

Revisiting the Theory of Income and Wealth Distribution: A Comparative Study in Western and Islamic Economic Theories

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Topics of Discussion

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Introduction

- The Shared Prosperity Vision 2030 highlights the issue of inequality by taking into account the labour income share as an indicator of inequality between labour and capital owners
- The initiatives is consistent with the goal of reducing household income inequality, measured by the Gini coefficient
- Reality of today, statistical evidences:
 - In 2018, the share of compensation of employees (CE) to GDP was at 35.7%, which is low compared to developed countries
 - The global labour income share was 51.4% in 2017 and out of this percentage, the distribution is very uneven with the top 10% earns 48.9% of it and the bottom 50% earns just 6.4%
- The concept of distribution can be extended into income and wealth distribution.
- Income distribution revolves around the sharing of incomes from productive factors of labor, land, capital, and entrepreneurial activity, which is also addressed by the concept of the functional income distribution (Kenneth, 1980). Meanwhile, wealth distribution refers to the stock of valuable possessions, including cash (income), shares and bonds, and value of the property such as car and house, and known as personal income distribution.

SCHOLAR'S PERCEPTION (Mainstream Economists)

Alfred Marshall

(1842-1924)

- was considered one of the pioneers of marginal productivity theory, particularly related to wages as he broadened the theoretical concept and assimilated the study of human behavior by including the formulation of the theory of human capital, which improved the analysis on marginal productivity as human capital acting as labor is one of the main components in the marginal productivity theory
- pointed out the importance of efficient wages that could increase the productivity of workers and consequently maximize the profit of the organization

John Bates Clark

(1847-1938)

- among the first pioneer economists who justified the idea of marginal productivity with relation to the distribution of national income
- explains the reward/returns of the factor pricing from the national wealth (Thomas, 2003)
- attempted to explain the theory of wages and legal minimum wages that should be appropriate to be determined by the firm

John Rawl

(1921-2002)

- Rawl's A Theory of Justice attempts to promote equal fundamental rights, par opportunity and shift the focus to protect the interest of the less fortunate in the society
- developed a thought experiment called 'original position' to understand the principle of free, fairness, justice, and equality that shaped society's mind (Porter, 2009)

SCHOLAR'S PERCEPTION (Muslim Economists)

Baqir al-Sadr

(1935-1980)

- claimed that the most fundamental rights of a person in income distribution lie in the equality of ownership in natural resources (Rahim, 2018). Therefore, he developed the theory of natural resource distribution in two stages: pre-production and post-production stages
- the theory has contributed to the understanding of the pre-production process, which is vital for the society to get equal opportunity of ownership to natural resources, which is the initial distribution
- it also serves the need to understand the societal need as post-production deals with the distribution of factor production

Monzer Kahf

- introduce approach to income distribution in which he extended into the distribution of wealth and distribution of output to the factor unit
- the concept of distribution was embodied by the principles of equity began from the pre-production process with emphasis on the role of government in production and employment (Kahf, 2002)
- strong justification that distribution of income started by the equal distribution of wealth

Shafinah Rahim

- attempts to operationalize the model of distributive justice by analyzing and taking into account all the Islamic classical scholars' views and modern scholars of Islamic economics thought
- the distributive justice model has laid out the principle of distribution as a whole in which can be used further for the implementation in economic activity

Besides, another motive of distribution is to establish a feasible system of economy that does not discriminate, exploit and force the people, but instead cultivates a healthy economic environment in which the good relationship between employer and employee and proper utilization of the natural force of supply and demand was exercised

- 1 QURAN 2:30
Allah is the only Real and Absolute Owner
- 2 QURAN 6:165
There is natural differences in abilities bestowed upon man
- 3 QURAN 53:39
The objective of distribution is to enable everyone to get what is rightfully due to him
- 4 QURAN 51:19
Fulfillment of basic needs for the less privileged
- 5 QURAN 59:7
Islamic economic vision of distribution is to eradicate the concentration of wealth

The five notably commanding features regarding distribution in Qur'an

ISLAMIC CRITIQUE OF CONTEMPORARY DISTRIBUTION THEORY

Although the theory of distribution in mainstream economics has a distinct purpose of serving as tools for economic analysis, it also has some drawbacks that limit its universal uses.

HIGHLIGHT

01

Conventional economic system embraces capitalism

HIGHLIGHT

02

The assumption of conventional distribution theory regarding constant returns to scale also is problematic

HIGHLIGHT

03

The absence of government intervention in the economic system

THE WAY FORWARD

1. Implementation of the Model of Distributive Justice

- The model has included the Shariah standpoints regarding distribution, such as the principle of equity and the prevention of wealth concentration.
- The way forward to test the model is through the implementation of it and by observing government aid programs for the needy

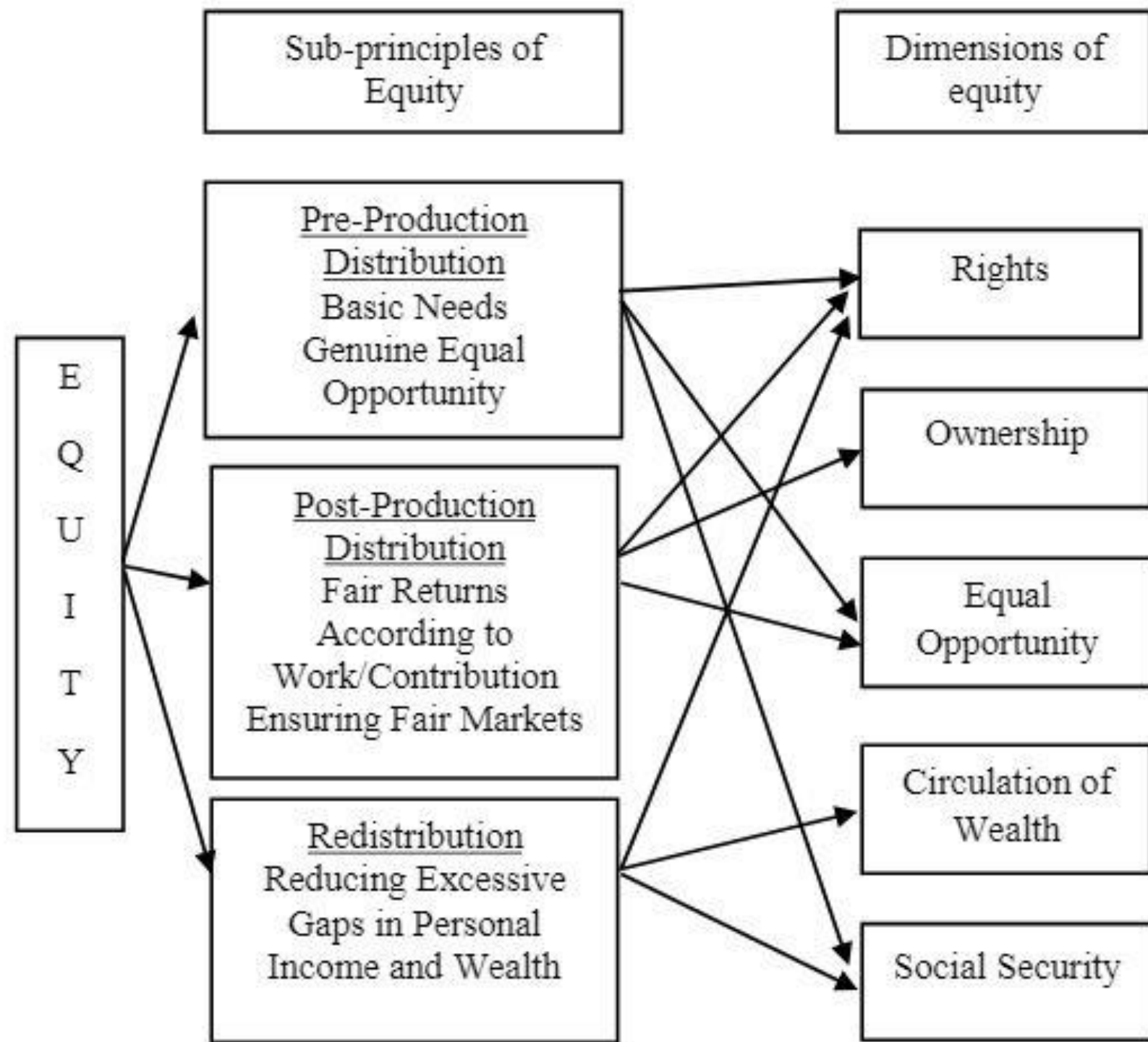
a) Implementation of the model

There are three stages of production that should be involved in implementation, which are pre-production, post-production, and redistribution.

b) Observing the government aid programs

Making sure the fulfillment of basic needs, equal opportunity to work, and government assistance such as subsidy and zakah served the objective of helping the poor. In many cases, the government aid program does not reflect positive feedback as many drawbacks found in the implementation, such as mismatch of people's need and government's type of assistance, and the worst is the corruption of funds allocation.

FIGURE 3
 Diagrammatic Illustration of Equity Sub-Principles Translated into Dimensions



Sekaran's method of operationalization
 the Model of Distributive Justice
 (Rahim, 2018).

THE WAY FORWARD

2. Al-Hisbah Institution as an Observer and Regulator

- Many Islamic scholars from Ibn Taymiyyah and Ibn Khaldun to Monzer Kahf and Nejatullah Siddiqi have emphasized the role of al-Hisbah in the economic system
- Distribution is a significant component in the economy that involves many economic agents from households, firms, intermediaries, and government and starts from the smallest economic agents, which are households, to the most prominent economic agents, which are the governments
- Therefore, there is a need for an institution to become the observer and the regulator for distribution in economic activity. In many nations, the government was the one who held the responsibility to manage the distribution.
- However, if the role still fails to be played by the government, there is a need for an independent body that can solely deal with managing distribution activity in the economy. For instance, the religious body, either public or private owned, that know the Shariah and economic expertise shall take the role of managing the distribution in the economy.

Conclusion

- In conclusion, the theory of distribution has undergone a long series of formation and reformation from the classical economics era until the modern Islamic economics development and the contribution of scholars both in the mainstream and Islamic economics can be seen significantly to the branch of knowledge.
- Although there are many loopholes in the theoretical concept, the effort to bridging the gist of knowledge with the realm of the economic world in practice should never be underestimated.
- The drawbacks in the theoretical concept developed former can be the stepping stones for further developing and improving the theory in the future.
- In the recent development of the model of distributive justice with Islamic approach, there is a long way to go for the model to be declared as universal and there will be many constraints to implement it in the economic system.
- However, the challenges should not limit the effort and devitalize the motivation for young economists to undertake the risks. Hopefully, the model can work in practice and result in better economic indicators of distribution and inequality.