' consumption and social behaviour, and thereby create wastage and more likely conspicuous consumption. This *must* not be understood as a thorough advocacy of consumer sovereignty.<sup>18</sup> Many western economists

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<sup>17</sup> Free markets can not induce firms to take account of the deleterious third-party effects simply because there is no market in the latter. For instance, firms will continue polluting so long as the marginal benefit of polluting is greater than its marginal cost, which is zero. Economists suggest three remedies to control the third-party effects (Hirshleifer, 1976, PP. 450-51). Firstly, a corrective tax; a penalty that is just enough to balance the harm suffered, on the margin, by others. Such compensations would not solve the problem of externality; it is the ultimate consumer who would bear this additional cost. Secondly, unitization; firms causing external diseconomies to each other could be merged to internalize the externality. The internalization of externality might be an appropriate solution within the firms, nonetheless, it would not curb the deleterious effects suffered by the society. Thirdly, the property assignment; if the producer initially owns the right to generate deleterious effects on others, the victims are not entitled to compensation. If the other parties initially entitled to be save from deleterious effects, the producer could offer terms of compensation at which they will accept a degree of harm. Indubitably, each individual is entitled to be save from any deleterious and injurious effects, but it is highly dubious and even ridiculous to speak of producers as having a property right on polluting others.

<sup>18</sup> In a free market economy, consumers are said to be sovereign; they know their wants and express them in terms of actual choice. In response, the profit-seeker producers

consider consumer sovereignty as a myth. Galbraith (1972) asserts that "It is not the individual's right to buy that is being protected. Rather, it is the seller's right to manage the individual"(P.221). Consumer sovereignty in the private sector has not been totally usurped, however, argues Donaldson(1984,P.156), consumer choice is certainly severely limited due to consumer ignorance and continuous bombardment from marketing men [advertisements and sales promotion]. Consumer sovereignty, argues Khan(1985,P.244) "conflicts with the Islamic concept of *Tawḥīd*(the unity of God), which suggests that the resources of earth are the creation of God, and he only has the right to lay down their mode of utilization". However, Khan's view undermines the consumer's freedom even within the contracted commodity sub-space. In fact, Islamically, neither the producer nor the consumer is sovereign; the contracted nature of the social production and consumption menus, the ethical imperatives on waste and conspicuous consumption behaviour, and the high priority assigned to basic needs fulfilment, leave no room for consumers and producers to pursue the right to manage or influence each other. The institution of *al-ḥisbah* (the maintenance of public morality and economic ethics) is essential to ensure a fair and congenial consumer-producer relation, and to inhibit any attempt to gain sovereignty.

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would effectively direct their production towards the satisfaction of these wants. Put it this way, demand often creates its own supply.(Rotherberg,1968,P.327).

In the light of the foregoing ethical imperatives, let us attempt to explore the goal of the *homo Islamicus* entrepreneur. Recall that the *homo Islamicus* is inherently longing for *ḥalāl* in a two-stage life span (this world and the hereafter). Highly influenced by this prototype, Siddiqi(1979) conceives entrepreneurial behaviour as a stereotype of the individual Muslim. Others, like Kahf (1978), emphasise the need for a clear demarcation between the general objectives of any economic activity and the goal of the firm. However, it must be stressed that the use of ethically-neutral entities(firms), instead of entrepreneurs, obscures Islamic imperatives and thus lead to some gross and catastrophic conclusions.

The goal of the *homo Islamicus* entrepreneur remains to be explored. Axiomatically, the profit motive is not repugnant to the Islamic ethical framework, nor is production devoid of profit. Unequivocally, profit augments the entrepreneur's material and spiritual achievement, besides its traditional function of maintaining business growth and security.<sup>19</sup> Thus a cynical entrepreneur who scorns profit would soon be out of the market. Presumably, due to

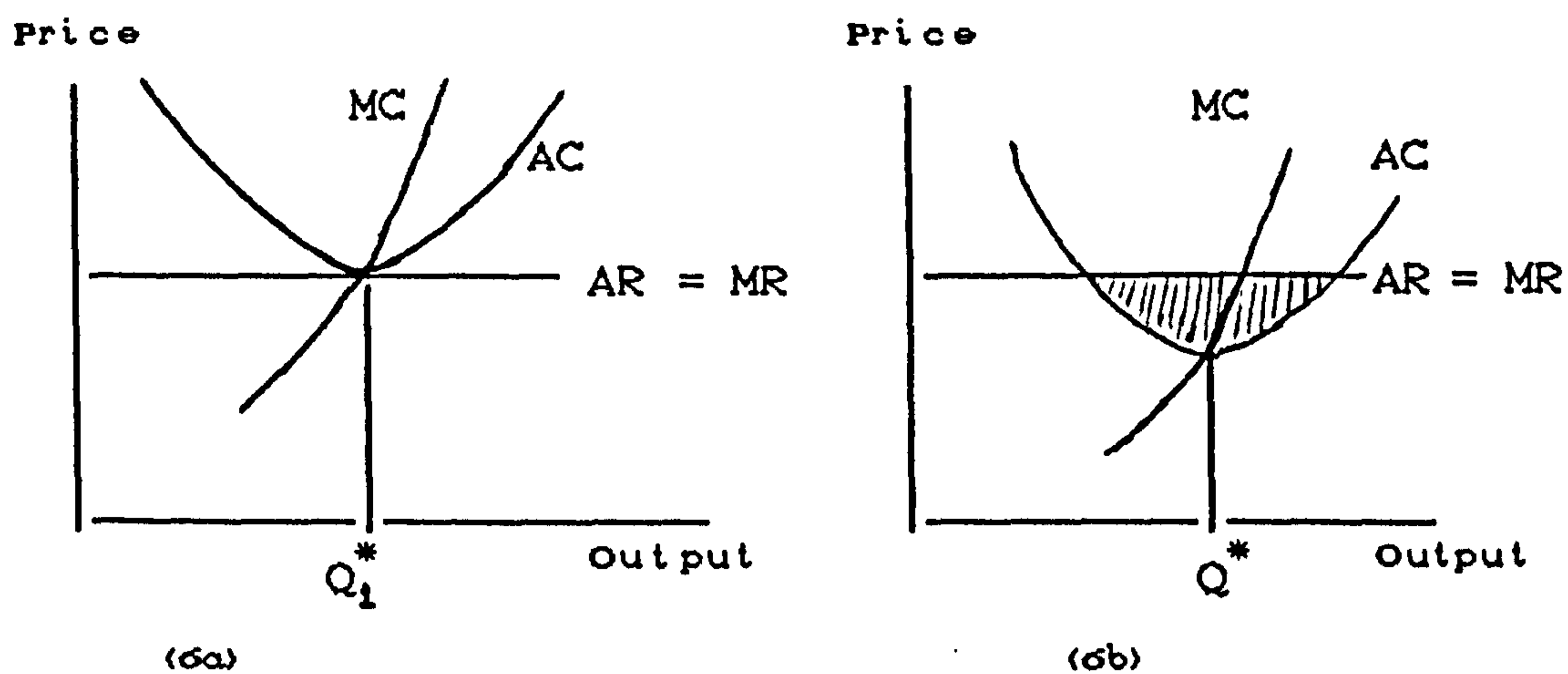
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<sup>19</sup> Profit is herein defined as total sales minus total cost (payments for contractual inputs including the wage of the entrepreneur). Intrinsically, the Islamic concept of profit exhibits a distinct distributive share; it differs from pure or economic profit in that it is a compensation for the entrepreneurial inputs (capital and entrepreneurship). For further details see Abbas (1987, Ch. 4.3).

the recognition of profit within the Islamic ethical framework, constrained maximization has been proposed as a felicitous goal for the firm; "profit maximization can be used as a fair criterion if we look at it as constrained not only by cost but also by ethical values and legislations"(Kahf, 1978,P.33). Note that the ethical norms of benevolence and *al'adl* militate against actions motivated by maximization. Moreover, even at a theoretical level, profit maximization is unattainable due to uncertainty and imperfect knowledge (the bounded rationality). The *homo Islamicus* entrepreneur is guided by the overriding concern for social good, thus, some economists, notably, Siddiqi(1979) and Mannan(1984), assert that the goal of the entrepreneur is to achieve a satisfactory profit. The latter is any profit between the lower limit (an average income sufficient to ensure an efficient life for the entrepreneur) and the upper limit (the profit necessary for business growth and security). (Siddiqi,1979,P.107).

Satisfactory profit, however, defined, must be downright fair (non-injurious); thus, it demands fair factor compensation, fair commodity pricing besides the absence of artificial market manipulations. Siddiqi's digrammatical analysis of satisfactory profit (P.147) is unacceptable inasmuch as profit is imputed in the cost

curve. As Siddiqi alleges, the level of output  $Q_1$  (Fig. 6a) corresponds to the minimum satisfactory profit. Thus, the entrepreneur's fixed reward is imputed in the cost curve to the neglect of capital and entrepreneurship. The latter are supplied entrepreneurially; their reward cannot be fixed in advance and hence cannot be imputed in the cost curve. Alternatively, one could venture to say that only the output levels corresponding to the shaded area (Fig. 6b) are profitable; both the entrepreneurial and the contractual inputs are compensated. The firm does not adhere to  $Q^*$  (Fig. 6b), which maximizes profit, even if no



Fg (6) The Satisfactory Profit

firm enter the market. The entrepreneur's responsiveness to the social good (and hence to the effective need of the consumers) would either decrease or increase the level of output and thereby drive the firm away from maximum profit. Highly influenced, presumably by this socially oriented production, Mannan(1984) calls for the active participation of the government to coordinate and initiate the multiple objectives of the firm. Choudhury (1986) goes

beyond general assertions and suggests that each firm must be assigned with a minimum level of production. Therefore, "unlike the case of free entry and exit of firms found in the classical and the neoclassical economic thought, the exit and entry of firms in an Islamic market are determined by conditions of meeting a minimum social level of production of goods and services"(P.243). Thus, equilibrium is not unique; there is a possibility for the existence of many systems whereby prices are coordinated. Hence, profit is no longer the only guide for resource allocation. By and large, the Islamic, convictional rationality and the entrepreneurs' ethico-psychological orientation weaken the competitive process. Hence, to agree with Naqvi(1981b,P.67), even at a theoretical level, the model of competitive equilibrium may not be of much use in simulating market behaviour in an Islamic economy.

#### 4.5. Concluding Remarks

The foregoing discussions reveals that maximization is technically unattainable and Islamically undesirable. The rationality of the *homo Islamicus* is determined by its conformity with the ultimate goal of *ṣalāḥ*, rather than in pursuing self interest. Given the (ethical) allowability and the (technical) feasibility constraints, consumers thus face a contracted commodity sub-space, and follow a lexicographic ordering of choice. Likewise, producers face a bounded production menu, and assumed to *satisfice* (rather than to maximize) a fair profit.



## CHAPTER FIVE

### CAPITAL-LABOUR AND EMPLOYER-EMPLOYEE RELATIONS ON THE ASSUMPTION OF BENEVOLENCE

#### 5.1. Overview

This chapter is mainly an attempt to verify the following proposition: The establishment of the ethical norms of *al'adl* and benevolence removes all possible impediments to fair factor compensation, thus contributing to the establishment of a congenial 'labour-capital' and 'employer-employee' relationship. The analysis here falls within five sections. Section two elucidates the philosophy of factor compensation *vis à vis* fixed and sharing contracts. Section three investigates the Islamic concept of profit-sharing; its philosophy, advocacy and forms. An endeavour is made in section four to develop an abstract model of Islamic profit-sharing firms; their feasibility and viability *vis à vis* the current debate on self-managed firms.

#### 5.2. The Philosophical Principles of Factor Compensation

Though *ribā* is rejected as predetermined capital compensation and sharing contracts are suggested instead, yet there is still a possibility and a need for the co-existence of fixed and sharing compensation. Each form of compensation is applied under those conditions which

satisfy the ethical norm of *al'adl* and its underlying benevolence significance. An attempt will be made in this section to lay the foundational postulation of capital-labour compensation.

### 5.2.1. Fixed Contracts

Fixed contracts are to be applied to that form of capital which, apart from depreciation, can be utilized without impairing its identity (Shafi,1975). From the user's viewpoint, these forms of capital are either 'utility-generating' like houses, or 'profit-generating' like machines. Regarding houses for instance, the user is paying rent for the utility provided since houses generate no profit to be shared.(We ignore problems associated with the inflation of house prices here). On the other hand, if the profit-generating machines were to be utilized on a profit-sharing basis, the owner-user relation would be asymmetric and the ethical norm of *al'adl* thereby violated. If no profit is generated, both the owner and the user will go unrewarded. However, the owner will still have his capital(machine) -presumably depreciated- but the user's exertion (labour) will be wasted. Thus Islam does not allow profit-sharing to be applied to capital whose identity is not impaired during the production process.

However, in fixed contracts the owner can remain immune from the depreciation cost by imputing it to the fixed rent. But the owner might still suffer if the user

cannot afford to pay the rent. The problem of default can arise either due to the user's premeditation or due to a difficulty encountered. If the default is due to a difficulty, then according to the norm of benevolence, the debtor should be granted time till it is easy for him (or her) to repay. (cf. Qur'ān, 2:280). The premeditated defaulter's assets are to be liquidated to compensate the original owner. Indeed the owner is not expected to behave benevolently towards a premeditated defaulter who malevolently violates the ethical norm of *al'adl*.

Regarding labour, Muslim jurists distinguish two forms of fixed compensation associated with two different types of labour: *ijārah* (wage payment), and *ju'ālah* (commission payment). (Ibn al-Qayyim, 1973). Wage fixation is associated with the contracts of service. For a wage contract to be in concordance with the rules of *al'adl*, the subject matter of the contract (or the work to be done) must be definable, relatively assessable and possible to complete. (al-Ghazālī, n.d. vol.2.PP.64-65). Provided these conditions are met, the wage payment should be known and fixed in advance. Thus the wage payee is positively rewarded irrespective of the outcome of the work. Again this predetermination of the wage payment remains to be justified.

The permissibility of *ijārah* (wage fixation) has been visualized as an 'exceptional' contract (Ibn al-Qayyim, 1973, vol.2.P.26). Some work has no direct or countable

profit to be shared, like most of the civil services; other work lasts for a few hours with no profit at all to be shared, eg. painting or repairing a house. Moreover, not all people are ready to face and bear business uncertainty, simply because they lack the ability. For these reasons, amongst others, wage fixation is permitted. To avoid possible misunderstanding, this exception is not to be conceived as an artificial violation of *al'adl*. Wage fixation is not gharar-free; the wage payment may be more or less than the value of the work actually done. However, this minimum gharar is unavoidable, and it is therefore allowed within the ethical framework of *al'adl*; otherwise people are likely to experience inconvenience and hardship.

Commission payments are used when the subject-matter of the contract under question may or may not be realized. The most distinctive feature of this contract is that the compensation is fixed in advance, nonetheless, it is payable only if the work is successfully implemented. (Ibn al-Qayyim, 1973, vol. 2, P. 5). The subject-matter of the commission contract is "any work during whose implementation no benefit- however small- accrues to the commission payee" (Ibn Rushd, 1981, vol. 2, P. 235). Painting a house, for instance, cannot be on a commission basis. For, if the painter paints only part of the house, the payer will have his house partially painted, without

rewarding the painter- according to the terms of the commission contract. The owner of a stolen car, for instance, may enter into a commission contract with an agent, by virtue of which the latter returns the stolen car. Should the agent fail, he would be entitled to no payment irrespective of the dangers that he may undergo. (note that the norm of benevolence might motivate the owner to reward the agent). Thus it could be said that the commission contract presumes the indivisibility of some labour tasks.

### 5.2.2. Employer-Employee Relation On Fixed Contracts

Having examined the Islamic philosophy of 'fixed' factor compensation, it seems pertinent to highlight the Islamic perception of the 'employer-employee' relation. Indubitably, the establishment of the ethical norms of *al'adl* and benevolence would evolve a congenial 'employer-employee' relation in accordance with the norms of brotherhood and cooperation. As Ahmed(1986) asserts, acrimonious and hostile feelings are unlikely to appear in an 'employer-employee' relation based on the bonds of brotherhood. Note that the predominance of egoistic human motivation begets an antagonistic 'employer-employee' relation inasmuch as each struggles to maximize his or her earning in '*a - devil - takes - the -hindmost*' world. Such behaviour is indeed socially wasteful; it jeopardizes the employer's and the employee's interest as well as

impairing the social good through the substantial waste in capital and labour due to industrial strikes and/or business closure.

The predominance of benevolent human motivation crystalizes individuals' consciousness of their duties to each other as well as to society at large. Mal-practices, such as exploitation of the workers, and the workers' arbitrary pressure are not only damaging to congenial 'employer-employee' relations, but they are also disadvantageous to the social good. However, these undesirable practices are avoidable through the establishment of *al'adl* whereby the employers and the employees restrain their self interest in the light of the Islamic maxim: *no injury and no reprisal*. Moreover, the assumption of benevolence motivates them to foster theirs and others' welfare. The workers are not permitted to receive their due payments without performing their assigned duties. "Woe betide the skimpers, who exact full measure from other people, but give short measure and weight themselves" (Qur'ān, 83:1). Thus it could be argued that the worker's welfare function exhibits a positive weight for both the employer's and society's welfare. Morally-unjustifiable strikes, workers turn-over, and absenteeism, would eventually disappear.

Likewise, the employers protect their workers from the burden of unnecessary labour, maintaining and increasing the workers' efficiency and not impairing their social

life. Employers are assumed to behave in accordance to the following injunctions. "Weigh with the true balance and do not undervalue other people's things-----"(Qur'ān,26:182-3) "I do not wish to lay (an undue) burden of labour on you, if God wills you will certainly find me among the righteous persons" (Qur'ān,28:27). In the *ḥadīth*, three persons will be the enemy of the prophet on the day of Judgment, among them, "a man who employs a worker, then takes the full measure of work from him, but does not pay him his wages" (Bukhārī, vol.3.P.258). Should these norms be established, the employer's welfare function would exhibit a positive weight for the workers' and the society's welfare. The employer's behaviour is thus free from exploitation of workers, arbitrary firing of workers and artificial manipulation of the market.

In a congenial employer-employee relation, the workers' claim for a fair wage does not infringe the right of the employers nor do the latter afflict the former by depriving them of their due compensation. The establishment of *al'adl* ensures that workers are neither underpaid nor overpaid; they have the fairest possible chance to receive their fair compensation, that is, the value of their marginal product(Hassan,1983). This will in turn safeguard society against the adverse effects of

industrial strikes and business closure that might follow irrational payments disputes. It is indeed pertinent to ask whether the employers are morally responsible for the provision of basic needs for their workers? To many writers, notably Afzal-ur-Rahman(1980), Hassan (1983) and Ahmed (1986), the answer is affirmative <sup>1</sup>. In the *ḥadīth*, "He who willingly works for us and has no shelter, must be given shelter. If he is single, then he must be given a wife, if he has no *dābah* [a means of transport] let him claim one"(Abu Dāwūd, vol.2.P.831). Thus it is the responsibility of the state [not the employers] to ensure the provision of the basic needs for any individual.

Is it morally acceptable for the state to make it obligatory for employers to ensure a minimum wage for

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<sup>1</sup> This assertion is based on the following *ḥadīth*, "Your slaves [*khawalukum*] are your brethren whom God has made subservient to you. So he who has his brother as his subordinate should feed him from his own food, clothe him as his own dress. Do not put on them such burden as will overwhelm them. If you burden them with such works, then you must assist them"(Bukhari, vol.3.P.434). It seems that the Arabic word *khawalukum* [your slaves] has been translated as 'your employees' in support of the claim that the employers are morally responsible for the provision of the workers' basic needs. This *ḥadīth* calls for a human and benevolent attitude towards slaves; a positive step for the emancipation and welfare of slaves. Yet it also suggests a deeper and structural change in the basic economic relation; the employees are not only securing their basic needs but the employees and the employers are regarding themselves as each other brother. (Al-Marsafi, 1980, PP. 224-228; Ahmed, 1986, PP. 36-37; Khan, 1989, PP. 63-64). Though this *ḥadīth* could be generalized in support of workers' welfare, it does not necessarily maintain the employers' responsibility for the provision of workers' basic needs. This is true particularly when the average productivity of the worker is less than his or her necessary average income.



their workers, as Hassan(1983, P.12) asserts? According to as-Sibā'ī(1962) the employers are not obliged to pay the workers above fair compensation (that is the value of their marginal product). However, the state is morally responsible to pay the difference should the fair wage fall short of the worker's basic needs. as-Sibā'ī's view is in accordance with the ethical norm of *al'adl*, nonetheless, it is hardly attainable in the absence of the individual's benevolence initiative. Recall that each individual is morally responsible for his and others' welfare. The worker's basic needs could be visualized as  $N = W + A$ ; where  $W$  and  $A$  stand for the wage payments and the unilateral transfers respectively. While the employers provide a fair wage  $W$ , which reflects the marginal productivity of the worker's labour, the state provides  $A$ , through the unilateral transfers pooling, given the predominance of benevolent behaviour. Thus  $A \leq N$  if  $W \geq 0$ .

### 5.2.3. Share Contracts

Share compensation is applied to capital whose physical form changes during the production process. Such capital includes "those means of production which can not be used in the process of production until and unless during this process they are either wholly consumed or completely altered in form" (Shafi,1975,P.12). Accordingly, money capital is and should be rewarded through a sharing contract. It is worth asking why fixed compensation is not

allowed in this particular type of capital. Note that money capital is wholly consumed during the production process while the borrower is combining his efforts with it in order to derive a benefit therefrom. However, the possibility of loss can not be overlooked. Under fixed contracts, if the capital user incurs a loss, he is still liable to both the principal sums and the predetermined reward(interest). This asymmetric capital-labour relation is rejected so far as it violates the immutable ethical norm of *al'adl*. Profit-sharing wherein both the capital owner and the capital user are risk bearers, is the only arrangement whereby liquid assets are invested within the rules of *al'adl*.

Share contracts are the only Islamically-legal forms whereby entrepreneurship is compensated. Entrepreneurs are, *ipso facto*, risk bearers; as such, their compensation is uncertain inasmuch as it is productivity-related. Is it Islamically possible for a worker to be employed under a combination of contract forms, as appropriate, for the varying tasks he or she must perform? Compensation through both fixed and sharing contracts is not, in itself, Islamically reprehensible. However, Muslim jurists (cf. al-Jazirī, n.d. vol.3.P.47) reject a particular type of combination of contract forms: the one wherein a fixed payment, say £100, is predetermined in anticipation of the profit. Such contract involves gharar and hence it is

rejected inasmuch as it violates the ethical norm of *al'adl*. By and large, sharing contracts are contracts on profit - the net business gain, as such they are in concordance with *al'adl* only if no fixed payment is demanded by either the capital owner or the entrepreneur.

### 5.3. Profit-sharing: The Philosophical Foundations

#### 5.3.1. *ribā*, *bay'* and Profit-sharing

The rejection of *ribā* raises the question of saving and capital compensation. A fully-fledged Islamic economy is, *ipso facto*, *ribā*-free. However, Islam allows for private property, imposes *zakāh* (to foster the welfare of the needy as well as to stimulate private investment), and encourages benevolent behaviour towards others. These imperatives illuminate the need for an alternative to the *ribā*-based capital compensation. The rejection of *ribā* does not mean that Islam negate the productive attribute of capital or its reward; it is the predetermination of capital reward that Islam emphatically rejects. In their diffused explanations for the phenomenon of interest (*ribā*) western economists have failed to provide a logical justification for its advance fixation. Ironically, the fixed (known) capital reward (interest) is functionally related to the expected (ie. actually unknown) profit. (cf. Abbas, 1987, ch. 2.)

The Islamic alternative to the *ribā*-based capital compensation is elicited from the Qur'ānic verse, "God has permitted *bay'* and prohibited *ribā*" (2:275). Lexically, *bay'* denotes both the act of buying and the act of selling (cf. Qur'ān, 62:9); technically, it refers to "the exchange of wealth with mutual consent, or the (permitted) reciprocal transfer of wealth" (Sābiq, 1985, vol. 3, P. 46). This concept of *bay'* is widely used by Muslim jurists; nonetheless, its naivety is self-evident; *riba* thus becomes a prohibited *bay'*. Abu Saud (1968) perceives *bay'* as, "the continuous and endless process of exchanging money into goods and vice versa" (P. 24-25). He further argues that any transaction wherein the continuity of this process is interrupted is not a *bay'* transaction. The latter is in accordance with the Islamic rejection of speculative hoarding and the prohibition of exchanging money for money and goods for goods of the same kind. (cf 3.4.6). The gains generated from *bay'* are subject to market valuation and business uncertainty; attempts can be made to predict them, but the prediction is not at all decisive. *Ribā* violates the rules of *al'adl* inasmuch as it compensates capital irrespective of the outcome of the *bay'* process. To ensure the establishment of *al'adl*, and to avoid *gharar*, capital compensation is and should be productivity-related. This is the philosophical basis for the Islamic concept of profit-sharing.

However, it is worth attempting to refute Naqvi's allegation that profit-sharing is not the 'first best' alternative to the institution of *ribā*. Positive time preference is the centrepiece of Naqvi's(1981b) rejection of profit-sharing; "a positive time preference, reflecting the essentially myopic nature of the individual's economic calculus, necessitates that the rate of interest be positive"(P.115). But is there scope for a positive time preference in an Islamic economy? Put it this way, will people experience a disutility in savings unless the rate of interest is positive? Naqvi's answer to these questions is affirmative<sup>2</sup>; positive time preference is morally justified on the grounds that individuals are myopic by nature (Naqvi,P.115.). In order to motivate private savings,given the rejection of *ribā*, the positive time preference must be turned into a negative time preference. Since this is not possible (given individuals' myopia), Naqvi's 'first best' alternative is to reduce heavily the reliance on private savings and to increase substantially the government's role in saving and capital formation.

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<sup>2</sup>In an Islamic economy, argues Abu Saud(1968), where exchange is complete there would be no scope for time preference. However, the assumption of complete exchange overlooks liquidity preference and the anticipation of profitable investment opportunities whereby some of the money obtained from business transactions is unlikely to be immediately exchanged for other goods and services. Thereby exchange is likely to be incomplete, hence time preference cannot be refuted by Abu Saud's theory of complete exchange,though the latter minimizes the tendency of time preference.

Presumably, this is based on an *a priori* acceptance of Ramsey's (1928) argument that it is not morally right for the government to have a positive time preference inasmuch as it is not myopic.

However, the centrepiece of Naqvi's argument is philosophically inconsistent with the Islamic ethical system. Indeed man is myopic by nature and hence ignorant of future happenings. Nonetheless, it is incorrect to claim that effectively Muslims pay little attention to future happenings and hence prefer present over future consumption. The myopia-induced time preference is valid only on the assumption of materialistic individualism which is not valid in a fully-fledged Islamic society. Given the Islamic norm of benevolence, the individual's social responsibility towards others (including his kith and kin), and his yearning for spirituality, the presumed myopia is likely to stimulate private savings. However, saving is inseparable from investment; the mere act of saving in Islam, argues Kahf(1978) is an economically-negative act and therefore should be penalized rather than rewarded. Indeed such savings are penalized through the imposition of *zakāh* and the negation of *ribā*. Hence, in a fully-fledged Islamic economy, capital reward is neither the *raison d'être* nor the *sine qua non* of saving(or investment), but it is there inasmuch as it is demanded by *al'adl*.

However, Naqvi(1981a) develops another (more socialist) argument against profit-sharing, viz, its incompatibility with social justice: "an economy run on the basis of the 'mutuality' of interests of the economic agents, who are engaged in profitable exchange, will not maximize social welfare in an Islamic society"(P.39). Social justice, argues Naqvi, depends on a just distribution of wealth which has got nothing to do with profit-sharing and the agents' mutuality of interests; "if individuals are unequally endowed to begin with, exchange may even aggravate social injustice"(P.48.n17). In his rejection of profitable exchange, and his emphasis on equality in the initial endowments, Naqvi is methodologically inconsistent. Equality in the initial endowments as a prerequisite for a just profitable exchange negates the Qur'ānic verse(16:71) which emphasizes the differences in human *rizq* (sustenance). Moreover, it contradicts Naqvi's 'theory' of limited private property. However, private property is essential to the Islamic ethical system; it symbolizes man's probation (both in its acquisition and use) and any attempt to restrain it will hardly fit into the Islamic system. By and large, since Naqvi failed to question both the permissibility and the feasibility of profit-sharing, his attempts to weaken its philosophical propositions is in vain.

### 5.3.2. The Forms of Profit-sharing

Comprehensive understanding of the Islamic concept of profit-sharing is incomplete without an analytical coverage of its forms; *mudārabah* and *shirkah*. These forms were quite common even before the revelation of Islam (Ibn Rus̄hd,1981). However, Islam has permitted people to retain their use, and since then Muslim jurists are unanimous as to their permissibility. The distinctive characteristic of these arrangements is that both capital and labour are supplied entrepreneurially and therefore compensated through share contracts. This section explores the *modus operandi* of *mudārabah* and *shirkah*; an attempt will be made therein to examine whether their factor compensation is in accordance with the ethical norms of *al'adl* and benevolence.

#### 5.3.2.1. Mudārabah

*mudārabah* is generally perceived as "an arrangement or business contract between two parties wherein one party provides capital and the other provides the necessary [entrepreneurial] labour provided that the realized profit is shared between them on an agreed upon proportional basis"(Ibn Rus̄hd,1981, vol.2.P.236). Since the existence of different grades of people as far as business ability and willingness are concerned is scarcely denied, *mudārabah* would help bring the diversified grades of people into



a form of business cooperation and capital pooling. In the words of Ibn Quddāmah (n. d. vol. 5. pp. 26-7) "Money breeds nothing in the absence of exchange. But neither are capital owners *ipso facto*, competent entrepreneurs, nor are the latter always capital owners'. In *mudārabah*, the capital owners and the entrepreneurs, the savers and the investors, are brought into an arrangement wherein both entrepreneurship and capital are utilized to their mutual benefit.

Capital is the subject-matter of the *mudārabah* contract; whether business sinks or swims (and hence factor reward) depends mainly on capital growth or diminution. Since both capital and labour are supplied entrepreneurially, they are risk bearers so long as their rewards are uncertain. (This does not mean that the entrepreneurs and the capital owners are extreme gamblers; they are still risk averters to some extent). Capital must satisfy the following conditions. (Ibn Rushd, 1981, 2/236-73; al-Jazirī, n. d. 3/36-37). Firstly, capital must be in the form of cash or liquid money. (Recall that profit-sharing is applied to capital that changes in physical form during the process of production). Secondly, capital should be known and transferred to the entrepreneur. If it is not physically transferred, the entrepreneur should have a complete authority regarding its disposition. Thirdly, capital should not be in the form of a debt. The jurists' argument is that debt as a form of capital implies an enforcement

of the debt payment, though it is paid to the business venture instead of being paid to the creditor. Should the debtor be short of cash or in a financial difficulty, he might resort to borrowing or ask the creditor for a time extension against which the creditor might demand *ribā* (interest). However, debt as a *mudārabah* capital is not reprehensible in itself, but it is not allowed because it may lead to undesired transactions that cannot be monitored.

Both capital and labour are supplied entrepreneurially and compensated through the uncertain business profit. However, business is an uncertain game in which both capital and labour may go unrewarded. To lessen this uncertainty, some measures are imposed on the capital owner and the entrepreneur (cf. al-Jazīrī, n.d. PP. 40-41; Afzal-ur-Rahman, 1980. vol.1. PP. 233-34). Firstly, the entrepreneur is simply a trustee who is not liable to the diminution of capital unless it is *proved* clearly that this loss was due to his carelessness or ill-intention. [This condition is even required by *al'adl*] Secondly, the contract is nullified should the entrepreneur violate one or more of its terms. The entrepreneur would no longer be a trustee, but rather a usurper who is liable to the loss incurred (or which would be incurred). As to the usurper's compensation, two different views have been put forward. al-Jammāl (1972) alleges that the usurper deserves all the

realized profit, but equally is liable to any loss. Suffice it to say that this view is evidently weak inasmuch as it contradicts the ethical norm of *al'adl*. Moreover, it would give the entrepreneur every opportunity to violate the contract advantageously whenever the probability of profit is significant. Abdul Qādir (n.d.) suggests that the usurper is liable to any loss, and the realized profit -if any- is to be shared according to the already agreed upon profit shares. Abdul Qadir's view is logical and fair. The liability of loss is a penalty for any intended violation of the contract, whereas profit is to be shared. This would safeguard the capitalist's and the entrepreneur's reward as well as ruling out any possibility of violating the contract advantageously.

Thirdly, the entrepreneur should be given absolute freedom in investing and taking whatever steps that are deemed to be profitable provided that he or she works within the Islamic 'contracted' social production menu. Any condition imposed by the capitalist restricting this freedom would invalidate the *mudārabah* contract. (Abu Saud, 1980). How does the capitalist choose who to invest with? By virtue of condition three, the capitalist is not allowed to scrutinize the entrepreneur's business proposals, but he can decide on the basis of his trustworthiness and on the basis of virtue of his past business success (if there is any). Fourthly, according to Ibn Quddāmah (n.d), the

capitalist is not allowed to participate in management. The capitalist's participation in management and control contradicts the very nature of *mudārabah* as well as it restricts the entrepreneur's freedom.

What would be the entrepreneur's compensation should the *mudārabah* arrangement be dissolved? Many economists, notably al-'Awadī(1974), argue that the entrepreneur should be given the wage equivalent. However, the principles of *mudārabah* indicate that an alternative view is appropriate: the entrepreneur deserves a share in the realized (at the moment of dissolution) profit in accordance with the already agreed upon profit shares.(Ibn al-Qayyim,1973). Ibn Taymiyah(1982) suggests that if the *mudārabah* contract is dissolved, the entrepreneur is entitled to a share in the realized profit (if any) determined by the profit share that is valid before the dissolution of the contract. The wage equivalent is apparently irrelevant to this case. As Abduh(1981) puts it "the entrepreneur is entitled to a share in profit due to his labour contribution: accordingly he deserves no wage for the profit-paid [entrepreneurial] labour"(P.149). In *mudārabah* the entrepreneur accepts an uncertain compensation tied to the production actualities and not fixed in advance. How then can he claim the equivalent of something not in existence? It is more logical and 'fair' for the entrepreneur to claim a share in the realized profit (if there is any) depending on the agreed upon profit share.

Both the capitalist and the entrepreneur are entitled to an uncertain compensation, though each of them is entitled to know what his compensation is should there be a profit or a loss. Abu Saud(1980) argues that "every party to the act [the *mudārabah* act] must know for sure and without ambiguity his share in the expected profit and provided that this share is a percentage and not an absolute fixed amount"(P.69). Since labour and capital are supplied entrepreneurially, a lump sum payment is not allowed. For instance, it is not permitted to pay the capitalist(or the entrepreneur) say £1000 of the business profit  $\Pi$  and then to distribute  $\Pi - £1000$  according to the agreed upon shares. This lump sum is not allowed because it involves gharar, i.e. one party is guaranteed part of his reward while the other's reward is uncertain. Both the capitalist and the entrepreneur would be positively rewarded in the event of a positive profit. Should there be a loss it will be the sole liability of the capitalist. The governing rule is: *the profit follows the conditions agreed upon and the loss follows the capital*. In the case of loss the entrepreneur would be unrewarded, gaining no profit for his efforts. Since the effort has been wasted, it is regarded as Islamically unfair for the entrepreneur to be fined too. At a break even point, with neither profit nor loss, both the capitalist and the entrepreneur would be unrewarded,

or as Ibn al-Qayyim(1973) puts it "the capitalist has lost his capital return but equally the entrepreneur has lost the fruit of his efforts"(P.6).

The above mentioned *mudārabah* rules could be summarized as follows: Let there be a one capitalist-one entrepreneur *mudārabah* arrangement. Let the entrepreneur's and the capitalist's reward be  $\alpha\Pi$  and  $(1-\alpha)\Pi$  respectively, where  $0 < \alpha < 1$  and  $\Pi$  equals the sale proceeds minus [capital plus the cost of non-entrepreneurial/non-capital inputs]. Hence, the entrepreneur's reward is  $\alpha\Pi$  (if  $\Pi \geq 0$ ), or zero if  $\Pi < 0$ . The capitalist's reward is  $(1-\alpha)\Pi$  (if  $\Pi \geq 0$ ), and  $\Pi$  if  $\Pi < 0$ . However, it is worth asking what will happen if the loss exceeds the *mudārabah* capital? The capitalist's liability is limited by the amount of his capital. The entrepreneur should undertake the business within the provided capital and be liable to any loss exceeding it.

#### 5.3.2.2. Shirkah

Muslim jurists define *shirkah* as "a form of business organization wherein all partners jointly provide capital and jointly bear the risk of the business outcome, profit or loss" (Ibn Quddāmah, n.d. 5/12). Partners might jointly manage the business or alternatively appoint one (or more) from among themselves as manager (Shafi,1975). *shirkah*, as defined, represents a form of capital pooling. The

capital owner, for instance, may find it difficult to initiate his own independent business. Moreover, he might be interesting in management and hence regard *mudārabah* as unattractive.

Generally speaking, there are four conditions governing the partners' relation in *shirkah*. (Ibn Quddāmah, n.d. vol. 5. PP. 16-24) Firstly, all partners are, *ipso facto*, capital providers, though they may not contribute equal shares. Secondly, each partner is an agent but not a patron; in other words, no partner(s) is (are) liable to pay the debt of the other partner(s). Thirdly, the financial liability of the partners is limited by their shares in the *shirkah* capital. Fourthly, each partner's share in capital and profit should be known at the time of the original contract. Capital, as subject-matter of the contract, is governed by the rule that governs all sharing contracts viz, it should be in the form of liquid money or cash.

Since all *shirkah* partners are, *ipso facto*, capital providers, they are entitled to a share in the realized profit. According to Ibn Rushd (1981) Muslim jurists are unanimous that *shirkah* profit should be distributed in accordance with the capital proportions. *shirkah* however is invalid if it is stipulated that one (or more) partner receives a lump sum from the expected profit. Ibn Quddāmah (n.d.) asserts that if the partners agree among

themselves to give a partner a percentage of profit greater than his capital proportion, that is also permissible. This exceptional permissibility has been misconceptually related to business management. "The right of each partner to claim a greater share of the profit might be due to extra labour or better organizational ability or managerial skill in handling business or any other reason" (Afzal-ur-Rahman,1980,vol.1.P.230). The Islamic philosophy of factor compensation reveals that in the case of *shirkah*, only capital is to be compensated through a share in profit. Any additional managerial task would be compensated through wage fixation. "All the partners will be entitled to profit in so far as they have invested capital, and also entitled to wages in so far as they have taken part in the management of the business" (Shafi',1975, P.15). In other words, only capital is to be compensated through a sharing contract, and any related labour efforts would be compensated through a fixed compensation. As such this wage payment is a cost to be deducted from the sale proceeds before determining the business profit. If the business outcome is a loss, the loss will be distributed according to the proportions of the invested capital. As in *muḍārabah*, the partners' liability is limited by the amount of their contributed capital and any loss exceeding the *shirkah* capital will be the liability of the manager.



The distribution of profit/loss in *shirkah* is summarized as follows: Let there be a *shirkah* arrangement between two capitalists, A and B, who provide capital against an anticipated profit share  $\beta$  and  $(1-\beta)$  respectively. A receives a fixed wage,  $W_A$ , for his entrepreneurial activities. Let  $\Pi$  stand for the *shirkah* profit or the difference between the sale proceeds and the cost of business ( $W_A$  plus the purchase of raw materials, the unfinished goods, transportation cost ....etc.). Then A's compensation is  $\beta\Pi + W_A$ . B's compensation is  $(1-\beta)\Pi$ .

#### 5.3.2.3. A Digression on Sharecropping

*muzāra'ah* (sharecropping) is the most appropriate form of compensation whereby a fair landlord-tenant relation can be achieved. However, Muslim jurists are not unanimous as to the validity of *muzāra'ah*: The Ḥanafī and the Ḥanbalī accept the contract of *muzāra'ah* (except Abu Ḥanīfah who invalidates it as speculative hire). Both the Mālikī and the Shāfi'ī reject *muzāra'ah* inasmuch as it is simply hiring land against a part of its produce; they advocate *ijārah* (rent-fixation) instead. (al-Jazīrī, n.d. vol. 3. PP.3-5). The jurists' dispute regarding *muzāra'ah* and *ijārah* stems from a group of conflicting *aḥādīth* according to which *muzāra'ah* and *ijārah* are allowed and prohibited at the same time. To some jurists like Ibn Quddāmah (n.d. vol.4.P.424) and Ibn Taymiyah (1963, vol.19. PP.95-111),

the prohibition of *muzāra'ah* and *ijārah* is not absolute; they hold the view that both are Islamically allowed, given the establishment of *al'adl*. After a thorough scrutinization of the relevant *aḥādīth*, taking into consideration what abrogates what, Ibn Ḥazm (1965, vol. 8. P. 210-225) concludes that *muzāra'ah* is the only legitimate form whereby cultivatable land is to be compensated. An attempt will be made below to examine *muzāra'ah* and *ijārah* in light of the ethical norm of *al'adl* and its twin assumption of benevolence.

Rent fixation or *ijārah* involves *gharar* and hence violates the ethical norm of *al'adl*; landlords receive a fixed and guaranteed reward while the tenants' reward is subjected to production actualities. Thus the landlord-tenant relation is asymmetric and unfair inasmuch as one party is immune from uncertainty while the other party is not. This is why some jurists, notably Ibn al-Qayyim (1971, vol. 2. P. 7), proclaim the unfairness of rent fixation.

Some jurists like Ibn Taymiyah (1963, vol. 29. P. 98), regard *muzāra'ah* as a form of *mudārabah* wherein landlords provide the land and the tenants provide the necessary physical labour. The produce realized is to be shared between them in accordance with an agreed upon proportion provided that no stipulated amount is demanded by either the landlords or the tenants (PP. 95-97). Regarding the

position of the operational cost (including the seeds), the majority of Muslim jurists favour their being provided by either the tenant or the landlord (Ibn Quddamah, n.d. 5/423). Notwithstanding this, the landlord-tenant relation would be asymmetric and unfair should either of them alone provide the necessary capital. If the necessary capital is provided by the landlord, in the case of total crop failure, the landlord would lose his capital as well as having his land unrewarded, while the tenant is only having his labour unrewarded. Conversely, if the operational cost is provided by the tenant, in the case of total crop failure, the tenant would lose his capital as well as having his labour unrewarded, while the landlord only loses his land's reward. Furthermore, the place of sharecropping within the realm of *mudārabah* makes the status of 'capital' factor cost unclear. The analysis of *mudārabah* presumes two factors of production; labour and capital, while sharecropping adds land as a third factor. However, those who regard sharecropping as a form of *mudārabah* are rewarding labour and capital while completely ignoring the reward of land. (Note that Ibn Taymiyah's (1963) view that the position of land in *muzāra'ah* is parallel to that of capital in *mudārabah* (vol. 29. P. 101), is unsubstantiated.

Abu Saud (1968) argues that 'fair' sharecropping is the one wherein the landlord provides land, the tenant provides the necessary labour, provided that the 'capital'

factor costs are shared between them in accordance with an agreed upon proportion. (This is one of the three forms of *muzāra'ah* allowed by the Hanafī school (al-Jazīrī, n.d. vol.3.P.9.)<sup>3</sup>. Abu Saud's view is in conformity with the ethical norm of *al'adl*. This symmetric landlord-tenant relation would remove any *gharar* or injury. However, sharecropping could only be formed as a mixture of *mudārabah* and *shirkah*. We have already explained that sharecropping is not in conformity with the rules of *mudārabah*. In *shirkah* only capital is to share the produce, while entrepreneurial labour is compensated through a fixed reward. Thus, it could be argued that *muzāra'ah* (sharecropping) is an autonomous contract independent of both *mudārabah* and *shirkah*.

Sharecropping has been criticised by the upholders of rent fixation. For instance, Afzal-ur-Rahman (1980) and Quibria and Rashid (1984) assert that sharecropping is inappropriate, intolerant and oppressive in the sense that landlords exploit the tenants by sharing the fruits of their labour and by hiring them for a part of what is produced; that is landlords are exploiters and parasites. Fixed rents guaranteed in advance, however, imply that

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<sup>3</sup> The other two forms are as follow; one party provides labour, the other provides land and capital costs,; one party provides land, the other provides labour and capital cost.

tenants alone face business uncertainty. Bearing in mind the ethical norms of *al'adl* and benevolence, exploitation is therefore associated with rent fixation rather than with sharecropping. (Note that in sharecropping neither the landlord nor the tenant is immune from uncertainty). The statement that landlords are parasites inasmuch as they share the fruits of the sharecroppers' labour is an allegation void of any logical or moral justification. What makes the crop-sharer landlords parasites and the rent-receiver landlords non-parasitic? Another related question is, why do landlords receive any gain at all? We have to differentiate between the fact and the quality of the gain (or compensation). So long as landlords are property owners, they are entitled to a *de jure* gain therefrom; that is, they are not parasitic as far as the fact of the gain is concerned. Whether the gain is in the form of sharecropping or rent fixation depends on an analysis of the quality of the gain which falls within the context of fair and unfair compensation. [Note that the rules of *al'adl* and benevolence advocate profit-sharing]. We may conclude that the arguments raised against sharecropping are too superficial to invalidate it, and sharecropping remains unequivocally acceptable if the Islamic philosophy of factor compensation is to be maintained.

## 5.4 Self-Management

Many (non-Islamic) models endeavour to analyse the replacement of fixed contracts by share contracts for labour/capital compensation. It is maintained that labour and/or capital compensation parameters are determined endogenously, being tied to the firm's performance, instead of being fixed in advance. Regarding factor compensation, one could divide the non-Islamic profit-sharing firms into two categories: in one category, capital is rewarded through the scarcity-reflecting rent (interest), while labour compensation is tied to the production actualities; in the other, share contracts are equally applied to both labour and capital. In the light of the Islamic philosophy of profit-sharing, a theoretical model of a *mudārabah* and a *shirkah* firm will be developed in an attempt to investigate their viability, efficiency and their superiority over the non-Islamic ones.

### 5.4.1. The Received Theories

The pioneering theoretical work on self management was that of Ward(1958) or what is referred to as the 'Illyrian Firm'. The firm is a collective partnership formed by the workers; workers hire capital, sell the product at the highest possible price, bear the risk of loss or gain and distribute the resulting profit equally among themselves. The firm's production function is

$X = X(L, K^0)$ , a twice-differentiable concave function, satisfying the rules of diminishing returns.  $L$  and  $K^0$  stand for the number of workers and the fixed capital respectively. Workers are assumed to have identical skills, working under the condition of uncertainty and never ploughing back their profits. The model has been developed further by Meade (1972) and Vanek (1973). In the 'Ward-Meade-Vanek' model, the workers maximize the

$$\text{average net income per worker, } y = \frac{P_x X(L, K^0) - rK - wL}{L} + W,$$

where  $P_x$  is the parametrically fixed product price,  $w$ , the wage per worker,  $W = \sum w$ , and  $r$  is the fixed compensation per unit of capital. The optimality condition requires that workers are employed up to the point where the value of the marginal product of labour is equal to the average net income per worker. Likewise, capital is employed up to the point where the value of its marginal product is equal to its scarcity reflecting rent (the fixed interest).

Though the Ward-Meade-Vanek model is an attempt to analyse a revolutionary type of labour-capital relation, the rewards for labour and capital still appear inconsistent. While labour compensation is tied to the firm's performance, capital receives a fixed compensation (presumably, exogenously determined) irrespective of the firm's performance. In other words, labour reward is uncertain, while capital reward is relatively risk-free. Presumably, in this model the workers are liable to the

firm's loss. However, if loss is incurred, the workers will not only have their physical and entrepreneurial labour unrewarded, but also have to share the loss among themselves. The model is beset with what McCain(1977) termed 'the law of increasing risk'. Though capital is guaranteed a fixed return, there is always some probability of default, and the probability of loss to the lenders usually increases with the decrease in the equity-capital proportion. Thus the lenders are likely to demand high amortization and interest rates, hence the cost of loan capital rises at the margin. These factors would eventually reduce the expected surplus, the expected dividend income per worker and consequently discourages further external finance.

In practice, almost all cooperative enterprises share a common feature regarding the position of capital; capital assets are collectively owned and usually accumulated in the form of collective savings and undistributed earnings (Vanek,1973). This has generated a shift in theoretical analyses towards internally-financed self-managed firms<sup>4</sup>.

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<sup>4</sup> Three reasons account for the emergence of internally financed firms. Firstly, financiers may be mistrustful of cooperative firms and regard them as mere eccentric firms. Secondly, members of the cooperative are themselves sometimes reluctant to depend on the capitalist institutions, presumably, for ideological reasons.(Vanek, 1975;Stephen,1982) Thirdly,external finance in the form of shares deserving dividends is beset with two problems; the possibility of a loss(or a zero profit), and the fear that the shareholders might demand some kind of participation in management/control which eventually endangers the very nature of self-management(McCain,1977).



The firm is financed through the members contributions and their non-refundable retained earnings. The realized surplus is allocated to the workers' income and the investment fund (Furubotn and Pejovich,1970). In this model, no interest is paid on capital and the workers have no claim over their principal sums contributed nor do they share the profit of the enterprise beyond their period of employment<sup>5</sup>. The production function is  $X = X(L, K^0)$ , a twice-differentiable concave function, satisfying the rules of diminishing returns.  $L$  and  $K^0$  stand respectively for the homogeneous labour input and the given volume of capital services. Workers maximize the average income per

worker,  $y$ , such that  $y = \frac{P \cdot X(L, K^0) - Z(K^0)}{L}$ , where  $P$  is

the parametrically fixed product price,  $Z$  is the firm's cost whose magnitude can be taken, for convenience, as a function of  $K^0$  (Furubotn and Pejovich,1970). The process of optimization shows that  $MPL = APL - Z/L$ , that is, the

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<sup>5</sup> It is argued that such a model would be inadequate inasmuch as it is likely to suffer from an unavoidable attenuation and truncation of property rights. The model will be beset with two horizon problems: Firstly, the 'Furubotn-Pejovich'(1970) horizon problem arises from the inability of workers to recoup the unexpended principal of their retained earnings. Secondly, the general horizon problem discussed by Jensen and Meckling(1979), that is, since a worker's claim on future cash flow is contingent on work in the firm, does a system of internal capital accounts solve this general problem? Ellerman(1986) asserts that such a question requires a number of new concepts from property theory, and a number of reconceptualizations that differ from the conventional point of view.

marginal product of labour equals the average product of labour minus the average fixed cost per unit of labour. Note that if  $Z = 0$ , the optimum operation position falls at the point where the average and the marginal products are equal.

Two problems account for the infeasibility of internal finance, thus favouring external finance. These are the 'Furubotn-Pejovich' and the 'Ward-Vanek' effect. The internal finance models presume that workers are free to exchange their current consumption for higher future income by leaving part of their residuals with the firm for investment in additional capital. However, if the rate of return on retained earnings  $i$ , is below the rate of return on individual savings  $r$ , workers will prefer external finance. Conversely, if  $i > r$ , the workers will prefer internal finance. This was first observed by Furubotn and Pejovich (1970). Unless  $i > r$  workers will not accept ploughing back their profits. (Note that if the assumption of positive rate of interest is relaxed, the above effect will eventually disappear).

We may turn now to the 'Ward-Vanek' effect<sup>6</sup>. If an internally-financed firm faces a technology which exhibits constant returns to scale, dividend maximization implies

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<sup>6</sup> Note that Ward (1958) does not consider internal finance explicitly; however, he does point out the effect of raising and lowering overhead costs.

that, in the long run, the labour force (and thus the membership) will be run down (Vanek, 1975). The property income per head increases as the membership contracts. Thus, "through attrition, retirement or voluntary withdrawal, it will always be possible to reduce members in the long run" (Vanek, P. 448). Given constant returns to scale<sup>7</sup>, this process "would be terminated only at a point of a single member adhering to the firm" (Vanek, P. 448). Moreover, new members will never be hired and capital stock will be gradually depreciated as membership diminishes. These forces of self-extinction, argues Vanek, are so powerful in explaining the shortcomings and the comparative failure of participatory forms in history.

Weitzman (1984) proposes a *share economy* wherein workers payments are tied to an appropriate index of the firm's performance, as a robust enemy of stagflation<sup>8</sup> (inflation plus unemployment). In order to conceive the *modus operandi* of the *share economy*, let us assume a wage-based firm wherein the wage bill is £7 million. If

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<sup>7</sup> If the firm faces a technology exhibiting increasing followed by decreasing returns to scale, the dramatic nature of the Ward-Vanek effect is somewhat reduced. This is because in the increasing returns to scale zone, the benefits of reducing the size of the membership are counteracted by the loss of scale economies.

<sup>8</sup> The share economy is expected to encourage business to expand output rather than raise prices; hence it helps to solve the problem of stagflation. This is because unlike the wage payment system which is characterized by few or no job vacancies, the share economy is characterized by a significant number of unfilled job vacancies.

this firm is to be converted into a share-based firm, each worker might claim 70% of the average revenue. The remaining 30% would accrue to the capitalists.

Weitzman alleges that his share economy would generate two important results. Firstly, the sharing system will diminish the workers' sense of alienation and increases their efficiency inasmuch as their own income depends on the firm's performance. However, as Meade (1985) has argued, the elimination of the sense of alienation requires the workers' participation in management and control as well as their participation in profit. Secondly, (Weitzman's main point) in the proposed share system, a portion of the average revenue per worker ( $\alpha$  ARL) accrues to the workers while  $(1-\alpha)$  ARL accrues to the capitalists. As such the firm will employ any worker whose  $ARL > 0$ <sup>9</sup>; hence the firm's output increases, *ceteris paribus*, and prices fall. If the share system is adopted by all firms, involuntary unemployment disappears, output expands and, *ceteris paribus*, prices fall. As workers as a whole spend part of their incomes on the firm's product, a new demand is likely to be created, thus increasing output, workers' remunerations and thereby encouraging further expansion.

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<sup>9</sup>Note that in the wage payment system, workers are employed to the point where the marginal cost per worker is equal to the marginal revenue per worker, provided the average revenue per worker is greater than the marginal revenue per worker to cover the overhead capital, normal profit and the like.

Meade(1985) argues that in the absence of sufficient flexibility in the shares allotted to labour and capital, Weitzman's *share economy* would introduce a direct conflict between the workers and the capitalists. His argument runs as follows: If the firm is run in the interest of the capitalists, a new investment plan that yields a net addition to the value of the firm's output, assuming a fixed number of workers, would raise the earnings of the existing workers, and this would be a serious dis-incentive for the capital development. Therefore, unless there is flexibility in the shares allotted to labour and capital, the firm will tend to be expansionary in its employment decisions and contractionary in its investment decisions. Conversely, if the firm is run in the interest of the existing workers, it will be expansionary in its investment decisions (provided new investment adds to the value of the firm's net product of which a share is enjoyed by the workers), and contractionary in its employment decisions( if it cause a reduction in the return per worker share).

An alternative model is suggested by Meade (1985), namely, the *labour-capital partnership*, wherein both the workers and the capitalists bear the risks and enjoy the fruits of success. In Meade's model, shares are allotted to both the capitalists and the workers, provided the dividend per capital share certificate is the same as the

dividend per worker share certificate. According to Meade, the major advantage of the share principle might be that making the workers' income depends upon the success of the firm's operations might help to remove the sense of alienation between the workers and the capitalists, provided each share certificate carries the same right to a dividend and exactly the same right of shareholders' votes in the shareholders' general meeting, so that all shareholders would have the opportunity of full participation in decision-making.

#### 5.4.2. The Islamic Profit-sharing Firms

##### 5.4.2.1. A Mudārabah-based Firm

The theoretical *mudārabah*-based firm is here defined as a firm satisfying the following conditions. Firstly, the firm is externally financed; capital is only supplied by the capitalists, while the workers (entrepreneurs) possess a complete freedom as to the management and the investment decisions of the firm. Secondly, the firm's profit  $\Pi$  is distributed between the capitalists and the entrepreneurs in accordance with an agreed upon profit share  $\alpha$ , such that  $\alpha \Pi$  and  $(1-\alpha)\Pi$  represent respectively the entrepreneurs' and the capitalists' compensation. Thirdly, neither the capitalists nor the entrepreneurs are entitled to fixed

rewards. Lastly, loss (capital diminution) is the liability of the capitalists. (Thus it is assumed that the amount of loss does not exceed the value of the invested capital).

The following assumptions are made. Firstly,  $Q=Q(L, K^0, C)$  is the firm's production function, a twice-differentiable concave function satisfying the conditions of diminishing returns.  $L$  is the number of the firm's workers whose labour is supplied entrepreneurially.  $K^0$  represents fixed capital, and the capitalists are allowed to withdraw their capital only at the termination of their contract. The total non-capital cost  $C$ , is equal to  $P_c c$ , where  $c$  is raw materials, and  $P_c$  is the parametrically fixed materials price. Since  $K^0$  is fixed, the production function could be rewritten as  $Q(L, K^0, C) \equiv \hat{Q}(L, C)$  with

$$\frac{\partial \hat{Q}}{\partial L} > 0, \text{ and } \frac{\partial^2 \hat{Q}}{\partial L^2} \leq 0, \frac{\partial \hat{Q}}{\partial C} > 0, \text{ and } \frac{\partial^2 \hat{Q}}{\partial C^2} < 0. \text{ Note that}$$

$L$  and  $C$  are the entrepreneurs' choice variables. Secondly,  $\Pi = P_a Q - K^0 - C$ , where  $P_a$  is the parametrically fixed product price. Thirdly, the workers/entrepreneurs maximize

$$\text{the dividend income per worker, } Y = \frac{\alpha \Pi}{L}, \text{ where } \alpha \Pi \text{ is the}$$

total workers' share in profit,  $0 < \alpha < 1$ , and  $Y \geq Y^0$ ,

where  $Y^0$  is what the workers can gain elsewhere.<sup>10</sup>

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<sup>10</sup> The principle of maximization is here used to ease the comparison between the Islamic and the non-Islamic models. Moreover, in this particular case the maximization of the dividend income per worker implicitly maximizes group utility.

$$\text{Now maximize } Y = \frac{\alpha \Pi}{L} = \frac{\alpha (P_a \hat{Q} - K^0 - P_c - C)}{L}$$

Setting the partial derivative  $\partial Y / \partial L$  equals zero we have;

$$\frac{\partial Y}{\partial L} = \frac{\alpha}{L^2} \left[ P_a \frac{\partial \hat{Q}}{\partial L} L - (P_a \hat{Q} - K^0 - P_c - C) \right] = 0$$

$$\text{or, } P_a \frac{\partial \hat{Q}}{\partial L} = \frac{\Pi}{L}$$

That is to say, workers are employed up to the point where their marginal revenue product is equal to their dividend income<sup>11</sup>. This condition guarantees the optimal allocation of labour and the equitable distribution of income. Hence, the optimality condition satisfies the technical economic efficiency and the ethical value consideration as required by *al'adl* and benevolence.

$$\text{In addition, } \frac{\partial Y}{\partial C} = \frac{\alpha}{L} \left[ P_a \frac{\partial \hat{Q}}{\partial c} - P_c \right] = 0$$

Or  $P_a \frac{\partial \hat{Q}}{\partial c} = P_c$ ; the raw materials are employed to the point where their marginal revenue product equals their price.

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<sup>11</sup> The reader should bear in mind Horvat's(1986) criticism of the neo-classical rules of maximization. The value of the marginal product of labour equals the dividend income per worker. The latter is not externally given, but is a result of the maximization process, and this is the source of all troubles. Moreover, fixed wages (if any) have no effect on the allocation of resources since they do not appear in the first-order condition of optimization.



We may check that the second-order condition is satisfied.

$$\frac{\partial^2 Y}{\partial L^2} = \frac{\alpha}{L^4} \left[ LPa \frac{\partial^2 \hat{Q}}{\partial L^2} - c Pa \frac{\partial \hat{Q}}{\partial L} L - \Pi 2L \right]$$

substituting  $\frac{\partial \hat{Q}}{\partial L} = \frac{\Pi}{Pa L}$  (from the first order condition)

$$\frac{\partial^2 Y}{\partial L^2} = \frac{\alpha Pa}{L} \frac{\partial^2 \hat{Q}}{\partial L^2} < 0, \text{ if } \frac{\partial^2 \hat{Q}}{\partial L^2} < 0$$

$$\text{Furthermore, } \frac{\partial^2 Y}{\partial c^2} = \frac{\alpha}{L} Pa \frac{\partial^2 \hat{Q}}{\partial c^2} < 0, \text{ if } \frac{\partial^2 \hat{Q}}{\partial c^2} < 0$$

$$\begin{aligned} \text{Also } \frac{\partial \left( \frac{\partial Y}{\partial L} \right)}{\partial c} &= \frac{\alpha}{L^2} \left\{ LPa \frac{\partial^2 \hat{Q}}{\partial L \partial c} - \left( Pa \frac{\partial \hat{Q}}{\partial c} - Pc \right) \right\} \\ &= \frac{\alpha Pa}{L} \left[ \frac{\partial^2 \hat{Q}}{\partial L \partial c} \right], \text{ since } \left( Pa \frac{\partial \hat{Q}}{\partial c} - Pc \right) = 0 \end{aligned}$$

Besides the negativity of  $\frac{\partial^2 \hat{Q}}{\partial L^2}$  and  $\frac{\partial^2 \hat{Q}}{\partial c^2}$ , the second

order condition requires that  $\left[ \frac{\partial^2 y}{\partial L^2} \frac{\partial^2 y}{\partial c^2} \right] > \left[ \frac{\partial^2 y}{\partial L \partial c} \right]^2$

that is,  $\left[ \frac{\alpha Pa}{L} \frac{\partial^2 \hat{Q}}{\partial L^2} \right] \left[ \frac{\alpha Pa}{L} \frac{\partial^2 \hat{Q}}{\partial c^2} \right] > \left[ \frac{\alpha Pa}{L} \frac{\partial^2 \hat{Q}}{\partial L \partial c} \right]^2$ . Or,

$$\left[ \frac{\partial^2 \hat{Q}}{\partial L^2} \frac{\partial^2 \hat{Q}}{\partial c^2} \right] > \left[ \frac{\partial^2 \hat{Q}}{\partial L \partial c} \right]^2 \quad \left( \text{This is true (eg, if } \frac{\partial^2 \hat{Q}}{\partial L \partial c} = 0 \right)$$

Thus the solution is a maximum.

The dividend maximization indicates that entrepreneurs whose marginal revenue product is less than their dividend income would not be employed, for this would adversely reduce the dividend income of those who are already employed. Though this might appear technically elegant, it is not necessarily ethically desirable (cf. the paragraph *infra*). By reaching that point of maximization, the entrepreneurs are thus determining the optimum level  $L^*$  (Fig.1), the optimum level of production  $\hat{Q}^* = \hat{Q}^*(L, C)$  and the corresponding capitalists' income  $(1-\alpha)(P_a \hat{Q}^* - K^0 - C)$  which is optimum only from the entrepreneurs' viewpoint.

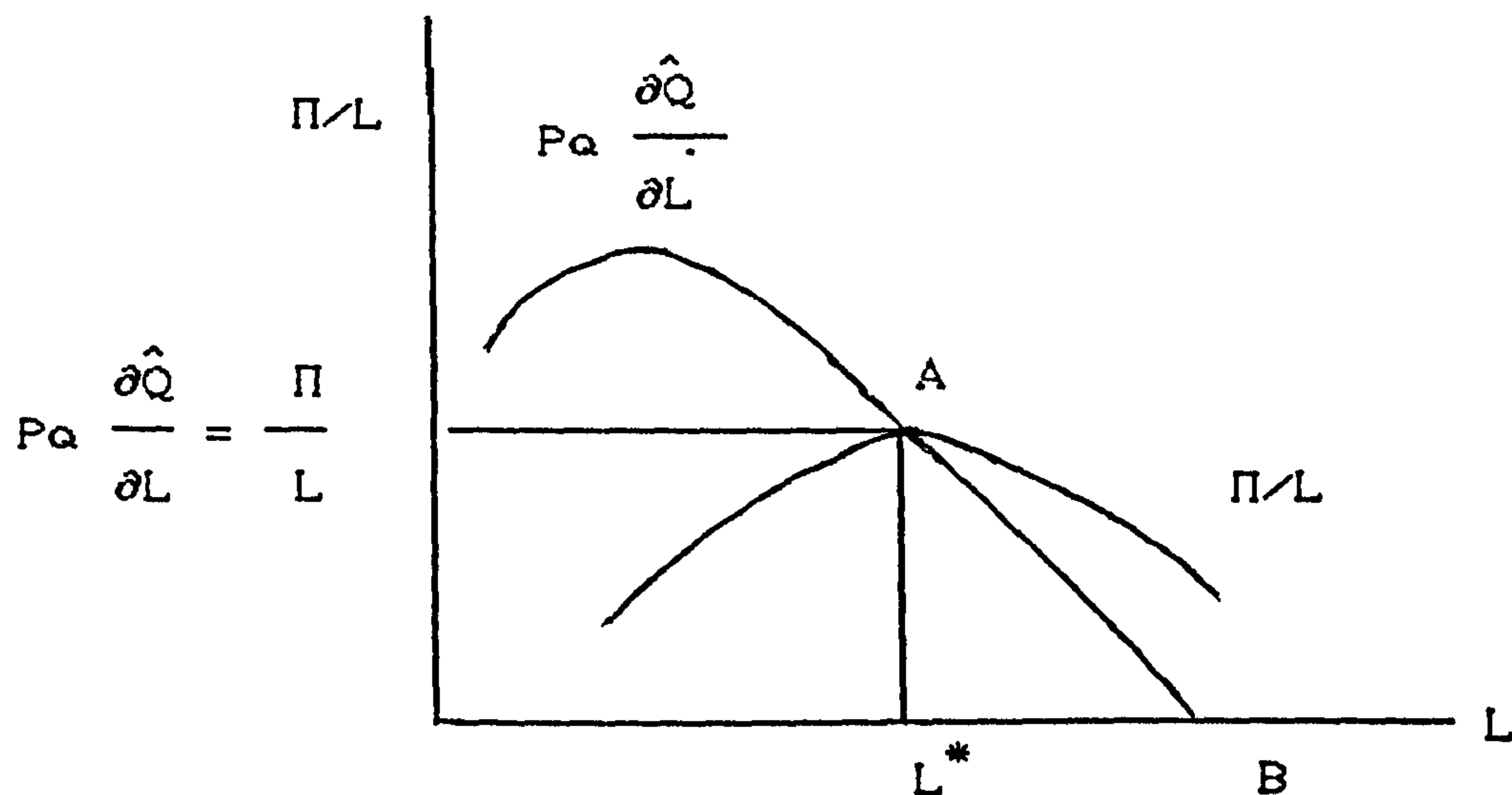


Figure 1, the maximization of the dividend income per worker (entrepreneur) in a *mudārabah* firm

The analysis of the *mudārabah* firm presumes the single skill type of entrepreneurs (in line with Ward (1958) who equally share the firm's profit. It seems pertinent to ask whether Islam accepts workers (in a *mudārabah* firm) being fired. It might appear, *prima facie*, that workers whose contribution to the firm's production is less than their

received income are sharing the fruits of others' efforts, hence, according to *al'adl*, it is not reprehensible if those workers are fired. The analysis is therefore virtually the same as that of the non-Islamic models (as appeared in Ireland and Law(1982) who discuss membership contraction by random selection and by compensation). However, given benevolence as a paramount ethical axiom, membership contraction is Islamically acceptable if and only if it is in the form of voluntary withdrawal. Note that if the members are perfect altruists, the firm is likely to face what might be called the *before you* problem; each worker attempts to be the first-leaving, thus the firm is likely to face self-extinction depending on the strength of the *before you* problem. It is only through *rational altruism* ( which does not undermines *al'adl*, or jeopardizes the social good) that voluntary withdrawal is viable and efficient on both economic and ethical grounds.

The capitalists, in the *mudārabah* firm, would like to adjust  $L$  to maximize their profit portion  $(1-\alpha) \Pi$ , such that,  $\frac{\partial \Pi}{\partial L} = P\alpha \frac{\partial \hat{Q}}{\partial L} = 0$ . That is, the capitalists desire the employment of any worker so far as the latter adds to the total profit, out of which a share would accrue to the capitalists. This apparently shows the inconsistency between the workers' and the capitalists' desires. As

shown in Figure 1, while point A maximizes the dividend income per worker and hence determines the optimum  $L^*$  (from the workers' viewpoint), the capitalists would desire the employment of workers up to point B. However, since the capitalists are not participating in the management of the firm, they would only matter for the long term problem of the appropriate size of capital  $K^0$ .

Unlike the Ward-Meade-Vanek (W-M-V) model which exhibits the 'supremacy of labour', there is no supremacy to either labour or capital in the *mudārabah* firm. In the W-M-V model the labour-capital relation is asymmetric; capital compensation is fixed and relatively risk-free, while labour is supplied entrepreneurially and hence receive an uncertain reward. In the *mudārabah* firm, the labour-capital relation is symmetric; both labour and capital are supplied entrepreneurially and receive an uncertain reward. In the W-M-V model, though capital is relatively risk-free and labour reward is uncertain, workers are still liable to capital diminution (loss). (Note that in the case of loss, the workers will not only have their entrepreneurial and physical labour unrewarded, but they are fined too). Again the *mudārabah* model is superior to the W-M-V model inasmuch as, according to *al'adl*, capital is the liability of the capitalists. The latter is one of the main differences between the *mudārabah* and the Weitzman-Meade model. In contrast to the *mudārabah* model where the

workers alone manage the firm, in Weitzman's *share economy* the capitalists alone manage the firm, while in Meade's *capital-labour partnership* both the workers and the capitalists manage the firm. (Notice the violation of the very nature of self-management).

#### 5.4.2.2. The shirkah-based Firm

The abstract *shirkah* firm satisfies the following conditions. Firstly, all workers are necessarily capital providers. For simplicity, they are assumed to provide equal amounts of capital. Secondly, each worker receives a fixed compensation  $w$ , as a labour reward, and a share in profit as a capital reward. Thirdly, workers share the firm's profit (or loss) in accordance with their capital shares in the firm's assets.

Let us consider the general case using the firm's production function  $Q=Q(L,K,M)$ , a twice-differentiable concave function, satisfying the conditions of diminishing returns. As before,  $L$  denotes the number of workers. Also  $K$  again denotes the firm's capital, but now we assume it is variable, equaling  $kL$ , where  $k$  is the amount of capital contributed by each worker, and it is constant due to condition one.  $M$  denotes material costs. Note that if  $L$  is altered,  $K$  changes too. Workers maximize the average

$$\text{income per worker } y = \frac{P_Q Q(L,K,M) - P_K K - P_M M - wL}{L} + W,$$

where  $P_Q$  and  $P_M$  denote respectively the product and the

material prices. Since  $K=kL$ ,  $y$  can be written as follows:

$$y = \frac{P_a \hat{Q}_{L,M} - kL - P_M - wL}{L} + W, \text{ where } \hat{Q}_{L,M} \equiv Q_{L,K,M}.$$

Now maximize  $y$  with respect to  $L$ .

$$\frac{\partial y}{\partial L} = \frac{1}{L^2} \left\{ LP_a \frac{\partial \hat{Q}}{\partial L} - [P_a \hat{Q}_{L,M} - P_M] \right\} = 0 \quad [1]$$

$$\text{where, } \frac{\partial \hat{Q}}{\partial L} = \frac{\partial Q}{\partial L} + \frac{\partial Q}{\partial K} \frac{\partial K}{\partial L}$$

$$\text{From [1], } P_a \frac{\partial \hat{Q}}{\partial L} = \frac{1}{L} (P_a \hat{Q} - P_M M) \quad [2] \text{ (see fn.10 supra)}$$

$$\text{Also, } \frac{\partial y}{\partial M} = \frac{P_a}{L} \frac{\partial \hat{Q}}{\partial M} - \frac{P_M}{L} = 0 \quad [3]$$

$$\text{Or, } \frac{\partial \hat{Q}}{\partial M} = \frac{P_M}{P_a} \quad [4]$$

Equation [4] can of course be disregarded in the special case of a technically fixed  $M$ . We may check that the second-order condition is satisfied

$$\frac{\partial^2 y}{\partial L^2} = \frac{P_a}{L} \frac{\partial^2 \hat{Q}}{\partial L^2} - \frac{2}{L^2} \left\{ LP_a \frac{\partial \hat{Q}}{\partial L} - (P_a \hat{Q} - P_M M) \right\}$$

$$\text{Substituting } \frac{\partial \hat{Q}}{\partial L} = \frac{1}{LP_a} (P_a \hat{Q} - P_M M) \text{ from equation [2]}$$

$$\frac{\partial^2 y}{\partial L^2} = \frac{P_a}{L} \frac{\partial^2 \hat{Q}}{\partial L^2} < 0, \text{ if } \frac{\partial^2 \hat{Q}}{\partial L^2} < 0$$

$$\text{Also, } \frac{\partial y}{\partial M^2} = \frac{P_a}{L^3} \frac{\partial^2 \hat{Q}}{\partial M^2} < 0, \text{ if } \frac{\partial^2 \hat{Q}}{\partial M^2} < 0$$

$$\text{And, } \frac{\partial \left( \frac{\partial y}{\partial L} \right)}{\partial M} = \frac{1}{L^2} \left\{ LP_q \frac{\partial^2 \hat{Q}}{\partial L \partial M} - \left( P_q \frac{\partial \hat{Q}}{\partial M} - P_M \right) \right\}$$

$$= \frac{P_q}{L} \frac{\partial \hat{Q}}{\partial L \partial M} \text{ since } \left( P_q \frac{\partial \hat{Q}}{\partial M} - P_M \right) = 0$$

In addition to the negativity of  $\frac{\partial^2 \hat{Q}}{\partial L^2}$  and  $\frac{\partial^2 \hat{Q}}{\partial M^2}$ , the second

order condition requires that  $\left( \frac{\partial^2 y}{\partial L^2} \frac{\partial^2 y}{\partial M^2} \right) > \left( \frac{\partial^2 y}{\partial L \partial M} \right)^2$

$$\text{i.e. } \left( \frac{P_q}{L} \frac{\partial^2 \hat{Q}}{\partial L^2} \right) \left( \frac{P_q}{L^2} \frac{\partial^2 \hat{Q}}{\partial M^2} \right) > \left( \frac{P_q}{L} \frac{\partial^2 \hat{Q}}{\partial L \partial M} \right)^2$$

$$\text{Or, } \frac{1}{L^2} \left( \frac{\partial^2 \hat{Q}}{\partial L^2} \frac{\partial^2 \hat{Q}}{\partial M^2} \right) > \left( \frac{\partial^2 \hat{Q}}{\partial L \partial M} \right) \text{ This is assumed true: for}$$

example it would be satisfied if  $\left( \frac{\partial^2 \hat{Q}}{\partial L \partial M} \right) = 0$ . This would

guarantee that the solution given by equation [1] and [2] is a maximum.

Let us denote  $P_q \frac{\partial \hat{Q}}{\partial L} = P_q \left( \frac{\partial Q}{\partial L} + \frac{\partial Q}{\partial K} \frac{\partial K}{\partial L} \right)$  by TMPL, total

marginal product of labour; also denote  $\frac{P_q \hat{Q}}{L}$  by APL, the

average product of labour. We introduce TMPL because additional labour has two positive effects on production;

the direct effect  $\frac{\partial Q}{\partial L}$ , and the effect on production via

the additional capital that the labour brings with it,

that is,  $\frac{\partial Q}{\partial K} \frac{\partial K}{\partial L}$ . Now equation [2] can be rewritten as:

$$TMPL = APL - \frac{P_M M}{L}$$

This means  $L_1$  [Figure 2] represents

the solution for the  $M$  chosen. With  $M > 0$ , only taking into account material cost, the maximization of  $L$  is required to spread the material cost; and with  $M = 0$  then  $L = L_2$  [Figure 2]. The combination of these two arguments is to take the solution  $L$  to the right of  $L_2$  i.e.  $L = L_1$ . If  $M = 0$  [in equation 2],  $L_2$  will be the solution. This (that is  $L_2$ ) is the usual Vanek-Meade type of solution.

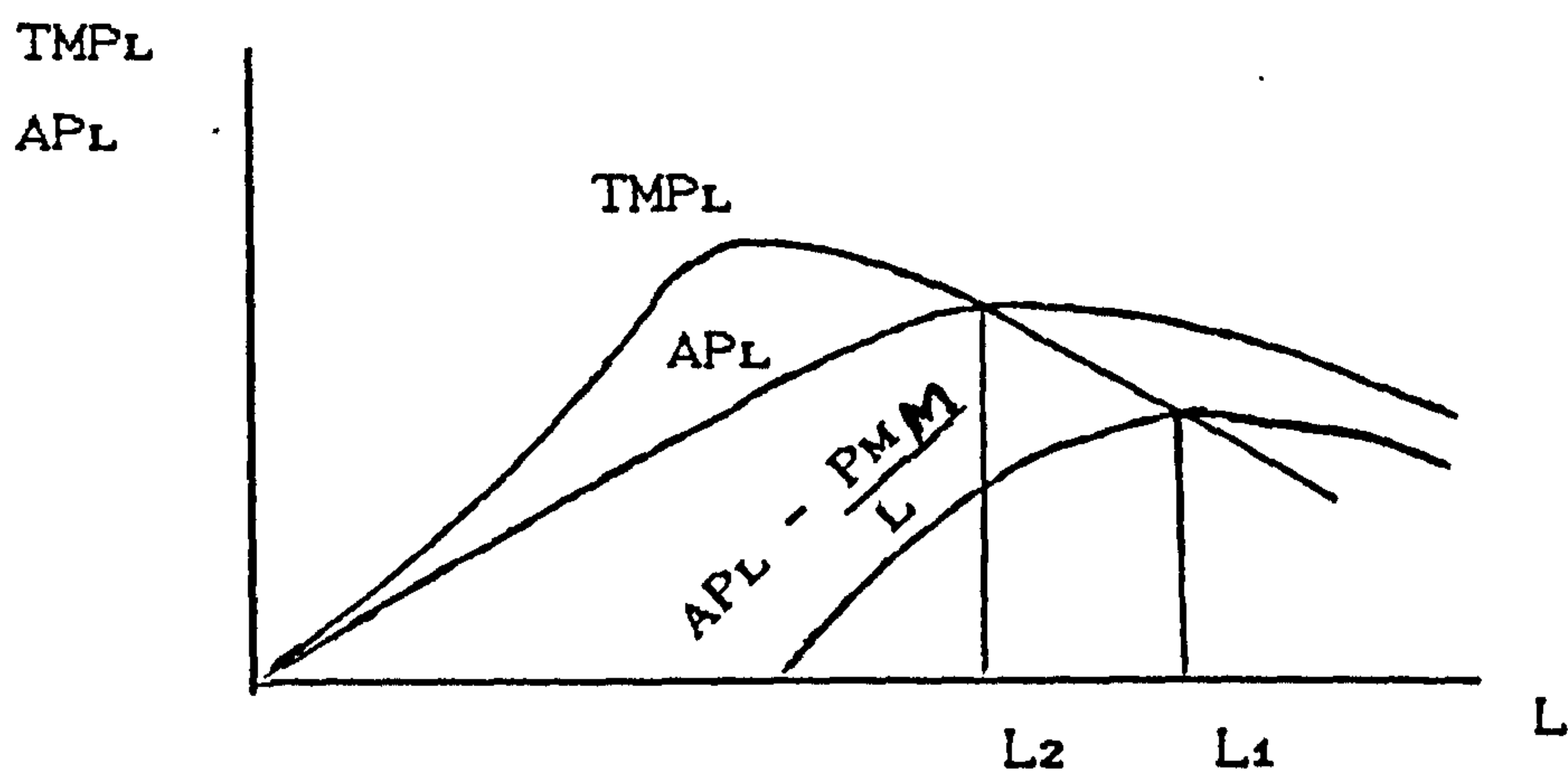


Figure 2, the maximization of the average income per worker in a *shirkah* firm.

Let us now consider the special cases wherein  $M$  is in fixed proportion to either  $K$  or  $L$ . Since  $K = kL$ , and assuming that some  $K$  is never left redundant, it is effectively the same whether  $M$  is in fixed proportion to  $L$  or  $K$ . If  $M = mL$ , then the average income per worker will be

$$y = \frac{P_Q Q(L, kL, mL) - P_M mL - wL}{L} + W$$



$$\text{Or, } y = \frac{P_a \hat{Q}(L) - P_M mL - wL}{L} + W, \text{ where } \hat{Q}(L) \equiv Q(L, K, mL)$$

Maximizing  $y$ , we have:

$$\frac{\partial y}{\partial L} = \frac{1}{L^2} \left\{ LP_a \frac{\partial \hat{Q}}{\partial L} - P_M m - w - (P_a \hat{Q} - P_M mL - wL) \right\} = 0$$

$$\text{Or, } P_a \frac{\partial \hat{Q}}{\partial L} = \frac{P_a \hat{Q}}{L} \text{ where } \frac{\partial \hat{Q}}{\partial L} = \frac{\partial Q}{\partial L} + \frac{\partial Q}{\partial K} \frac{\partial K}{\partial L} + \frac{\partial Q}{\partial M} \frac{\partial M}{\partial L}$$

Checking the second order condition, we have

$$L^4 \frac{\partial^2 y}{\partial L^2} = L^2 \left[ P_a L \frac{\partial^2 \hat{Q}}{\partial L^2} \right] - \left[ L P_a \frac{\partial \hat{Q}}{\partial L} - P_a \hat{Q} \right] 2L$$

$$\frac{\partial^2 y}{\partial L^2} = \frac{P_a}{L} \frac{\partial^2 \hat{Q}}{\partial L^2} - \frac{2P_a}{L^3} \left[ L \frac{\partial \hat{Q}}{\partial L} - \hat{Q} \right]$$

$$\text{Substituting } \frac{\partial \hat{Q}}{\partial L} = \frac{\hat{Q}}{L} \text{ [ from the first order condition],}$$

$$\frac{\partial^2 y}{\partial L^2} = P_a \frac{\partial^2 \hat{Q}}{\partial L^2} < 0, \text{ if } \frac{\partial^2 \hat{Q}}{\partial L^2} < 0. \text{ This condition guarantees}$$

that the solution given by the first-order condition is a

$$\text{maximum: } \frac{\partial \hat{Q}}{\partial L} = \frac{\hat{Q}}{L}, \text{ or, } T MPL = APL. \text{ Apparently, } L_2 \text{ [Figure 2]}$$

is again the solution. Hence, the usual Vanek-Meade type of solution is also applied to the *shirkah* model if  $M$  is in fixed proportion to either  $L$  or  $K$ . Thus the nature of  $M$  (whether it is variable, constant, or in fixed proportion to either  $K$  or  $L$ ) affects the solution  $L$ . But the potential inconsistency between the capitalists' and the

workers' desires (regarding the solution L) that arises in the *Mudārabah* model, does not arise in the *shirkah* model, because in the latter there is no demarcation at all between the capitalists and the workers.

The *shirkah* model is intrinsically free from both the 'Furubotn-Pejovich' and the 'Ward-Vanek' effect that account for the infeasibility of the internally-financed models. For two reasons there is no scope for the 'Furubotn-Pejovich' effect to appear in the *shirkah* model. Firstly, members of the *shirkah* firm are unlikely to be affected by comparing the internal rate of return for their capital with its opportunity cost (the highest possible return which would have been obtained from profit-sharing elsewhere) inasmuch as neither is known before hand. Secondly, members of the *shirkah* firm are not deprived of their capital contributions (or their rewards); members can leave employment in the firm and continue enjoying a return on their capital as well as a claim on their principal sum, if their capital share remains invested in the firm (i.e. by becoming sleeping partners). This is derived from the assumption that profit, in *shirkah*, is a reward on capital rather than on physical or entrepreneurial labour. The 'Ward-Vanek' effect is not easily generalised to all internally-financed firms. Note that the W-M-V model is based on two assumptions: individuals have no claim on their assets, and the collective consumption of the assets. The under-investment

force is unlikely to appear in the *shirkah* firm so long as individual titles to assets are maintained. Furthermore, collective consumption of assets is rejected on ethical grounds since it contradicts Islamic property rights, thus reduction in capital cannot be present. Hence the *shirkah* firm is free from the forces of self-extinction.

### 5.5 Concluding Remarks

Three main concluding remarks may be elicited from the above analysis. Firstly, both 'fixed' and 'sharing' contracts are appropriate forms of factor compensation in an Islamic economy. Each form is applied under those circumstances in which it satisfies the (ethical) allowability conditions as well as the economic viability and efficiency. Any attempt to reject profit-sharing on Islamic ethical grounds is indeed the grossest failure to conceive the concepts of *ribā* and *bay'*. Secondly, the establishment of the ethical norms of *al'adl* and benevolence ensures a congenial 'labour-capital' and 'employer-employee' relation. This is true whether factor compensation is based on 'fixed' or 'sharing' contracts. Thirdly, the proposed self-managed *mudārabah/shirkah* firms are superior to the non-Islamic ones inasmuch as they satisfy the (technical) efficiency and the (ethico-Islamic) allowability conditions, as well as being immune from the inherent shortcomings (and self-extinction forces) of the non-Islamic profit-sharing models.

## CONCLUSION

An attempt has been made in this study to elucidate an Islamic paradigm of the economics of benevolence. It is shown that though altruism is recognized even in western liberalistic thought, yet, egoism has been idealized as an ubiquitous human motivation. Ironically, altruism is perceived as a philosophical principle whose very presence entails self-interest - self interest thus becomes the *raison d'être* of altruistic motivation. Presumably, due to the rigorous (hedonistic) belief in the laws of reinforcement (material and psychic rewards) people are assumed to experience altruistic impulses only towards those whose welfare is relevant to their own internalized values. Albeit, genuine altruism is not only scarce but it might also imply an irrational behaviour. In the Islamic perspective, other-directed (benevolent) behaviour is an essential human trait, and a, *jure divino*, imperative norm whose presence does not necessarily entail the denouncement of self interest. This subtle conception of benevolence is perceptible only in conjunction with a holistic view of human life.

Man's *raison d'être*, according to the Islamic teleology, connotes the actualization of value - in time and space - through the establishment of khilāfah (trusteeship). Presumably, it is for this very reason that man is endowed with an ontological commitment to material

satisfaction and spiritual development. Teleologically speaking, man is imbued with a somewhat selfish state of mind necessary for him or her - as *khalīfah* (trustee) - to husband the earth. However, man's *raison d'être* and his/her ontological commitment to material and spiritual concerns necessitate the establishment of *al-wasāṭiyah* (the balance doctrine) as a pervasive behavioural norm. Implied in *al-wasāṭiyah* is the consummation of a middle course between asceticism (or monasticism) which denounces worldly pleasure, and materialism which warrants unstructured sensuous cardinal pleasure. The 'balance doctrine' ensures a balance between two undesired extremes; self-absorption and self-abnegation. Thus neither self interest nor benevolence should undermine each other. Perfect altruism (which implies self-abnegation) brings about the *after you* and the *before you* problems; ultimately, altruism will undermine altruism. To attain a 'balance' between self interest and benevolence, man's acquisitive instinct must not be allowed to degenerate into greed inasmuch as spiritual *ṣalāḥ* (felicity) is for those who attain *tazkiyah* (self purification and self-discipline). It is essential for the attainment of *tazkiyah* that man should develop a sense of *taqwā* (God consciousness) which entails knowledge about God, His attributes, man's *raison d'être*, his destiny and accountability in *ākhirah* (the Hereafter). The higher the degree of *tazkiyah*, the more benevolent man will be.

However, since spirituality is assigned priority over mundane pursuit (recall man's *raison d'être*), the regard for others gets priority over personal interest. This does not mean that the regard for the self is spiritually subordinate to the regard for others. The truism is that Islamic benevolence connotes responsibility for, and commitment to, one's own and others' welfare as a divine imperative. This unification of material and spiritual concerns is in consistency with the Islamic holistic view as expounded by the paradigm of *tawhīd* which connotes, *inter alia*, that man's motives and actions must be directed towards the approval of God - the approval of God thus becomes the *summum bonum* of all human activities. Therefore, benevolence springs from the highest motive and without the tinge of worldliness; benevolence thus becomes highly spiritualized. It is through this conception that self-interested (egoistic) and other-directed (benevolent) behaviour becomes complementary rather than antagonistic.

It is worth-while to exonerate the *homo Islamicus* from utilitarianism. Acts are Islamically determined by their underlying intentions and motives, not only by their consequences as the utilitarians maintain. Furthermore, the rightness of an act is Islamically determined by its conformity with the *summum bonum* of human activities - the approval of God. For the *homo Islamicus*, unlike the utilitarian, furthering others' welfare is not motivated by psychological or egoistic hedonism; such an act is not

a means to further one's own welfare. Nor the *homo Islamicus* is motivated by disguised or enlightened self-interest where he or she associates his or her welfare with that of others; that is, the welfare of others is not a variable in the *homo Islamicus*' welfare function. Ultimately, furthering others' welfare denotes uplifting them materially and spiritually to gain the approval of God. This subtle objective is neither the usual *means-to-ends* relation nor does it involve the traditional laws of reinforcement. In the Islamic perspective, any act exhibits a unilateral relation between the object and the subject, though it might also involve a unilateral *God-Object* and/or *God-Subject* reward - a reward that is, but an epiphenomenon. Thus utilitarianism and egoistic motivation are methodologically inconsistent with the personality of the *homo Islamicus*.

The conventional, liberalistic economic theory axiomizes the commitment to individualism and, axiologically, epitomizes economic solipsism. Economic solipsism becomes the foundation of an individualistic, market society - a society perceived as an agglomeration of individual atoms where, given the market-oriented psychology, each strives to maximize his lot in a *devil-takes-the-hindmost* world. Since altruism is priceless, so to speak, economists could but hardly incorporate it in a form of economic theory. Moreover, the mere perception of altruism in contravention

of self-interest is in itself a built-in obstacle towards its incorporation as a normative behaviour. In the Islamic perspective, the ontological commitment to material and spiritual *ḥalāl* (felicity) imbues the mind of the muslim with benevolence as an all-pervasive behavioural norm. Economic solipsism is thus antithetical to the Islamic ethical value system. This fact generates a unique psycho-ethical orientation whereby benevolent human motivation permeates the whole edifice of economic activity. Unlike the solipsist *homo economicus*, the social-minded *homo Islamicus* (the representative muslim economic agent) is benevolent, cooperative and non-rivalry. This is the nucleus of a new economic paradigm; an Islamic economics whose hard core or basic theorem is *benevolent human motivation*.

The psycho-ethical concepts of *al'adl* (equilibrium), *amānah* (trusteeship), and *taklīf* (responsibility) are of a vital axiological significance for benevolent motivation. The norm of *al'adl* connotes that individuals are morally committed to uphold a normative equilibrium in their over-all life spectrum. This is the pivot of what might be called the justice-induced benevolence wherefrom two basic economic implications could be elicited; the necessity of alleviating the least privileged, and the priority of justice over efficiency. Implied therein is the Islamic emphasis on both the fact and the quality of the



equilibrium (unlike the conventional theory which emphasizes *only its fact*). The concept of *amānah* indicates that the property rights of all resources are 'delegated' to mankind under specified terms. It connotes that each individual is held a trustee for others-in-need, and is bound to have regard for them in whatever he or she earns. Since the allocation of resources is guided, primarily, by the *summum bonum* of human activities - the approval of God, the true adherence to *amānah* would invigorate benevolent motivation; egoistic motivation is, *ipso facto*, out of tune with *amānah* and hence restrained. The principle of *taklīf* shows that individual freedom is directly linked to the conscious act of discharging one's responsibility to further others' welfare. Responsibility is neither enlightened self-interest or sympathy nor the mere interdependence of individual welfare functions; rather it is a commitment. Egoism, though not died away, is overcompensated by the sense of commitment. It is *only* through commitment (given the yearning for *ṣalāḥ*) that an individual would choose an act which is less conducive to his or her personal welfare than other (available) alternative(s). Each individual is Islamically committed to identify his or her interest with the interest of others. It is through the inculcation of this spirituality-induced commitment that the individual identifies his/her welfare with that of the society at large.

The Islamic, all-pervasive, norm of benevolence has been epitomized in proposing a paradigm of *benevolence market*; a market functions through the interaction of two ethico-economic imperatives; *unilateral transfers* and *al'adl*. The fact that no individual is exempted from contributing to this market exhibits its efficiency and superiority over the western 'charity market'. Unilateral transfers are primarily meant to ensure a perpetual flow of wealth to foster the welfare of the needy, though they also substantially contribute to the spiritual development of both the givers and the recipients (recall man's *raison d'être* and the *summum bonum* of human activities). The profound scrutiny of such institutions as *zakāh*, *ṣadaqah*, *hibah* and *waqf* explicates the Islamic emphasis on *need fulfilment*. The study espouses the view that need should be fulfilled to the adequacy level. Though the role of the state herein cannot be undermined, it will prove ineffective (due to free-riding, tax evasion and tax avoidance) unless the individual's benevolent initiative is genuine.

The liberal economists espouse money transfers on the grounds that they maximize the recipients' freedom of choice and constrain the dictatorship of the givers. The functionalists propose that any allocation is efficient should it most effectively enable the giver to reveal his or her altruistic impulses. Since, Islamically speaking, unilateral transfers are allocated on the grounds of *need*

*fulfilment*, it follows that the utility of the result (not the utility of the act) is to be maximized. This is the essence of the Islamic philosophy of *basic needs fulfilment* whose objective is to provide opportunities for the full physical, mental and social development of the needy. The giver might evaluate the alternative forms of allocation and choose that which yields a maximum result-utility. The givers' and the recipients' evaluation are equal *ceteris paribus*; thus the giver's evaluation would not violate the recipient's freedom of choice. On *mutatis mutandis* assumption, given the irrationality of the recipient, then according to the rules of *al'adl*, his or her freedom of choice should be circumscribed for the sake of his or her own interest.

Ostensibly, unilateral transfers in the 'benevolence market' are uninhibited by the traditional problems facing the western 'charity market'; the 'free-rider' problem and the so-called inefficiency of non-compensated transfers. There would be no temptation to avoid unilateral transfers so long as the latter are bonds to the *summum bonum* of human activities - the approval of God. Free riding is associated with egoistic motivation; negatively related to *taqwā* and commitment and, therefore, antithetical to the Islamic ethical system. In principle, the muslim is not unaware that failure to meet the divine imperative of benevolence would have a negative effect on his or her spiritual *ṣalāḥ* (felicity). Thus the principle of

self-interest and the principle of collective optimization are inseparable and, therefore, the free-rider problem is unlikely to exist. Liberal economists claim that non-compensated transfers are rents to the recipients, and are likely to motivate the rent-seeking behaviour which would eventually dissipate economic value. Such a thesis is presumably based on three invalid suppositions viz, only compensated transfers are economically and socially effective, all recipients are *ipso facto* gamblers, and donors usually launch a pre-gift publicity. These liberal suppositions are incompatible with the Islamic norm of benevolence; thus Islamic non-compensated transfers are unlikely to motivate the rent-seeking behaviour, nor are they socio-economically ineffective.

Ordinary market 'exchange' is subjected to the norm of benevolence through the interaction of the latter with the the all-pervasive norm of *al'adl*. In addition to its ontological and cosmological denotation (balance and harmony), *al'adl* implies rendering to each what is his or her due; it is the non-injury state. *Al'adl*, is a three dimensional concept; it encompasses the relation between the parties involved (individuals enjoy equal power when the contract is determined), the parties-society relation (individual versus social interest) and the parties-God relation (the immutability of the ethical imperatives). An injury-free act must necessarily satisfy the following conditions: the Islamic permissibility (to avoid its being

void), the absence of gharar (indeterminacy and hazard), and the mutual consent of the parties (provided they have equal power when the contract is determined). The all-encompassing, non-injurious behaviour ensures the establishment of fair market valuation. Presumably, without fair market valuation the society is likely to experience moral anarchy where each individual deceives in anticipation of being deceived. Thus each individual will act fraudulently in an attempt to compensate the loss incurred; ultimately, greed will be the creed. However, the needy would be victimized inasmuch as they can hardly find equal opportunities to compensate. The social cost of this moral anarchy is indeed deleterious; wealth will be pathetically redistributed from bottom to top, from the poor to the rich. The concentration of wealth in the hands of a few would be inevitable - a concentration whose adverse socio-political consequences can not be monitored

The non-injurious market relation necessitates the removal of all possible impediments to the establishment of *al'adl*. Presumably, this will explain the rejection and prohibition of the following practices: *ribā* (interest) *maysir* (gambling and hazardous business dealings), *rushwāh* (bribery), *iktināz* and *ih̄tikār* (speculative hoarding of money and goods), and all forms of market imperfection and artificial manipulation of the market. In addition to their drastic infringement upon *al'adl*, these practices share a common feature; they exhibit an egoistic

motivation, leading to rent seeking behaviour where individuals fraudulently accrue parasitic gains without creating or adding economic value. In contrast to the norm of egoistic motivation which generates the *devil-takes-the-hindmost* type of economy, the Islamic ethico-economic concept of benevolence is likely to create a 'chivalry' economy. Exchange, or reciprocal transfers, will be determined and completed under the umbrella of lawfulness, truthfulness, trustiness, brotherhood and cooperation. Ultimately such deleterious acts as profiteering, deception, chicanery and fraudulent practices, rent-seeking behaviour, and misallocation of resources are likely to disappear.

Having placed the norm of benevolence at the heart of economic inquiry, both consumer and entrepreneurial behaviour have to be reconstructed. The concept of rationality - the maximization in pursuit of self interest, becomes vacuous in the Islamic ethical value system. Maximization is technically unattainable due to the unrealistic assumptions of omniscience and perfect competition; it is also Islamically undesirable inasmuch as it exhibits economic solipsism where the egoistically-motivated individual is the best judge upon his action. In the Islamic perspective, both the means and the objectives of any economic choice are subjected to the constraint of convictional rationality; they are neither logically distinct nor morally-neutral. Rationality is, by

and large, determined by its conformity with the pursuit of *ḥalāl*. The *ḥalāl*-determined rationality advocates the concept of *maṣlaḥah* as a basis for the consumer theory; it also suggests *satisficing* as a basis for the Islamic theory of the firm. The the determination of *maṣlaḥah*, unlike that of utility, is not left for the individual's subjective whims; it is determined by the interaction of the individualistic and non-individualistic (divine) judgments. The spirituality-laden concept of *maṣlaḥah* together with the ubiquity of benevolent motivation exhibit the interdependence of social welfare functions; they also determine the preference structure of the *homo Islamicus*, both as a consumer and a producer.

The *homo Islamicus*' consumption is not structureless; he or she faces an ethical allowability constraint besides the traditional feasibility constraint. At the core of the ethically-oriented consumer behaviour lies *al-waṣāṭiyah* (the balance doctrine); that is the middle course between asceticism and hedonistic materialism; between niggardliness and spendthrift. All possible impediments which might deflect the consumer's behaviour from the balance doctrine are declared void; the consumption of *ḥabā'ith*, *isrāf* (extravagance), *tabzīr* (squander), greed, envy and conspicuous consumption are frowned upon by Islam. Ultimately the *homo Islamicus* is facing a contracted commodity sub-space.

The assumption of benevolence affects the consumer choice. Firstly, the allocation of income between worldly needs and the spending in the way of God is no longer a bizarre choice. Since the *homo Islamicus* can not trade off after-life reward for worldly pleasure, the equi-marginal (indifference curve) analysis would be vacuous; the consumer choice exhibits a lexicographic ordering. Secondly, since neither present nor future consumption is spiritually-neutral, and both are subjected to the *balance doctrine*, it follows that their choice is also lexicographically ordered; each combination of saving and present consumption is indifferent only to itself. Given the contracted commodity sub-space, the choice of possible bundles of commodities is governed by the *needs fulfilment* rather than *wants satisfaction*. Needs can be satisfied at three levels; the essentials, followed by the complementaries and the amelioratories. The *homo Islamicus* would not move to the complementaries unless the essentials of others are satisfied. The ethico-economic implication of this constraint is that the society as a whole moves from one standard of living to a better one in a semi-egalitarian norm. Social division, greed, envy, vast income inequality, socio-political exploitation, poverty trap and hunger in the midst of affluence - the maladies of an individualistic society would cease to appear in an Islamic society.



The application of the norm of benevolence to the producer theory reveals the following point. Unlike the *solipsist* (egoistic) *homo economicus* who might, ironically, occasionally reveal some philanthropic impulses towards his victims (consumers and/or workers); the behaviour of the *benevolent homo Islamicus* is all-pervasive and consistent from within and without. He or she would forgo profitable alternatives which are less conducive to social good. This behaviour of the *benevolent homo Islamicus* exhibits the following vital implication. Firstly, due to the ethical allowability constraint, the social production menu is 'contracted' (bounded). Secondly, all forms of selfishness and unfair practices are effectively eliminated. Given the interrelationship of social welfare functions, production activities which involve deleterious third-party effects are curbed. It is shown that unless the individual's (entrepreneur's) initiative is efficacious, all measures of controlling the deleterious third-party effects will prove to be abortive. Fourthly, production is symmetrical to the basic needs fulfilment. There is no sovereignty for either consumers or producers; sovereignty is for the social good as expounded by the concept of *ṣalāḥ*.

Muslim economists must be warned that the emphasis on the *ethically-neutral entities* (firms) will obscure the Islamic imperatives and thereby lead to some catastrophic conclusions. Instead, the study uses the *benevolent homo*

*Islamicus* entrepreneur as the nucleus for the Islamic theory of the firm. Profit maximization - the standard textbook assumption of the theory of the firm - is incompatible with the all-pervasive norm of benevolence. However, profit is not repugnant to the Islamic ethical system nor production is devoid of profit. Profit is essential for the material and spiritual progress of the *homo Islamicus* entrepreneur, besides its traditional, (technical) function of maintaining business growth and stability. Being guided by the over-riding concern for social good, the entrepreneur is assumed to *satisfice* (rather than maximize) profit. The satisfactory profit, is presumed downright fair (non-injurious); thus it demands fair factor compensation and fair commodity pricing, besides the absence of artificial manipulation of the market and all forms of market imperfection and improprieties. Since production is socially oriented and profit is no longer the only guidance for resource allocation, the role of the government is vital in coordinating and initiating the multiple objectives of the firm and thus ensuring a satisfactory level of social production. However, this governmental role is limited and ineffective unless the entrepreneurs are benevolent and cooperative. Eventually, the Islamic rationality and the entrepreneurs' psycho-ethical orientation weaken the competitive process and, therefore, the model of competitive equilibrium might not be of much use in

simulating market behaviour in an Islamic economy.

The ubiquity of *al'adl* and benevolence effectively moulds the Islamic perspective of factor compensation. This perspective epitomizes the supremacy of justice and fairness, not the supremacy of any factor(s) of production. Two appropriate, though distinct, forms of compensation are assumed to co-exist in the Islamic economy; 'fixed' and 'sharing' contracts. Each is applied under those circumstance where it conforms to the rules of *al'adl* and benevolence; that is ensuring the avoidance of *gharar* and egoistic, rent-seeking behaviour. Factor indivisibility or inseparability is maintained; no factor(s) of production is simultaneously rewarded through a mixture of contracts. In the Islamic perspective of 'fixed' compensation, the employer-employee relation is fair, symmetric and cooperative. Recall that the benevolent, social-minded, *homo Islamicus* strives to promote his and others' welfare. Thus the employer's welfare function exhibits a positive weight for both the employees' and the society's welfare. Likewise, the employee's welfare function carries a positive weight for the employer's and the society's welfare. In the conventional, solipsist, economic theory, the employer-employee relationship is *ipso facto* asymmetric, competitive and hostile inasmuch as the supremacy of capital is epitomized. This relation is socially wasteful; it jeopardizes the employers' and the employees' interest as well as impairing the social good

through the substantial waste in capital and labour due to strikes, arbitrary firing of workers and business closure. It is the moral responsibility of the state, and not the employers, to bridge the gap between the employees' basic needs and their fair compensation. This collective responsibility is unattainable without individuals' commitment and their benevolent initiative which is manifested in *unilateral transfers*.

In the Islamic perspective of 'share' contracts, the entrepreneurial inputs are, *ipso facto*, risk-bearers; thus due to uncertainty, factor compensation must be tied to the actuality of production - that is, the outcome of the process of *bay'*. Though the latter might be predicted, it cannot be guaranteed. Thus, the inadequacy of prediction, as a basis for factor compensation, is self-evident. A known, guaranteed, reward cannot be logically drawn from an unknown, anticipated, earning. Islamically, the advance fixation of factor compensation, in anticipation of the outcome of the process of *bay'*, implies a rent-seeking, egoistic, behaviour - a behaviour exhibiting a drastic violation of the ethical rules of *al'adl* and benevolence. This is, presumably, the rationale behind the rejection of *ribā* and the advocacy of profit-sharing. Only those who failed to conceive the Islamic concepts of *bay'* and *ribā* are attempting to reject profit-sharing or question its validity as the *first best* alternative to the institution of *ribā*. In profit-sharing, the entrepreneurial inputs,

capital and entrepreneurship, are co-partners with a uniform basis of reward; there is no supremacy for any factor(s) of production.

The analysis of *mudārabah* and *shirkah* shows the feasibility, efficiency and fairness of profit-sharing; it also demonstrates that loss, capital diminution, is the sole liability of the capital owners - a view conforms to the rules of *al'adl* and benevolence; the capital users whose efforts have not been rewarded should not be fined too. The study emphatically maintains that *muzāra'ah* (sharecropping) is the most appropriate form of compensation whereby a fair landlord-tenant relationship can be achieved. The arguments raised against sharecropping are too superficial to invalidate it. However, the analysis of *muzāra'ah* as a form of *mudārabah* makes the position of 'capital' factor cost undefined. Alternatively, *muzāra'ah* is regarded as an autonomous contracts independent of both *mudārabah* and *shirkah*; it satisfies the rules of *al'adl* and benevolence only when the 'capital' cost is provided jointly by the landlords and the tenants.

The Islamic perspective of 'share' contracts has been epitomized in the proposition of two theoretical models of participatory, cooperative, or profit-sharing firms; *mudārabah* and *shirkah* firms. These firms have been abstracted *vis à vis* the Islamic perception of factor compensation, the rejection of *ribā*, the supremacy of

*al'adl*, and the protection of property and property rights. Such firms portray the nucleus of the Islamic perspective of self-management where factor compensation parameters are determined endogenously. The proposed *mudārabah* and *shirkah* firms are superior to their western counterparts; they satisfy the ethico-Islamic allowability constraint besides the traditional (technical) efficiency constraints. Moreover, the Islamic self-managed firms are intrinsically immune from the inherent shortcomings that account for the comparative failure of participatory firms in history; the asymmetric capital-labour relation and thus the dispute about the management and control of the firm, the 'Furubotn-Pejovich' horizon problem and the 'Ward-Vanek' self extinction forces.

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