

2- Comments: **M. Fahim Khan**

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Consumption function in Islamic framework has attracted in this Journal more attention than any other micro or macro-aspect of Islamic economic system. Yet, all these half a dozen presentations have simply focused on a trivial issue i.e. implication of Islamization of an economy on the propensity to consume in a simple Keynesian macro-economic framework. Whether imposition of *Zakah* will increase or decrease the propensity to consume is not a substantial issue. All presentations made so far, whether proving an increased propensity or decreased propensity to consume, indicate only a marginal increase or decrease. For example, see Ausaf (1985) and Metwally (1981) who formulate following aggregate consumption function:

$$\begin{array}{ll} \text{Secular economy} & C_s = A + by \\ \text{Islamic Economy} & C_i = A + b [By - ay] + d [(1 - B) Y + ay] \end{array}$$

and the difference between marginal propensity to consume (average as well as marginal) comes out to be

$$(d - b) (1 + a - B)$$

Where δ = Marginal propensity to consume *Zakah* receivers
 b = Marginal propensity to consume of the *Zakah* payers
 a = Net transfer of income from *Zakah* payers to *Zakah* receivers
 B = Proportion of National Income held by *Zakah* payers

Let us consider a typical Muslim economy where we can assume the following values of the parameters:

$$\begin{array}{l} d = 0.95 \\ b = 0.80 \\ a = 0.025 \\ B = 0.90 \end{array}$$

This means that Ausaf and Metwally models imply that introduction of *Zakah* will increase the propensity to consume in the economy by 0.01 i.e. from 0.80 it will be come 0.81. The increase is too insignificant in terms of its macro-economic consequences in the Keynesian framework for an underdeveloped country. Similarly, Munawar Iqbal's calculations (1985) show that even if we assume as ambitious a target as reducing *Israf* to the extent of reducing the consumption by 10% along with the imposition of *Zakah* of 2.5 percent, the marginal propensity to consume will be lower in Islamized economy but the reduction in the propensity to consume will be very negligible. The same point was evident from Fahim Khan (1984).

It is, therefore, not worth devoting time to determine what will happen to the marginal propensity to consume in a Keynesian macro-economic framework. What is required is to recognize that the consumer behaviour in Islamic framework is a distinct behaviour compared to what a Keynesian or any other framework would imply. These distinctions are required to be incorporated into the consumption function of an Islamic economy. What Islamic economists should now be in search of is the identification of the building blocks of the Islamic economic system so that an ideal Islamic economy is presented in comparison with the Arrow-Debreu type economy and so that the outcome of the Islamic economy may be compared and evaluated with that of the Arrow-Debreu type economy. For example, we are still not clear about what is the Islamic approach to the time value of resources and whether general equilibrium with such an approach to time-value resources will exist and will be unique and stable as the Arrow-Debreu type economy is being proved to be.

Confining ourselves to the MPC in Keynesian framework takes us no where in describing the system and the decision making process in an ideal Islamic economy. The consumer decision making in an Islamic economy is not merely what Keynesian type consumption function implies. There, it is simply a consumption-income relationship. The purpose of this note is to highlight that, in Islamic economic framework, consumption function is much more than merely a consumption-income relationship.

Firstly, unlike Keynesian function, the consumer behaviour, in Islamic framework, is not important simply because it determines savings in the economy which in turn determines investment and hence growth of the economy. It is important, in Islamic framework, because it first determines distribution of income and wealth in the economy before it implies savings and hence growth. It was precisely this point that was made in my earlier presentation (1984). The primary focus of the article was that spending for others in the cause of Allah is a part of consumer behaviour motivated by self-interest in the same way as spendings for himself get motivated by the self-interest. No doubt, the two self-interests are different in nature^(*) but the point that was made was that the distribution of income or wealth results from economic decision making of the consumer in the same way as savings generate as a result of his economic decision making.

* See M. Fahim Khan (1988), p. 4.

This is one of the unique features of the actions of economic agents as consumer that may distinguish it from the Arrow-Debreu type economy particularly in the context of the outcome of the *System*. The presence of self-interest as a motivating force may still be guiding the *system* to some sort of competitive equilibrium but the presence of two different types of self-interest—one of them linked to the distribution of income and wealth may give the *outcome* a specific dimension which may be totally absent from the *outcome* of the Arrow-Debreu type economy. Social justice, for example may figure out as a specific dimension of the competitive equilibrium for an Islamic economy. It was in this perspective that the basic issue addressed in my paper (1984) was focussed on the distinctive contribution of the consumer behaviour towards income and distribution of wealth in the economy. The paper then raised the next question which was a secondary question, "Are we getting this improvement in distribution, in an Islamic economy system, at the cost of savings, which in turn means investment and hence development?". I took a simple Keynesian framework just to argue "No". It was confirmed by Munawar Iqbal later on (1985), that even if it does affect would be extremely marginal or negligible.

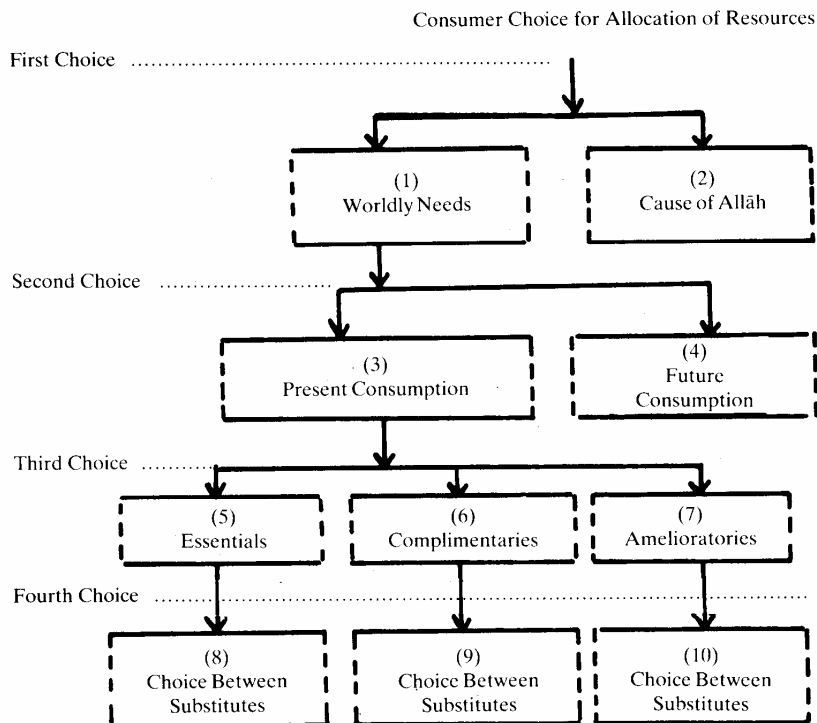
Besides the distributive contribution of consumer behaviour, its savings implications too are not less important. But to study these implications as well, the Keynesian framework will fail to reflect the true picture irrespective of whether or not the principle of moderation is adequately incorporated in the consumption function. In Keynesian framework, the introduction of *Zakah* (no matter how we incorporate it) will simply turn out to be a tax or disincentive on savings, whereas *Zakah*, if it is to be treated as a tax, will be disincentive only for certain types of channels in which savings are held. In fact, there may be an incentive for savings to go in those particular directions where savings may earn some income out of which *Zakah* could be paid. This aspect cannot be, or has not been so far, taken care of in specifying Keynesian type consumption function of an Islamic economy.

The point is that even in the modern secular economics, we are coming to recognize the fact that consumption patterns and therefore, by implication, the savings behaviour are not determined by economic considerations alone. There are other elements, such as competitive standards of living are maintained, or efforts are made to keep up with others, or at least efforts are made to show up a certain social norm of behaviour and appearance and so on. It is not purely an economic phenomenon.

The consumption and savings behaviour are really a function of the social values in a society. The total value system in the society is, of course, more than a simple economic calculus. It is the entire value structure of an economic system under which Islamic society would be working in a particular direction. This is a totality that has to be seen rather than the narrow economic calculation which may be affected one way or the other^(*).

* M. Fahim Khan Proceedings of the Second International Conference on Islamic Economics (Ed.), Second volume, *International Institute of Islamic Economics*. Islamabad, 1988. Chapter 2. pp. 75-76.

Secondly, we must not forget that decision making of a consumer in Islamic framework is a several-stage process of decision making. Whatever decisions the consumer makes at each stage, they have implications for savings as well as for distribution. We can identify at least, four stages of decision making as shown in the following chart:



Unless a consumption function is specially designed to take care of all these four stages, the exercise may not be considered very meaningful to derive implication for savings, even if we want to study the consumer behaviour for determining savings only.

Thirdly, we must also recognize while discussing savings implication of consumer behaviour, the institutional framework within which an Islamic consumer is supposed to behave. The secular framework provides market as an institution for the consumer to pursue his objectives in a capitalist economy. The capitalistic economies also have special institutions to meet some specific needs of such individuals who are unable to exploit the institution of market to satisfy their wants. All these institutions are required to guide the consumer behaviour in an Islamic economy too. There will, however, be some additional institutions to guide and monitor some peculiar aspects of the consumer behaviour. Mainly the following aspects may lead to the development of special institutions in an Islamic economy:

- i) Abstention from *Israf* (prodigality).
- ii) Consistency in the fulfillment of needs at the three levels (*Daruriyyat*, *Hajiyyat* and *Tahsiniyyat*).
- iii) Abstention from gross deviations from Islamic principles.

Instinctively, consumers will be inclined to pursue their own *Maslahat* and hence may be inclined to indulge in *Israf*. For example, consumers may like to eat to their full while their neighbors are starving, or they may like to earn more income by hoarding the goods and hence causing harm to others and so on. Or, for example, a consumer may continue fulfilling *Daruriyyat*, *Hajiyyat* and *Tahsiniyyat* relating to his *Nafs* (life) or *Mal* (Property) and may pay no attention to even the *Daruriyyat* of *Din* (Faith) or *Aql* (Reason) or *Nasl* (Posterity). Presence of appropriate institutional framework in the light of Shariah may try to ensure that the individuals and society do not deviate from the objectives of Shariah. The same question arises in relation to the fulfillment of social needs which individuals on their own may not be inclined to fulfill. Education, health, research, defence etc. are the examples.

Also the individuals may not strictly be following Islamic principles of consumption and may pretend to be doing so. For example, individual may get involved in conspicuous consumption on the pretention that this is being done on the grounds of pursuing *Tahsiniyyat*.

All this may require non-market institutions to play an important role along with market institutions in an Islamic economy. The extent to which such institutions exist in the economy will determine the exact nature of savings behaviour in an Islamic economy. The savings phenomenon will have to be studied taking into account all these aspects.

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