TEACHING NOTES

DIFFERENTIATING ISLAMIC, CAPITALIST AND SOCIALIST ECONOMICS USING UTILITY CONCEPT

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1. INTRODUCTION

In economics, on one extreme is sosialist economics where all are treated equally and the role of government is very strong. The other extreme is capitalist economics where individual gains more attention and the role of government is less. For those countries adopting socialist economics, people who work hard for a living will experience the same reward as those who do not. The adoption of capitalist economics for countries would allow people to gain benefit which may expand the gap between the rich and the poor. The question would be, where is the position of Islamic economics given those two extremes?
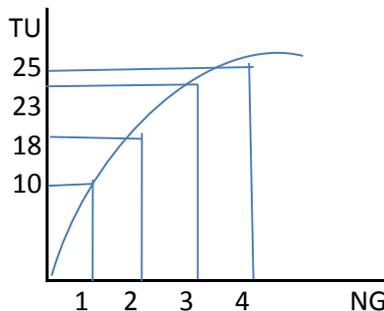
Islamic economics cannot be detached from the religion of Islam which put the Holy Qur'an and Sunnah as the main sources when economic values are derived. These two sources provide guidelines for us to be able to live happily here in this world and the hereafter. This paper attempts to extend the normative explanation into a clearer description by using the utility concept. In explaining this concept, numerical example is examined.

The hypothetical example is as follows. Assume that a person namely Ahmad is an athlete. In particular, he is a desert runner. He likes to run daily in the desert to maintain his health. He has won numerous competitions. One day while running in the desert, he finds a booth with a table and chair with a person namely Abu sitting there. On the table, there are 4 glasses of orange juice. Ahmad then runs to the booth and stops. Abu then offers the first glass to Ahmad.

If we give a scale of 0 (minimum) to 10 (maximum) for the

utility of drinking the orange juice and assume we are able to quantify the utility of Ahmad on his first glass,what utility shall we expect Ahmad to have? Well, knowing that he has run for many kilometers in the desert, we are quite sure that he will have 10 for his utility on the first glass. This is because Ahmad did not bring any drink, so a first glass would give him a maximum utility. In the following Figure 1 the vertical axis is the total utility (TU) of Ahmad and the horizontal axis is the number of glass (NG) that Ahmad drinks.

FIGURE 1
Ahmad Total Utility from Drinking Juice

After Ahmad has finished the first glass, Abu then offers him the second glass. Having drunk the second glass, what marginal utility is he going to get? Will he have the same utility of 10 as that in the first glass? Certainly not. An additional glass will give him less than 10 utility. In this case the concept of diminishing marginal utility is applied. It means that the utility of the latter will be less than the utility of the former. Assume that the utility for the second glass is 8. This will give the total utility of 18.

Seeing that Ahmad has finished the second glass, Abu still offers the third glass to Ahmad. Will Ahmad get 8 utility or less than 8? Obviously it is less than 8. Assume that he gets 5 utils so the total utility after third glass finish is 23 (10+8+5) utils.

Assume that Ahmad is willing to accept the fourth glass which gives him 2 utils, so the total utility will be 25 utils. If Abu has the fifth glass to be given to Ahmad, Ahmad will get the utility of 0. In this case, he is indifferent to whether he drinks or not. Furthermore a sixth glass might give him less total utility (due to vomitting). Assume that he drinks only up to four glasses. Up to this, we know that Ahmad has total utility of 25 utils from 4 glasses. As
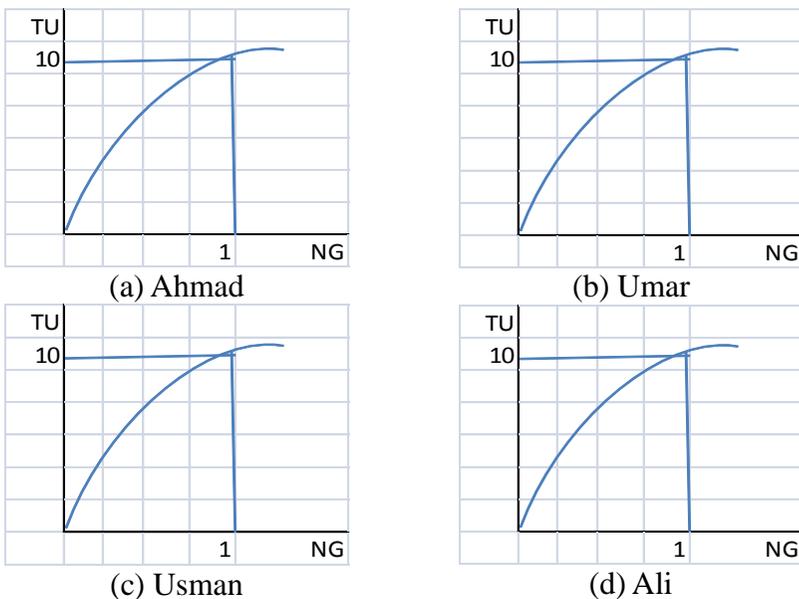
illustrated in Table 1, we may call this scenario A.

TABLE 1
Scenario A

Notes	Amount
Total glass	4
Total Person	1 (only Ahmad)
Total Utility	25
Gap Utility	25 (Ahmad minus no one equal 25)

Now, assume that there exists a second runner behind Ahmad namely Umar. Similar to Ahmad, Umar has been running for many kilometers in the desert and stops at the same booth. Umar arrives in the booth when Ahmad is about to finish the first glass. Knowing that there are only 4 glasses, Abu gives the second glass (as the first glass is already given to Ahmad) to Umar.

FIGURE 2
Total Utility of Ahmad, Umar, Usman and Ali, Respectively

(a) Ahmad   (b) Umar

(c) Usman   (d) Ali

If the same scale is applied, we can ensure that Umar will get

10 utils as he is badly in need of a drink. Furthermore, it is assumed that there are third and fourth runners behind Umar who are experiencing the same thing and they are Usman and Ali. They arrive at the booth almost at the same time. The third and fourth glasses are for Usman and Ali respectively. Certainly, Usman and Ali will get 10 utils each on their first glass (see Figure 2).

2. ANALYSIS

Up to now, there are four persons (Ahmad, Umar, Usman and Ali) who have chances to drink. In this case each gets one glass. Table 2 scenario B shows this condition.

TABLE 2
Scenario A and B

Items	Amount (Scenario A)	Amount (Scenario B)
Total number of glasses	4	4
Total Person	1 (only Ahmad)	4 (Ahmad, Umar, Usman and Ali)
Total Utility	25	40 (10 times 4)
Gap Utility	25 (Ahmad minus no one equal 25)	0 (those four persons have 10 utils each)

Scenario B has a total glass of 4 same as that of scenario A. However, scenario A and scenario B will differ in the total persons. While scenario A has only Ahmad, scenario B has four people. Since the first glass gives each of them 10 utils then total utility is 4 times 10 utils which is equal to 40 utils. There is no case whereby utility of a person is higher than that of others. Meanwhile the total utility of scenario A is 25 (only Ahmad who drinks all four glasses).

Comparing scenario A and scenario B, we are able to know that scenario B is the same or better in all items. The sameness is only in the number of glasses; in all other aspects, scenario B is better. Gap utility here is the gap utility between Ahmad and all other three persons which is 0. Thus scenario B is the essence of Islamic economics.

The character of Islamic economics is that the sources are distributed with justice to all people. In this scenario B, 4 glasses, which are the sources, are distributed equally to all four people. Moreover, instead of maximizing the utility of a few or one person

(in this case only Ahmad), Islamic economics prefers to maximize social utility which means total utility of more people. In scenario B all the persons have the utility of 10; there is no case whereby one of them has higher utility than that of others.

Scenario B, to some extent, is aligned with what the Holy Qur'an mentions in al-Aʿrāf, verse 31:

> O children of Adam, take your adornment at every masjid, and eat and drink, but be not excessive. Indeed, he likes not those who commit excess.(Qur'ān 7:31)

This verse allows us to eat and drink but not excessively. While the concept of excessive is relative, drinking only one glass in the abovementioned story and leaving three glasses for the remaining three persons is indeed following this verse. Scenario B also aligns with the sunnah of the Prophet saying: *Eat when you are hungry and stop before you are full.* Moreover, this verse and sunnah teach us the concept of food security. By taking enough (not excessive) food and finishing it, this certainly ensures food security. Thus, if all follow this sunnah it is highly unlikely that there will exist hunger in another part of the world.

We might question the explanation of scenario B by saying what will be the difference between that and socialist economics since in socialist economics, everyone is treated the same. Well, by only looking at the numerical value in scenario B, we might find difficulty in distinguishing between Islamic and socialist economics. The difference is in the role of Abu, in this case acting as a regulator.

In socialist economics, Abu will have full power in managing the resources. He will treat all the four runners equally. This means he can put a note on the table that each shall only be allowed to get one glass. There is no case whereby Ahmad is allowed to drink a second glass. Even if Ahmad forces Abu for the second glass, Abu would not be willing to give it. This is the essence of socialist economics. So how about Islamic economics?

The characteristic of Islamic economics particularly in developing the country is that the role of people is pretty much expected. It means that the people are playing a significant role in developing the country. Putting this into the scenario above, when Ahmad has finished the first glass and is about to drink the second one, he decides not to drink but to give it to Umar.

It means that while Ahmad is allowed to drink the second glass, he does not do so but prefers to give it to Umar out of his

generosity. Furthermore, he will do the same for the third and fourth glass to Usman and Ali although he has the right to drink all four glasses. This is the character of Islamic economics that is generosity and piety.

This is supported by the surah al-Baqarah, verse 261:

> The example of those who spend their wealth in the way of Allah is like a seed (of grain) which grows seven spikes; in each spike is a hundred grains. And Allah multiplies [his reward] for whom he wills. And Allah is All encompassing and all knowing (Qurʾān 2:261)

This verse is on the reward given by Allah when people spend their wealth in the way of Allah. In the context above, Ahmad is spending his wealth, that is to give the remaining three glasses to three persons is spending in the way of Allah. Those three glasses represent Ahmad's wealth. This is because Ahmad in that case is allowed to consume all the drinks but he decides not to do so but rather to distribute.

Now, what if Ahmad is greedy enough so that he consumes all the drinks? The scenario A will occur. When Umar arrives at the booth, Ahmad will take all the four glasses and he is unwilling to give to Umar and the rest even one glass. In this case the total utility is 25 utils and it is for only 1 person (Ahmad). The gap in utility is high (25 utils) because Ahmad gets 25 utils and all the other 3 persons get 0 util. The role of Abu as the government is less in this case and he lets the market forces decide. The stronger is the winner. As Ahmad is the first who comes to the booth, he dominates the sources and would not let others slower than him take benefit from them. This is in line with capitalist economics.

3. CONCLUSION

These notes attempt to provide the differences in characteristics of Islamic, capitalist and socialist economics. The explanation is supported by the theory of utility, to enable us to make numerical example to ease our understanding.

The summary is that with Islamic economics, total utility is higher, number of persons who benefit is higher, the gap in utility between persons is negligible. The role of people is more than and the role of government is less than that in socialist economics. Hence, this note is expected to facilitate the lecturer in explaining the

very basic differences in concept of those three types of economics.

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