

*Constituting Islamic Social Welfare Function: An Attempt in
Islamic Moral Economy*

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Abstract

The examples of classical and neoclassical economic systems proved that market economies have failed to meet the expectations about ameliorating people's wellbeing, reducing inequality and poverty, and increasing social welfare and economic development in the late developmentalist states. It is claimed that one of the main reasons for this failure is the market economy's disembedded nature in terms of denying any role for morality in its analysis since it has always claimed to be value-free economies and ethic-free zones.

Beyond the market economy paradigm, in responding to the economic realities, religions also offered paradigms, which prevailed for many centuries before modernity. As part of such a religious paradigm, economic system of Islam approaches to the problem from a moral economy perspective.

The aim of this study, hence, is to explore the constituents of Islamic Social Welfare Function (ISWF) by making reference to preference ordering and utility issues through the normative dimension of Islamic ontology as expressed and articulated within Islamic Moral Economy (IME). Thus, this research aims to explore and examine the possibility of developing an ISWF in the light of IME teachings as opposed to Arrow's impossibility theorem. By doing this, Arrow's impossibility theorem is critically evaluated and examined, and concluded that the four conditions of Arrow to produce a SWF is, from an Islamic point of view, wrongly addressed.

IME, with its distinct values and norms, considers and evaluates economic activities of human beings by reference to the tenets of *Qur'an* and *Sunnah* so that by conforming to these tenets people reach *falah* (salvation) in the *akhirah* (hereafter). The *falah* process enhanced with *ihsani* social capital, at this point, plays an important role over the construction of ISWF within which the failure of neoclassical construct of market economy is not seen in an IME. It should be noted that to establish an ISWF, nevertheless, mere *fiqhi* approach will also be insufficient, and hence, there is the necessity to embed the moral complement to *fiqhi* approach. As the foundational axioms of IME constitute the framework of moral aspect of ISWF, the amalgamation of individual preferences to produce public choice framework is driven by this axiomatic approach.

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Declaration

This dissertation is the result of my own work. Material from the published or unpublished work of others, which is referred to in the dissertation, is credited to the author in question in the text. The dissertation is approximately 10,491 words in length.

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Dedication

I humbly dedicate this study;

To my dearest parents and my wife's parents for their moral support,

To all people who have always supported me with their sincere petitions throughout the entire research process,

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Chapter 1

INTRODUCTION

1.1. BACKGROUND

The world is ideally supposed to be a place in which every individual fulfils at least his/her basic needs¹ and has freedom to choose over certain alternatives, otherwise the nonexistence of promise or commitment on this assertion inherently eventuates a counter discourse among those who claim to have an equitable distribution of rights and resources to be settled throughout the world. Notwithstanding that this much appreciated ideal state is quite hard to achieve, many conflictual situations arise, in the real world, not mainly because of the physical constraints people have encountered but rather a non-equitable and inefficient use of physical capital and additionally due to mal-investment of ‘human and social capital’ (OECD, 2001). Thus, an equitable, just and human-centric world system functioning both intra and inter-communally is waiting to be embedded in all institutions either by a proper rule generation or by the hands of civil society. For this to happen, a systemic understanding of politics and economy is necessary to achieve such a desired social welfare amongst the world.

Neoclassical economists approach this objective by their narrow conception of economics. Benchmarking ‘egoism, rationality, self-interest and utility maximization’ (Mueller, 1989: 2) as the basis for all activities of human creatures constitutes the methodological framework of economics. In view of this paradigm, all institutions in a society are operated according to the market system which lets price mechanism to rule and decide about how, when and to whom for to produce. This is because the market is taken to be efficient itself as granted so that prices precisely reflect individuals’ desires and constraint their choices. As such, no ethicality is involved into the model, since all movements across institutions are left to the mercy of the price mechanism to be just, equal and efficient. Therefore, a Social Welfare Function (SWF) which is designed by the tools of economics is not necessarily enough to construct a comprehensive understanding of social reality due mainly to its over emphasis on self-regulation, neutrality and value free notion. For this, an

¹ See Maslow’s (1943) ‘Hierarchy of Needs’ and Al-Ghazali on human needs (taken from Ghazanfar, 2000).

endogenisation process is needed to include all the stakeholders of society which conventional economics has not able to do yet.

Public choice economists, from a different point of view, try to answer the question: “how political institutions and rules can be designed in a manner which will direct the self-interest of political players to the furtherance of the general welfare” (Wagner and Gwartney, 2004: 14). Unlike the neoclassical model suggesting ‘market process’ to study behaviours of the so-called *homoeconomicus*, public choice economists prefer ‘political process’ within which these behaviours are studied (Wagner and Gwartney, 2004: 5). The main distinction, here, is that economics mostly stresses on the importance of physical constraints of nature, which individuals and states always encountered, but a public choice approach tries to focus on the institutions which shapes and sometimes constrains choices and behaviours (Brennan and Buchanan, 2000: 3). Although the latter approach incorporates the non-market sources of individual behaviour into the model, its ontological and epistemological roots, which is in line with the neoclassical postulates, do not allow producing an overarching understanding of SWF.

In responding to the economic realities, religions also offered paradigms, which prevailed for many centuries before modernity. As part of such a religious paradigm, economic system of Islam approaches to the problem from a moral economy perspective. Islamic Moral Economy (IME), with its distinct values and norms, considers and evaluates economic activities of human beings by reference to the tenets of *Qur’an* and *Sunnah* so that by conforming to these tenets people reach *falah* (salvation) in the *akhirah* (hereafter).

To construct its SWF, IME suggests an axiomatic approach, beyond *fiqhi* or Islamic legal and form based approach, which constitutes the operating tools of the *falah* process. Because its proposed economic system is value loaded there are some axioms deduced from these norms and ethics: *Tawhid* (unity), *al’adl wal ihsan* (justice and equilibrium), *fardh* (responsibility), and *ikhtiy’ar* (free will)² are the main foundational axioms that form this *falah* process (Naqvi, 1994: 26-29). All these axioms are cornerstones for IME that contribute to the epistemological roots of it.

² These axioms are expanded by some other scholars. See Siddiqi (1981), Ahmad (1994), Chapra (1992) and Asutay (2007).

1.2. AIMS AND OBJECTIVES

This study aims at exploring the constituents of Islamic Social Welfare Function (ISWF) by making reference to preference ordering and utility issues through the normative dimension of Islamic ontology as expressed and articulated within IME. Thus, this research aims to explore and examine the possibility of developing an ISWF in the light of IME teachings as opposed to Arrow's impossibility theorem. An Islamic Public Choice (IPC) approach will be used to critically evaluate Arrow's postulates on the impossibility and Islamic axioms will be utilised to construct counter argument in the overall discourse.

This study, as a consequence, aims to combine both moral and *fiqhi* approaches to the IPC and thereby a synthesis of these two approaches makes the ISWF possible, as the scattered debate on the topic mainly remains within *fiqhi* approach.

In line with the identified aims and objectives, the following research questions developed:

- (i) Why do the postulates of conventional economics contradict to the teachings of Islam in the sense of developing an ISWF?
- (ii) What is wrong with Arrow' impossibility theorem with regard to IME?
- (iii) What are the main features of IPC?
- (iv) What are the distinctions between *fiqhi* and IME approach in constructing ISWF?
- (v) In what ways do Islamic axioms contribute to the possibility of developing an ISWF?

1.3. RESEARCH METHODOLOGY

Based on certain ontology within a proper epistemological framework, every social science research requires a methodological structure which guides the entire research activity. Therefore, one of the basic functions of methodology is to direct researchers to a right way about how to conduct the study in which, at the same time, the methodology has to be aligned with their ontological and epistemological standards (Sarantakos, 2005).

Following this, this research follows a qualitatively interpretive methodology which mainly adopts descriptive and comparative approach. Along with these, the methodology is based on constructivist epistemology and subjectivist ontology. Because the research has mainly theoretical content discursive analysis is used to give meaning through constructivism with the objective of making a new sense of the available material throughout the entire study. As, this research is an attempt to construct an ISWF based on IME teachings by giving special concentration on the critical to Arrowian SWF understanding.

1.4. OVERVIEW OF THE RESEARCH

After giving a rough background of the current context, providing the aims and objectives of the study together with the research questions in this chapter, a literature review part in which the SWF and its maximisation and ethics are discussed takes place in Chapter 2. In the next chapter, a brief review on IME, the possibility of IME conceptualisation to the SWF, axiomatic approach in articulating IME, social welfare in Islam, social justice as an essential pillar, *fiqhi* construction of SWF, ethical complementarity to *fiqhi* construction are examined broadly. After the in depth study in Chapter 3, discussion and conclusion part is provided in the last chapter.

CHAPTER 2

REVIEWING LITERATURE: SOCIAL WELFARE FUNCTION, ITS MAXIMISATION AND ETHICS

2.1. INTRODUCTION

The aim of this chapter is to present a literature survey on conceptualisation of SWF, which has remained a contended issue for many centuries and on which there yet to be a consensus. Within this context, initially, conceptual definition and description of SWF is dealt with by giving special reference to public choice economists' views. Following this, an elucidation will be made about the neoclassical construct of SWF which has been challenged for decades. In doing so, Arrow's postulates are explained and examined in detail. After giving a broad clarification on Arrow's paradigm, his axioms and his impossibility theorem, this chapter comes to an end with the search for and possibility of creating alternative paradigms.

2.2. SWF: CONCEPTUAL DEFINITION AND PROBLEM DESCRIPTION

At the beginning of the discussion, it is important to recognise the distinction between the terms welfare and wellbeing. Within this paper, welfare is treated as broader concept than that of wellbeing since the former appeals to societal considerations whereas the latter remains limited with the individual level. In other words, we can only speak of 'individual' wellbeing while the 'social' is attributed to the term welfare. Islam and Clarke (2001: 4) also suggest classifying the term wellbeing as one of the concepts which "fall[s] under the supra-concept of *social welfare*". This distinction is vital in terms of constructing a SWF in which an amalgamation process is pursued from individual level preference ordering to the societal level to produce a public choice.

The conceptual definition of social welfare in conventional economics has its roots in liberal value judgements, hence different types of social welfare statements exist mostly around this liberal perspective³ of which 'individualism, pluralism of values, importance of rights, and equality' (Sugden, 1981: 10-11) are the basic tenets.

³ See Sugden (1981), Rowley and Peacock (1975), Nozick (1974) and Rawls (1972) among others.

Roughly speaking, SWF is seen, in this context, as something that should be maximized by using the tools of economics. The expanded definition of SWF, then, suggested by Deaton (1997: 135) is that:

“[The SWF] should be seen as a statistical ‘aggregator’ that turns a distribution into a single number that provides an overall judgement on that distribution and that forces us to think coherently about welfare and its distribution. Whatever our view of the policy making process, it is always useful to think about policy in terms of its effects on efficiency and on equity, and [the SWF] should be thought of as a tool for organizing our thoughts in a coherent way.”

When it comes to the tools of SWF, Bergson (1954) stresses the importance of cardinality and interpersonal comparison of utility as the vital features of SWF. However, Arrow (1963: 35) sees it as “a process or rule which, for each set of individual orderings R_1, \dots, R_n for alternative social states (one ordering for each individual), states a corresponding social ordering of alternative social states, R ”. Rawls (1972), on the other hand, is quite sceptical to the conventional conceptualisation and functioning of SWF, stating that the worst-off people have to be considered first in terms of social welfare ordering. Based on individualistic inclination by him, Harsanyi (taken from Karni, 1996: 487) uses a utilitarian approach in which “weighting sum of individual utilities” is primary.

2.3. NEO-CLASSICAL CONSTRUCT OF SWF

Achieving an optimal social welfare through appropriate ways has always become a critical question for centuries. One of the founding fathers of classical economics, Adam Smith (taken from Wagner and Gwartney, 2004: 15) states that the invisible hand itself leads market players to the contribution to the general welfare insofar as the market players behave with their self-interest motivations. Following Smith, Bentham claims that “individuals are the best judges of their own welfare” (taken from Bonner, 1997: 63). He uses a utilitarian approach which neoclassical welfarists are mostly originated from. Among the various other contenders, Marx, though his conceptualisation of SWF is quite different from that of classical economists, sees ‘alienation, commodity fetishism, and labour theory of value’ as the main barriers to social welfare (taken from Hunt, 1986).

During the period of classical, welfare issues remained less attractive, since scholars primarily focused on seeking appropriate ways for industrial growth of nation states which was already flourishing amongst the world. However, it was only after the World War II when scholars, conceding the failure of the proposed prescriptions for economic growth, gave much attention to the welfare issues. Thus, neoclassicals have benefited from the classical's views on welfare and suggested different kind of SWFs which can be categorised into four parts; 'real-valued, axiomatic, contractarian and utilitarian' (Mueller, 1989) or which can be treated as a subheading under 'contractarian or Paretian' welfare economics (Sugden, 1981). A different kind of classification is also possible by positioning them with regard to 'cardinality and ordinality' (Mandler, 2006). I shall adopt Mueller's categorisation for the explication of these various types of SWFs.

2.3.1. Bergson Samuelson Social Welfare Function (BS-SWF)

Bergson Samuelson SWF (BS-SWF), a kind of real-valued SWF, basically assigns numerical values to social states so that it can be maximised along with the coexistence of assumptions; cardinal utilities and interpersonal comparisons of utility (Mueller, 1989: 375). At this point, both cardinality and interpersonal utility play a vital role on constructing the BS-SWF in the sense that they both enable to choose the best alternative among Pareto set. Otherwise, there is a need for dictatorial solution for selecting the Pareto optimal outcome (Mueller, 1989: 382). Comparing to the other types of SWFs, especially to the Arrowian type, BS-SWF has "one particular profile of individual preference orderings" (Pollak, 1979: 85) while the Arrowian SWF emphasises multi-profile preference ordering. This leads Pollak (1979: 86) to think that the only solution for getting social preference ordering to construct a SWF in the Arrowian sense, which is dictatorship, is not different in BS-SWF since it has adopted a single profile preference ordering. In other words, the impossibility of Arrow type SWF is also subject to the BS-SWF (Kemp and Ng, 1976: 59) due to such reason.

BS-SWF stands under the Paretian Welfare Economics, and by adopting Paretian value judgements, BS-SWF creates an ethical observer who decides goodness or badness of social states on behalf of the society. However, this Paretian value system is bounded with 'individualism and liberal ethic' (Sugden and Weale, 1979: 111).

2.3.2. Contractarian Social Welfare Function

John Rawls' (1972) social contract theory has quite distinctive features than other social welfare models, especially from that of utilitarian philosophy, in the sense that it concentrates its agenda on process rather than end states. Therefore, the aim is to create just institutions so that collective decision making continues properly. At the same time, Rawls does not presume that these institutions will maximise the social good. The focal point is that these just institutions in which a set of principles are maintained to improve socially are the main constituents of social contract (Mueller, 1989: 409).

Rawls' conceptualisation of the term 'veil of ignorance' implies that "the person in the original position behind the veil of ignorance knows nothing about his own prospective position under the chosen rules of social order - under the selected and potentially operative principles of justice ... however, the person allegedly knows everything about the general characteristics of the outcomes under such rules" (Brennan and Buchanan, 2000: 36). This veil of ignorance behind which every individual's thoughts are shaped leads the person unable to make predictions about his current position and potential future benefits. In this circumstance, equality is achieved amongst the people by the means of information restriction so that all individuals have, now, equal preferences and agreement (Svensson, 1989: 2). Social contract, thereby, exists under this environment through which justice is integrated into the decision making process, and this brings out the notion of "justice as fairness" (Rawls, 1985).

Rawls prefers a 'lexicographical ordering' (taken from Moldau, 1992) through which the primary concern of welfare maximisation is given to the worst-off person in the society. By doing this, the ordering for social welfare maximisation is done by prioritisation of low level persons to high level ones. This ordering which is derived from the 'maximin principle' is the main distinction of him from Arrowian preference ordering (Sen, 1970: 137).

Lastly, critics to Rawls mainly come from his assumptions about 'information availability in the original position and economic conditions society faces' (Mueller, 1989: 413).

2.3.3. Utilitarian Social Welfare Function

Utilitarian philosophy mainly assumes that every individual has identical desires, and the social good is a composition of these desires. Unlike the Platonic social philosophy, social state ranking *does* change with respect to a change in individual values, so there is no objective social good independent of individual desires (Arrow, 1963: 22-23).

In accordance with the individualistic postulate of utilitarian philosophy, Harsanyi (1955) constructs an additive SWF which rejects the organic view of state. One of the assumptions he made about this argument is that; “If two prospects P and Q are indifferent from the standpoint of every individual, they are also indifferent from a social standpoint” (Harsanyi, 1955: 313). Together with the implications of this assumption, Harsanyi (1955: 316) aims to show the ‘impartiality’ of individual preferences which assigns “equal probability of being put in the place of any individual in the situation chosen”. The impartiality is, then, provided by assuming that every individual behaves with regarding others in society and with respecting their preferences, resulting into empathic view constituting the ethical basis of Harsanyi’s SWF. In terms of the cardinality and ordinality issues, Harsanyi (1955: 316) defines “a cardinal SWF equal to the arithmetical mean of the utilities of all individuals in the society”.

What mainly differentiates Harsanyi on SWF from Rawls is that he assigns an equal chance on every individual’s occupation of a position in the society whereas Rawls, as the veil of ignorance implies, assumes no information available to any party in the original position in terms of the probabilities.

2.3.4. Arrow’s Axiomatic Social Welfare Function

Arrow (1963), in conjunction with his contributions to the public choice theory, tries to deduce some rules for public decision making and essentially chooses a social preference ordering method for his analysis. The derivation of his SWF is provided such that:

“The basic engagement of social choice with which Arrow was concerned involved evaluating and choosing from the set of available social states (x, y, \dots), with each $x, y, \text{ etc.}$, describing what

is happening to the individuals and the society in the respective states of affairs. Arrow was concerned with arriving at an aggregate 'social ranking' R defined over the set of potentially available social states $x, y, etc.$ With his democratic commitment, the basis of the social ranking R is taken to be the collection of individual rankings $\{R_i\}$, with any R_i standing for person i 's preference ranking over the alternative social states open for social choice. It is this functional relation that Kenneth Arrow calls the "social welfare function." Given any set of individual preferences, the social welfare function determines a particular aggregate social ranking R (cited from Sen, 2009: 33)."

For the achievement of such an aggregated social rankings, Arrow stipulates an axiomatic approach within which an amalgamation process from individual choices to public choice is reached. Therefore, the derivation of social state ordering from individuals' orderings is provided through establishing appropriate rules and processes. This is what Arrow (1963) calls 'general possibility theorem' in which he develops four conditions as parameters for his SWF. As long as these four conditions are satisfied together, then, an axiomatic SWF of him becomes possible to construct. A violation of any one of these axioms leads to the impossibility of creating a SWF as a social ordering; this is what he proved at the end of his discussion by stating that "there is no social welfare function that can simultaneously satisfy all these four conditions" (Sen, 1970: 38).

The underlying assumptions he made about the individual and social orderings are that these orderings must have the features of 'transitiveness and connectivity'; given that this relation is satisfied, then, there exists a 'weak ordering' (Arrow, 1963: 13). In addition to this, a social ordering, according to him, is 'reflexive and complete' (Sen, 1970: 34). It is important to note, at this point, that the orderings reflect individual values instead of individual tastes.

2.3.4.1. Four conditions for Arrowian SWF

The four conditions of Arrowian SWF through which "a procedure for passing from a set of known individual tastes to a pattern of social decision-making" (Arrow, 1963: 2) is constructed, can be listed as;

- (i) Unrestricted domain,
- (ii) Pareto principle,

- (iii) Independence of irrelevant alternatives,
- (iv) Non-dictatorship

Before going on to the further discussion on these conditions, it should be noted that the only inapplicable circumstances of the Arrow's impossibility theorem are such that:

- "when there exists unanimous agreement among all individuals concerning alternative social states,
- when the required majority of individuals possess identical orderings of social alternatives, or
- when individual orderings are characterized as singlepeaked" (Buchanan, 1954: 115).

The condition, unrestricted domain, implies that "each individual should be free to have any preference ordering he might select and the collective choice process should be capable of reflecting these preferences in accordance with the other axioms" (Mueller, 1989: 392). One of the shortcomings of this condition is that there can easily break out a conflictual situation because the condition embodies, together with the transitivity assumption, the possibility of contradiction of orderings among individuals. In such situations, the common way of escaping route is to assert the singlepeakedness assumption or forming a 'committee system' to resolve the problems (Mueller, 1989: 392).

Pareto principle is a vital assumption for Arrow as most other thoughts of welfarists also adapt to this assumption. The condition states that the Pareto optimality is achieved as long as in the circumstance in which a person cannot be made better off without making the other worse off. Thus, in a society, if everyone prefers one state to the other, then this preference of the state over another has to be generalised for societal level (Black, 1969: 230). It can be inferred from this condition the 'neutrality' (Ubeda, 2004) drives for the content of the Pareto condition such that efficient solutions are the only goals to be reached irrespective of the financial position or capability of any individual during the search for solution.

It is mainly this condition what makes Arrow's SWF impossible to satisfy. More generally, all conditions require a harmonious, non-conflictual relationship among

each other so that one satisfaction of a condition does not leave another violated. However, Arrow proves the impossibility of such a relationship. Thus, many scholars relax the Pareto assumption by giving more weight to the others (see Murakami (1968), Wilson (1972), and Malawski and Zhou (1994)).

Another condition, independence of irrelevant alternatives, requires that only the relevant social states can be considered on the ranking of individuals, and the irrelevant alternatives should be excluded from the domain (Arrow, 1963: 27), thereby any alternative external to the individual's set should not affect the ordering.

Finally, non-dictatorship assumption does not let any situation which allows imposition of a state to the individuals. In other words, the society cannot be forced to choose an outcome by any single individual since the individual sovereignty plays a major role over Arrow's SWF.

By asserting the four conditions, Arrow states that "a [SWF] that satisfies unrestricted domain, independence, and Pareto principle has to be dictatorial" (Sen, 2009: 34-35). His address to the dictatorship solution for the impossibility theorem raises the role of state over individuals' preference orderings. It could be possible to produce the Arrowian SWF if there would be an omniscient dictator who knows everything about individuals' preferences. This romantic view of benevolent state has prevailed among imperial states and even among nation states of 20th century. However, Arrow rejects that "the state cannot be seen in analogy to a person, because the aggregation of individual preferences into a collective ordering runs into basic consistency problems" (taken from Blankart and Koester, 2005: 2). The state, have to be, therefore, brought into the analysis since it has preferences.

The Arrowian and the other SWFs, explained above, are all derived from the Western ontology; hence rationality, liberal-secular worldview, capitalistic ideals and unconstrained individual freedom and his egoistic behaviour constitute the epistemological bases of these SWFs. As such, in-paradigm alternative arguments to these various social welfare models cannot go beyond the Western discourse on constructing a SWF. Thus, there need a paradigm shift allowing possible, well-functioning, and just social welfare model, thereby, in the next chapter, ISWF will be offered as an alternative to the Western-type SWF.

Chapter 3

ISLAMIC MORAL ECONOMY CONCEPTUALISATION OF SOCIAL WELFARE FUNCTION: POSSIBILITY VS IMPOSSIBILITY

3.1. INTRODUCTION

As the discussion mentioned earlier, the examples of classical and neoclassical economic systems proved that market economies have failed to meet the expectations about ameliorating people's wellbeing, reducing inequality and poverty, and increasing social welfare and economic development in the late developmentalist states. Current wealth distribution of the world demonstrates that one fifth of the world population shares the 70% of total income (Cummins and Ortiz, 2011: viii). It is claimed that one of the main reasons for the inequality in world's wealth distribution is the disembodied nature of market economy denying any role for morality in its analysis, since it has always claimed to be value-free economies and ethic-free zone. However, in fact, "no human endeavour is value-free which implies that reality including economic reality is socially constructed" (Asutay, 2007: 3).

A counter argument can be made by stating that classical economists had incorporated the ethical concerns into their economic understanding, which implies that there had never been an amoral economy during that time, for this reason, neoclassicals should take them as reference in terms of bringing ethicality into their models (see Sen, 1982 and Putnam, 2002). However, classical economists, in fact, emphasised ethicality as a reflection of the 'voluntarily selected economic activities' in contrast to the concept of morality, which necessitates norms and values to be legally embedded in the economic system as a 'right', not as an optional activity (Asutay, 2013a: 3). Therefore, the 'ought to be economy' or 'normative economy' is particularly a kind of economy where moral values and norms are the driving forces of the whole economy (see Thompson, 1971, Scott, 1976, Etzioni, 1988, Arnold, 2001, and Sayer, 2007). Pre-capitalist societies, in this sense, displayed moral economies, since the market exchange was not the only determinant of economic activities, as economic and

financial activity was also embedded within the norms and values of the society, whereas capitalist societies have generated commercial or self-regulated market societies in which fictitious commodities have been created through commoditisation, so there is a need, according to the Polanyi, to ‘re-embed economy in society’ and to “de-commodificate labour, land and money” (taken from Asutay, 2013a: 5).

Contrary to the neoclassical value free notion of economics which is bounded with the behavioural postulate of *homoeconomicus*, IME suggests a *homoIslamicus* individual whose behavioural norms remain same as a Muslim regardless of the (political, economic, *etc.*) spheres that is a non-dichotomous life, which does not have a separation in the form of divine and non-divine or profane and sacred. Asutay (2007: 9-10) states that IME sees the *homoIslamicus* as a ‘socio-tropic, God-conscious and hereafter concerned’ individual, which seeks to employ “intra-and intergenerational social justice...with the aim of forming an authentic Muslim identity as opposed to global dominance of capitalism” (Asutay, 2007: 3). By doing so, people reach *falah* in this world and in the *akhirah*.

The main objective of IME, in this sense, hence, is to develop a *falah* process through *ihsani* social capital, which mainly considers upgrading the wellbeing level of every member of society. By such a process, ‘distributive justice’ (Naqvi, 1981), harmonious growth (*tazkiyah*) and human felicity is achieved, as IME essentialises an embedded socio-economic paradigm through which Islamic norm defines actions and behaviour of all the agents in the society.

3.2. SOCIAL WELFARE IN ISLAM

Islamic concept of social welfare is quite distinct from the Western conceptualisation, as Islam socially institutes cooperative nature of life. The *falah* process, which Muslims ultimately aim to reach, requires the maximisation of *ihsani* social capital in the society. Therefore, Muslims need to increase *ihsan* as a social capital between each other to reach *falah*, which, then, promotes the wellbeing of each member of a society leading to social welfare, as a consequence. The objective of ISWF, hence, is considered to be the maximisation of *ihsan* amongst people.

In IME understanding, wealth is concerned with something that is created by cooperation and mutual help, by contrast to the capitalist perspective which

necessitates competition and rivalry for its creation. Therefore, Islam rejects the accumulation of wealth in fewer hands, which mainly results from capitalist desires; instead it concentrates primarily on refinement of the 'least privileged group in society' (Afzal-ur-Rahman, 1974: 8). Under this operational framework, "wealth keeps on circulating continuously among the people and does not unnecessarily accumulate at any particular point" (Afzal-ur-Rahman, 1974: 9). IME approach to social welfare also rejects the socialistic and capitalist welfare-state doctrines. The former forces the majority of society to subsist with minimum standards, hence, necessitates the state intervention to establish social welfare. The latter does not promise any minimum standard of living to the members of society and lets the market mechanism to operate and allocate the resources. Beyond these two views, ISWF forces state intervention for wealth distribution to establish distributive justice on the one hand; and it requires the existence of a civil society in which charitable giving and promoting beneficence are the common activities (Naqvi, 1994: 79), on the other hand.

Another vital feature of Islamic social welfare is that "the Divine Law emphasizes primarily the right (*i.e.* just) distribution of the benefits of collective action rather than the maximization of the flow of such benefits through whatever means" (Naqvi, 1983: 21). This principle makes a clear distinction from conventional paradigm of economics in the sense that the only goal of it is the 'maximisation' irrespective of the righteousness of the means for the achievement of this maximisation process. Islam, however, seeks the legitimacy of both means and outcomes so that it checks how wealth is acquired and for which purpose it has used (Pramanaik, 1993: 35).

The preference ordering of Islam, hence, is not merely determined by the economic variables, but non-economic variables are included into the model as well (Choudhury, 1986: 112). This is because Islam incorporates the concept of *akhirah* into its analysis. Welfare is conceptualised with regard both to this world and to the hereafter, thereby non-economic variables should be included in the welfare ordering. Zarqa (taken from Choudhury, 1986: 116), thus, develops a SWF by including non-economic variables such as '*taqwa* and *akhirah*'. His construct of SWF is two pronged; one is the attainment of what Al-Ghazali, and later Al-Shatibi set as three objectives which are necessities, conveniences and refinements; and the other is

providing “a set of rules of precedence which helps to resolve conflicts among different social objectives. The two components together make up the social welfare function” (Zarqa, 1980: 13-15).

In concluding, Islam suggests a social welfare model, which aims improving individuals’ material wellbeing and, at the same time, leads them to the attainment of ‘spiritual uplift’ (Chapra, 1979: 9).

3.3. SOCIAL JUSTICE: ESSENTIAL PILLAR

Social justice in Islam is much wider concept than that in Western thought by establishing social justice through spiritual aspirations of its adherents as well as material needs. Therefore, social justice suggests bidirectional relationship over individual’s attitudes “as forming a unity whose spiritual aspirations cannot be separated from his bodily desires, and whose spiritual needs cannot be divorced from his material needs” (Qutb, 1976: 126). Furthermore, IME does not confine social justice to economic parameters as the only relevant values.

The term, *al’adl* or justice necessitates enabling equal opportunities to all human beings in terms of having material and non-material possibilities and accessibilities. However, by the very nature of Islam, Allah tests everyone in this world by the means of varying wealth levels and capabilities. The important point is, here, that the initial wellbeing levels of individuals should not be in the primary concern, because Allah is testing every individual with some deprivation of resources, but instead, fairness and equity of distribution has to be prioritised. The question whether an ‘absolute’ justice can be achieved through the settlement of distributive equity is irrelevant, since absolute justice can only be attributed to Allah, who treats and reciprocates individual human beings with His absolute justice by the result of everyone’s doings in this world. For this reason, individuals are just interested in ‘becoming’ as a process of everyday life, which requires a never-ending search for betterment, irrespective of considering this betterment to be achieved or not. Thus, Muslims struggle for nourishing social justice throughout the world within their role of *khilafah*. By doing so, they expect to be rewarded in the hereafter.

3.4. AXIOMATIC APPROACH IN ARTICULATING IME

Islam suggests an axiomatic approach for its economic model in which these axioms support each other interdependently. The foundational axioms define the methodological framework of IME and function as “turning an unwieldy catalogue of ethical values [of Islam] into a countable number of axioms, which then form an ethical system” (Naqvi, 2003: 149). Since the axioms, as a whole, embody moral concerns of Islam, they articulate these moral obligations into the institutional aspects of IME. Such an ethics based approach constitutes the main distinction of Islamic economics from conventional economics.

Some leading scholars of Islamic economics developed a set of axioms for the incorporation of moral norms of Islam into its economic framework. Among proposed axioms by Naqvi (1981; 1983; 1994; 2003), Chapra (1992) and Ahmad (1994); Asutay (2013b: 9-15) develops and extends these axioms by stating ‘twelve axioms’, among which the most significant ones related to SWF are explored below:

- (a) *Tawhid* (Allah’s oneness and unity): This axiom implies a “vertical dimension” (Naqvi, 1981: 48) between Allah and the individual, and it clarifies “the rules of God-man and man-man relationship” (Ahmad, 1994: 12). As an axiom, *Tawhid* indicates that Allah has the ultimate knowledge and He had consciously created the universe for human beings to examine their actions whether it conforms to the *Qur’anic* teachings or not so that spiritual accountability should take place in the *akhirah*. Importantly, this axiom suggests that individuals are equal in their distance to Allah regardless of their differences; and therefore, they have equal access to the resources created by Allah for them.
- (b) *al’adl wal ihsan* (justice and equality): This axiom reflects “horizontal dimension of equity” (Sirageldin, 1995: 464). Islam essentialises social justice and encourages people to establish justice and equilibrium in society. The equilibrium is accomplished not only by institutional level arrangements but also by introducing an *ihsani* social capital which requires beneficence and charitable giving among individuals. By doing this, “high levels of good life (*hayyat-al-tayyebah*), both individual and collective” (Ahmad, 2003: 193) is achieved.

- (c) *Tazkiyah* (purification plus growth): This axiom refers to “the growth and purification of attitudes and relationships – with Allah, other fellow individuals, natural environment, society and state” (Asutay, 2013a: 12). What makes *tazkiyah* distinct from conventional growth is that the former suggests a harmonious growth over political, economic, social *etc.* institutions so that an improvement in one sector of society does not lead others to be violated, while an improvement in the latter necessarily violates each interdependent institution. However, IME does not allow such an imbalanced development; and therefore, it aims at sustainable and inclusive growth to overcome imbalances in the society in a stakeholding manner.
- (d) *Ikhtiy’ar* (Free Will): Islamic philosophy attaches partial freedom to individual as opposed to the absolute freedom understanding of Western philosophy. Islam, contrarily, offers individual to choose any path he desires, but nevertheless consequences of the right or wrong path are also in responsibility of him (Chapra, 1979). The man, as a *khalifah* in this world, knows that only Allah has perfect knowledge, so when doing a choice he needs to consider this fact, and decides accordingly even if his personal views are in conflict with the resulting situation.
- (e) *Amanah* (Trust): This axiom indicates that no individual has the absolute ownership, but everything belongs to Allah. Individuals, as *khalifas* in this world, act as a trustee and use the trust of Allah (*amanah*) to reconstruct the old and un-Islamic institutions. With this consciousness, the right use of this trust contributes to both his self-development and social development. This understanding, also, differs from the conventional thought of private ownership in which an absolute possession over goods prevails (Chapra, 1992: 207).
- (f) *Khilafah* (Vicegerency): Conventional economics treats human nature as if “human beings are ... passive and helpless; they have no mission for live” (Chapra, 1992: 204). However, Islam expects from individuals to revive the existing institutions in the light of objectives of Islam. Therefore, Muslim, as part of the *Ummah*, has important responsibilities to develop both for his self-wellbeing and social welfare. While doing that, he “holds *amanah* as Allah’s representative on the earth” (Asutay, 2013a: 14) and endeavours to settle

distributive justice. Thus, this axiom suggests solidarity among people through the accountability as being the vicegerency of Allah requires.

- (g) *Ukhuwwah* (Solidarity): The reflection of this axiom in the real world can be best explained by the hadith: “The Believers, in their mutual love, mercy and compassion, are like one body: if one organ complained, the rest of the body develops a fever” [Bukhari & Muslim]. Islam, hence, suggests its adherents to construct a social bond among them so that an authentic Muslim identity can be built up. Every member of Muslim *Ummah* acts with solidarity irrespective of the wealth, gender, race and colour. Therefore, “solidarity in Islam carries a wider concept, which suggests collective cooperation and guaranteeing the safety of each other’s well-being. The implementation of *ukhuwwah* would lead to a better society with an emphasis on social welfare motivated by commitment and love towards fellow brothers, even those of different beliefs” (Asutay, 2013b: 14).

3.5. FIQHI CONSTRUCTION OF SOCIAL WELFARE FUNCTION

The epistemological basis of the ISWF is two pronged; the *fiqhi* construction reflecting the form, and the moral construction reflecting the substance. These two approaches complement each other such that a failure on the fulfilment of any of them necessarily makes the ISWF incomplete. As explained above, these axioms are the cornerstones of moral construct, which, hence, should help to construct and constitute the composition of the substance of ISWF. This section, first, explores the *fiqhi* construction of ISWF, as this has been the main approach in the literature; and in doing so, this section makes a special reference to Hallaq’s (2002) work and then concentrates on how the axioms should play a vital role about the ‘moral construction’ of the ISWF to complete or close the system.

IME leads to establish an ISWF within which Muslims as *khalifas* and trustees of Allah rejuvenate the world in the light of Islamic goals. However, an ISWF that fulfils this objective is not treated as the end itself, but rather as the means to achieve *falah*; the intermediary role of which constitutes the main distinctive characteristic than other types of SWFs.

The construction of an ISWF, on the other hand, necessitates responding to the following question: whether a social preference ordering can be produced in which

individual's preferences and values are reflected. As explained previously, this objective is addressed by Arrow (1963) and he concluded that there is no way to amalgamate individual preferences in order to produce social preference ordering based on the satisfaction of his four axioms. However, an ISWF, with its moral axioms and *fiqhi* form, claims the possibility of making such an amalgamation by definition.

The *fiqhi* tool in actualising the ISWF plays an important role, since it defines the boundaries for individual behavioural norm, as bounded rationality is the nature of IME framework. Therefore, an ISWF putting individual at the centre of its core has to construct a *fiqhi* basis together with the moral aspect to produce Islamically socially acceptable social welfare maximisation. Hallaq (2002: 104), with his main contribution on the topic attempts such a construct through *fiqhi* approach, which classifies individual actions in five ordinances:

- (i) *Wajib* - Mandatory - Must do - *W*
- (ii) *Mandub* - Recommended - Should do - *Ma*
- (iii) *Mubah* - Permissible - May do - *Mu*
- (iv) *Makruh* - Undesirable - Should not do - *M*
- (v) *Haram* - Prohibited - Must not do - *H*

Accordingly, the universal set being [$U=U (W, M, Ma, Mu, H)$] is the available set of alternatives for an individual to choose. Hallaq (2002: 104), then, restricts individual choices to three options; *Ma*, *Mu* and *M*, since he thinks that Islam attributes no choice for the remaining *H* and *W* actions. He further suggests that *Ma* and *M* are also bounded in the sense that these two can be replaced with *W* and *H* actions, respectively, in certain circumstances. In sum, four under five categories are bounded actions and therefore only *mubah* remains as a set, which Hallaq (2002: 104) considers as unbounded in his entire work, since it “is the only part of the domain that individuals can choose freely”.

What Hallaq (2002: 112) concludes with this premise is that the condition of unrestricted domain of Arrow still does not hold in constructing an ISWF, since the feasible set of actions are restricted to, first, three, and then, to one in this view. Thus, he prefers concentrating just on *mubah* related set of potential areas, thereby there

could no longer be a restricted domain. He, therefore, suggests overcoming the problem by bringing the domain into conformity with Arrow's unrestricted domain assumption. With appreciating the fact that Arrow's axioms are not the ultimate conditions for establishing an ISWF, it is, nevertheless, important to note that Muslims *do* have a choice even in *wajib* and *haram* activities as contrary to the Hallaq's views. This is because human beings are in a state of divine test in this world, so making sinful activities and, on the other hand, engaging in good deeds with different levels are in the basket of people's available preferences. Putting differently, what is impermissible for Muslims does not mean it is also not feasible for them. Although Islam suggests the right path to follow, individuals are allowed to make their own choices, as the *ikhtiy'ar* as an axiom indicates, by accepting the fact that he/she has to accept the responsibility for consequences of his choices. Consequently, according to Hallaq the ISWF does not hold the restricted domain assumption.

When it comes to modification of the axioms with regard to the Islamic concerns with the objective of reaching an ISWF, Hallaq (2002: 112) attempted to reformulate Arrow's conditions by introducing the 'Islamically imposed axiom' which he interprets as adherence to the Islamic tradition. Through this, the axioms for establishing an ISWF are increased to operationalise a potential ISWF, and Hallaq (2002) at this stage assumes that this axiom could opt out what Arrow refers to the dictatorial solution, since "the compromises in a public issue in a Muslim community would be easier, since therein behaviour is governed by certain values and religious beliefs, such that individuals do not consider themselves an isolated unit of the community" (Hallaq, 2002: 122). However, according to Hallaq, even the addition of this assumption is not seen sufficient for the construction of an ISWF based on Arrow's postulates. He, therefore, prefers approaching to the problem with Buchananian sense by arguing that for a Muslim society "it is more important to focus on the process by which the community is willing to reach a social choice that is consistent with Islamic values, more than worrying about the nature of the function itself" (Hallaq, 2002: 114). That process in the IME can only be through completing the system with ethical norms to close and complete the system, as discussed in the following sections.

3.6. ETHICAL COMPLEMENTARITY TO *FIQHI* CONSTRUCTION

Hallaq (2002), in his entire work, argues the possibility of an ISWF through the satisfaction of Arrow's conditions. He approaches to the problem with a *fiqhi* method by constructing five ordinances for the bases of ISWF. He does not deal with the moral aspect of it, but gradually introduced the Islamically imposed axiom as the reflection of moral dimension. Since the available *fiqhi* construct, though it determines the behavioural norms, does not imply that it is, at the same time, morally acceptable; and therefore, there is a need for reconsidering the five ordinances as the layers of preferences and focusing on the implications of these ordinances in the society through the axioms of IME. Otherwise, degradation of the problem merely to individual level and non-consideration of the societal implications would produce a partial solution with regard to the construction of ISWF.

In embedding the axioms of IME into the five layers of preferences, it should first be acknowledged that *Mandub (Ma)*, *Mubah (Mu)*, or *Makruh (M)* activities do not have an absolute priority over another with regard to the ordering of preferences. The Muslim history also showed that even *Haram (H)* and *Wajib (W)* sets are subject to differing preferences during their intra-ordering process. The determination of which sets are incorporated into the social preference ordering first and which are rejected depends upon the conformity of the chosen set to the aspirations of IME. Therefore, an Islamic social preference ordering should be established through the prioritisation of some sets over another by the application of moral filtering. This filtering system might not necessarily deduce an ordering in line with the *fiqhi* ordering of these five layers since some circumstances require preferring *Mu* activities to *Ma* or *M* activities to *Mu* or any such combination which brings out a better social welfare position. At this point, the choice of a set over another for the construction of social preference ordering has to address *maslaha* criterion which goes beyond the form based understanding of *Qur'an*. According to this criterion, the layers are ordered and prioritised by considering their benefits to the society and their avoidance from the *mafsada* (harm). However, it should also be noted that there is no room for *maslaha* in the explicit commands of *Qur'an (nass)*. Insofar as the *maslaha* criterion is inherent in the process of rule derivation for social preference ordering, until then the outcome can reflect the implications of foundational axioms of IME. Therefore, the general

view of Islam, in this respect, is that, as Ibn al-Qayyim states, “everything that lapses out from justice into injustice, and from mercy into its opposite, and from *maslahah* to *mafsadah*, and from wisdom into the frivolous, does not belong to *Shari’ah*, even if it is inducted into it by interpretation (*ta’wil*)” (taken from Siddiqi, 2007: 6). The application of form based or linguistic approach to *Qur’an*, in this respect, comprises the partial solution for the social preference ordering.

The adaption of consequentialism suggested by IME essentialises the substance orientedness for the ISWF. Thus, a behavioural norm which is compliant with the form and process nature of *Shari’ah* cannot, at the same time, guarantee its rightfulness since the consequences of this behaviour has to be included into the analysis. Moral aspect, as a parameter for rightfulness, complements to the *fiqhi* base with an entire examination of decision making process. In a practical way, the role of morality on this has many reflections in the real world. Islamic finance industry, for instance, has many operations which are not in conflict with the textual understanding of economic verses of *Qur’an*. However, these operations including *tawarruq*, *murabahah*, *ijarah* and *etc.*, though being *halal* by definition, are subject to question in the sense that they do not well conform to the spirit of Islam in terms of their substance and consequences. Therefore, something that is *halal* from the *fiqhi* point may not be put into the social preference ordering or is not preferred to a *Ma* activity. Similarly, moral addition to *fiqh* approaches to the *riba* (interest) such that IME understanding has to treat equally to a *ribawi* contract and a non-*ribawi* contract if the latter has the same harmful effects with the former over society even it satisfies the formal aspect of *Qur’an*. In addition to these, there are three more supporting examples which strengthen ‘the impartiality of moral with *fiqh*’ significantly:

- In the period of *Khalifah* Omar, he made an *ijtihad* about the distribution of *ganimah* gained from the conquer of *Sham* lands (current Syria) and concluded that the *ganimah* will not be distributed as commanded in the *Qur’anic* verse (*Surah al-Anfal*: 41) instead it will remain in the hands of the citizens of the conquered land, thereby the income taken as *kharaj* (tax) from the citizens intended to be used for the benefit of Muslim *Ummah*.
- Junk foods and smoking cigarettes, though there is no unanimous agreement on them being *Haram* or *Makruh*, are not included into the social welfare concept

since their harmful effects such as obesity or addictions are clear. Therefore, the taste of junk food being delicious or doing *halal* trade by opening fast food buffet is not introduced in the preference ordering although it fulfils the individual needs and tastes. At this point, IME paradigm introduces and suggests the concept of *tayyeb* (pure and good) as to be considered as a constraint in the preference ordering since Quran (2: 168) strictly stresses the pureness and goodness immediately after the lawfulness.

- A profitable but not sustainable growth policy should be preferred to a less profitable but balanced growth policy. Therefore, there can no longer emerge the “trade-off between sustainability and depth of outreach” (Ahmed, 2013: 206).

These examples together indicate the vitality of morality while making decisions or deriving a rule for the construction of ISWF.

This vitality, on the other hand, is inevitably interlinked with the Islamic concept of bounded rationality. Contrary to the conventional meaning of rationality, IME stresses the bounded aspect of it by stating that any individual act has to be in accordance with the *Shari'ah*. As such, there is bounded and also broadened concept of rationality which incorporates *akhirah* in the form of social accountability into its construct as well, as the construct of Islamic conception of utility. Therefore, non-monetary rewards become also a part of rational behaviour, since “the act of sacrifice is itself seen as enhancing the individual’s expected welfare” (Naqvi, 1983: 31). This understanding is deduced by the *fardh* (responsibility), *khilafah* and *ukhuwwah* axioms which necessitate individual, social and spiritual accountabilities so that rational behaviour cannot be reduced to the mere self-maximisation principle (Naqvi, 1994: 56). Thus, the Islamic concept of rationality, in the social welfare context, does not accept individual preferences as ‘supreme and feeding into the social choice’ (Choudhury, 1991: 268). This is one of the main distinctive characteristics of IPC construct from the Arrowian sense, which strictly bases the individual sovereignty in his SWF. Together with this, IPC, in constructing an ISWF, adopts ‘*Shuratic* decision making process through *ijtihad* mechanism’ (Choudhury, 1980: 9). The strength and priority of *shura* in the decision making process is explained in the *Qur'an* (42: 38). The discussion about the determination of *khalifah* of *Ummah* was made immediately

after the death of Prophet. This example proves the urgent need for establishing a *Shuratic* decision making framework in the society.

The method of social choice, from this perspective, adheres to the consensus, but the IPC puts *ijtihad* as well into the process for the derivation of preference ordering. In this sense, the IPC produces a deductive, imposed consensus since *Shari'ah* already determines the framework of *Shuratic* decision making (Mannan, 1982: 17) and aims to actualise the imposed consensus in everyday life, while the Buchananian frame requires an inductive process by engaging with each other to establish consensus. Thus, IPC has only deductive method in terms of rule derivation, namely *ijtihad*, and utilises inductive method in providing the substance of the consensus in the sense of social contract within the derived rule.

In deriving social choice in IME, the representatives (*khalifas*) act on behalf of individuals, hence there appears no such a social choice model in which averages of individual preferences are taken to produce public choice. Further, contrary to the conventional form, IPC does not assign equal weights to the preferences, since 'the least privileged people need much priority for establishing the distributive justice' (Naqvi, 1983: 34-35). However, what Arrow's Pareto condition implies is that efficiency is the only condition for the preference ordering irrespective of the concern for equity and justice. These moral considerations are left to market's self-regulating capabilities; hence, Pareto principle adopts neutrality about distributional concerns (Naqvi, 2002: 115). Therefore, in Paretian economic exposition, "a society or an economy can be optimal ... even when some people are rolling in luxury and others are near starvation as long as the starvers cannot be made better off without cutting into the pleasures of the rich" (Sen, 1970: 22). Beside these unbalanced deductions of Pareto optimality, IME, with a consequentialist manner, assumes that every social preference ordering has to reveal 'right outcomes as well as efficient solutions' (Mannan, 1982: 17). This implies that the priority of equality over efficiency is derived from the principle of socio-economic justice (*al'adl wal ihsan*) of IME. Although the efficiency-equality nexus is an indispensable paradox for conventional economics, IME attributes no conflict between them but it rather points out the 'simultaneity' of these two (Choudhury, 1991: 273).

In exploring and expanding, similar to Rawls' (1972) reflective equilibrium notion, Choudhury (1991: 267) introduces the principle of 'ethical endogeneity', which mainly asserts that;

There is an intrinsic two way relationship between polity (policy variables) and the market system (state variables) in an ethicoeconomic order. In such interrelationships, both policy variables and state variables feed back upon each other in a dynamic labyrinth of social transformations. Such a property of the polity-market interaction generates locally, but not globally, stable solutions for state and policy variables in an ethicoeconomic general equilibrium system.

In IME frame, the polity-market interactions have to be in harmony with each other as the outcome of the *tazkiyah* process (inclusive growth), since the establishment of socio-economic justice requires such a growth policy. At this point, the failure of Western economic thought with regard to the explicit growth policies emanates from lack of such endogeneity. It, then, makes Western type SWFs impossible as can be seen in the Arrow's impossibility theorem. However, due to the observed endogeneity derived from the *Tawhidi* framework structures for individual-individual, individual-environment and individual-Allah relationship, the formulation of individual preference ordering and amalgamation of these preferences for the public choice can explicitly be actualised. In this, individual-individual relations are determined by *al'adl wal ihsan*, *ukhuwwah* and *khalifah* axioms within the *Tawhidi* paradigm and *shuratic* process, in which every individual promotes his wellbeing without a violation of others'; and also aims to promote the well-being of others according to his/her constraints. Individual-environment relations are concerned with the development of both intra and intergenerational justice and the *islah* (reform) of the old institutions. This requires a "continuous reproduction [of resources]" instead of searching for an optimal resource allocation within a competitive environment (Choudhury, 2009: 225). As for individual-Allah relations, the bidirectional link between Allah and individual constructs the ontological basis for an ISWF. With this understanding, individual consciously makes preference orderings in line with the *Qur'anic* teachings, which necessitate the consideration for the *akhirah*, for individual's mission in this world *through khilafah* and for individual's conscience of his role as trustee of Allah in the meaning of *amanah* within the *Tawhidi* paradigm and *shuratic* process. These three-pronged relationships under the umbrella of

foundational axioms should be considered as the constituents of ISWF and, at the same time, they correspond to the implications of the five ordinances of Hallaq (2002). This correspondence addresses the moral complementary of the *fiqhi* construction of the ISWF.

When the ISWF, based on the aforementioned axioms, compared to the Arrow's conditions in terms of its compliance to them, it can be seen that the Pareto condition and unrestricted domain assumptions do not hold in the ISWF. The reason for the latter is that there are some restrictions during the derivation of social preference ordering, since individual preferences are assigned 'different weights, and some has zero weights' (Naqvi, 1994: 66). However, when it is considered in terms of five layers of individual preferences, there are no restrictions on the domain, but a filtering mechanism by *Shuratic* process through restrictions on preferences is applied in terms of establishment of the IPC. The non-dictatorship assumption of Arrow, on the other hand, holds with the ISWF, since the *al'adl wal ihsan* (horizontal equity) rejects the application of choice of any one individual on the rest. But, at this point, it should be noted that historically there has been an explicit tendency by neoclassicals about assuming the state as exogenous and mostly neutral benevolent factor in which the state's role is akin to a dictator. As such, the constructing a SWF, from the neoclassical point of view, implicitly necessitates the attribution of state as an omniscient dictator. Therefore, the impossibility of developing a SWF based on Arrow's assumption cannot be overcome without introducing a benevolent state in which social preference ordering is assumed to be established by state organs and this ordering serves for the refinement of every individual. Muslim scholars, on the other hand, assumed an endogenised benevolent state. However IME approach, rejecting these two views, suggests giving up this romantic view of state, since the state is constituted by individuals, and individuals by definition, have their normative way of approaching issues. This view is antagonistic to the understanding of seeing the state as an organic entity. Thus, IME's response to state oriented solution to Arrow's theorem should be that the impossibility can only be overcome by considering state "as a working part of the economy, not a force external to it" (Downs, 1957; as cited in Orchard and Stretton, 1997: 410).

In concluding, the Arrowian sense of constructing SWF has basic fallacies in regard to the IME approach based on the evidence that Arrow's assumptions have no applicability over ISWF as explained above. Thus, the authenticity of ISWF requires the modification and rejection of some conditions by introducing the morality as a parameter into the model.



Chapter 4

DISCUSSION AND CONCLUSION

Research in public choice for the construction of a well-established SWF had increased much since the World War II until late 1990s. Among them, Arrow (1950) introduced a fundamental approach to the construction of a SWF by developing four conditions and concluded that the SWF based on these conditions cannot be established without violation at least any one of the conditions. Many critics have accompanied with this argument, but solid responses have not been asserted yet. Therefore, Arrow's impossibility theorem remained open for discussion.

Arrow developed his debate around the amalgamation of individual preferences to establish social preference ordering so that it would be possible to construct a SWF. In-paradigm criticisms towards his impossibility theorem, however, were not significant, since most of the scholars preferred approaching the debate from the same epistemological standpoint. Nevertheless, Buchanan (1954: 120) with his criticism on the Arrowian claim of the 'unchanging nature of orderings during the decision making process' and, following him, Sugden (1981: 12) stressing 'the importance of the process in which the end states are chosen', still contribute to the debate significantly.

Although the attempts in developing a SWF in Western perspective are much appreciated, there is a need for paradigm shift about the possibility of creating a SWF, which does not necessarily have to fulfil Arrow's conditions. This requires a different ontological and epistemological base for social welfare modelling. Islam, in this manner, suggests an axiomatic approach within an IME framework which can be defined as a "problem solving attempt to develop an 'Islamic system' of economics and economy in producing theoretical and policy bases for the underdevelopment of Muslim societies through the norms, values and principles of Islamic ontology with the objective of creating a human-centred development process" (Asutay, 2013c: 56). IME based SWF, therefore, has distinctive characteristic than those proposed as an in-paradigm alternatives to the establishment of SWF; and social justice through *ihsani* process remains the essence of this paradigm.

The term *ihsan* plays a vital role for the concept of social welfare and human wellbeing in IME. The ultimate goal of all human beings is to achieve *Allah's consent* as part of the ultimate objective of utility function, but the way to actualise this goal has to address the *falah* process through the accumulation of *ihsani* social capital. Otherwise, self-interest motives, rationality and “egoistic welfare-maximizing calculus as the ideal type of economic behaviour” (Naqvi, 1983: 29) do not contribute to the *ihsani* social capital. Islam, therefore, strongly recommends taking responsibilities (*fardh*) and becoming vicegerents (*khalifas*) of Allah to embed the beneficence or *ihsan* amongst the members of a society. This is considered to be the only way for human beings to achieve *falah* in the *akhirah*. The construction of ISWF, in this sense, is an important means for human beings to complete *falah* process.

It would be easier to construct a SWF if individual behaviours were homogenous. In this case, individual preferences would be same and producing a public choice would, then, be simple. However, individual preferences substantially differ in practice and getting a social preference ordering in which every individual's preferences are reflected are much difficult; and therefore Arrowian SWF requires either homogenous individual behaviour or an omniscient dictator to meet its objectives. In the Islamic side, *homoIslamicus* individual type aims to revive the old institutions, but the critical point, here, is that Muslims are expected to pursue ‘becoming process’, hence they are not forced to reach the *homoIslamicus* individual as a state as long as they *do* struggle as a process for it.

The differences, in the preference ordering, can be minimised by adopting Islamic values and norms. The extent to which Muslim *Ummah* displays *homoIslamicus* individual behaviour social preference ordering as defined by the ontological sources of Islam and, therefore, social welfare becomes easier to achieve. However, it should also be noted that aggregating preferences is very much modern concept. Islam does not have problem with aggregating preferences into one basket, but rather it embodies different aggregating attitudes, and therefore various *madhabs* (school of thoughts and practices) existed since the early Muslim history each of which suggesting relatively different process of achieving the defined utility function. This reality, on the other hand, does not mean that Islam does not deal with the modern problem of preference

aggregation; as it has the necessary frameworks for producing solutions for contemporary problems.

It is clear that the Western economic system creates inconsistencies in the process of social preference ordering as long as it insists on its assumption of being a value free economy. If morality is not considered as an embedded part of the economy and if an economy is not interconnected with other disciplines, the construction of any SWF under this ethics free meaning cannot address right solutions. Arrow's study, hence, necessarily results with impossibility. Therefore, a moral economy approach understanding *does* challenge the establishment of social preference ordering in which every individual's values are reflected. IME, at this point, can contribute to social welfare issues through introducing its distinctiveness within an IPC approach. After then, a "balanced and integrated individual [wellbeing] and social welfare" (Mannan, 1982: 25) can be achieved.

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