

Comparative Economic Systems

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The background is a solid teal color. It features several decorative elements: white dotted patterns in the top-left, top-right, and bottom-left corners; and several light teal, organic, blob-like shapes scattered across the surface, including one on the left edge and a large one on the right edge.

Economic Systems

Distinctive Features of Capitalism

Philosophical
Foundation

Individual's effort to
maximize self-interest

Private
Property

Freedom of
enterprise &
choices

Markets and the
Price System

The basic-coordination mechanism
is market or price system.

Profit
Motive

Limited Role of
Government

Laissez-faire

Role of Self-
Interest

Competition

Distinctive Features of Socialism

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graph TD; A[Distinctive Features of Socialism] --> B[Philosophical Foundation is based on Collectivism (individualism is seen as source of social evil and exploitation)]; A --> C[State ownership of resources]; A --> D[Concentration of power in the socialist party]; A --> E[Institutions are based on Cooperation --- to lead to the development of a perfect society];
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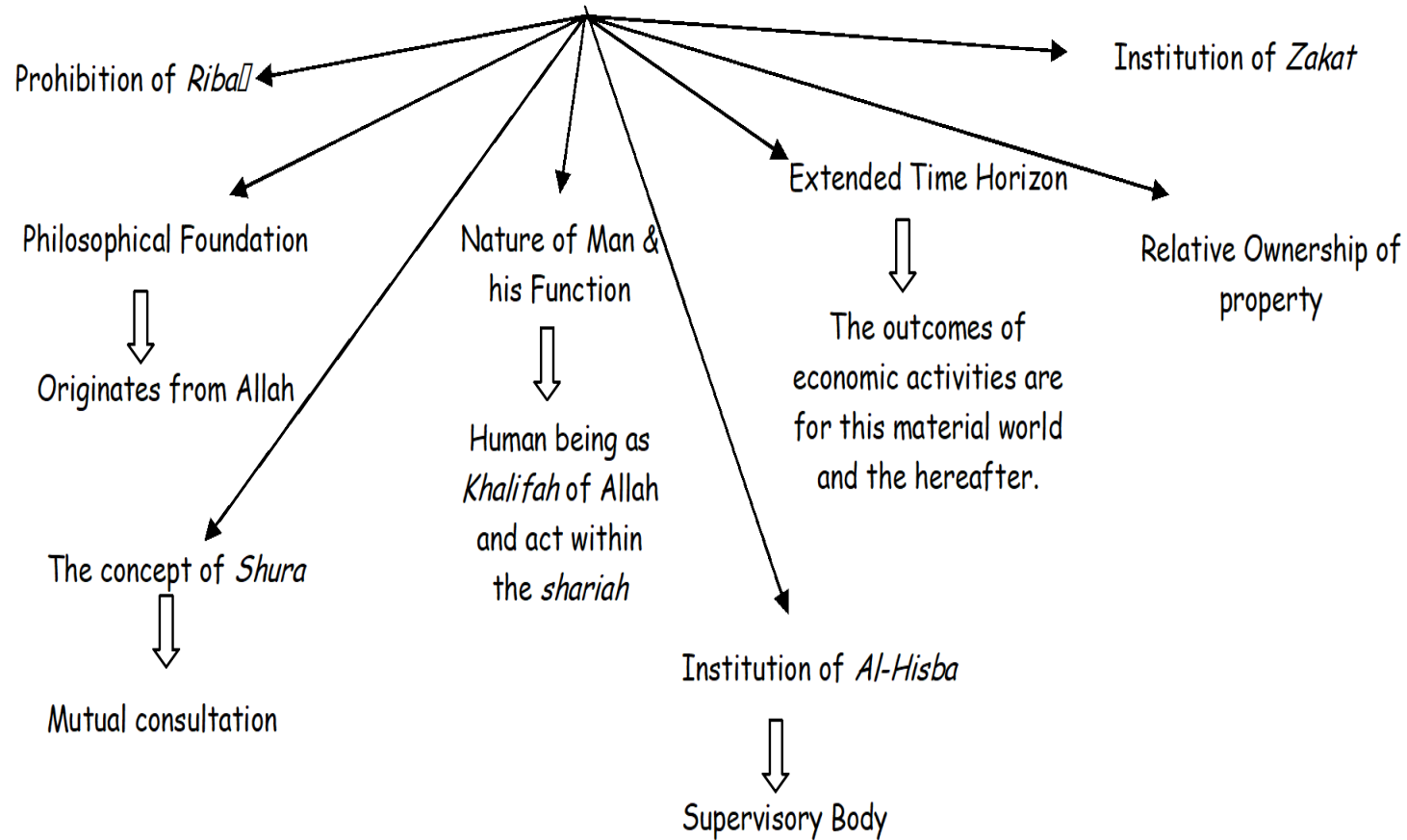
Philosophical
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State ownership of
resources

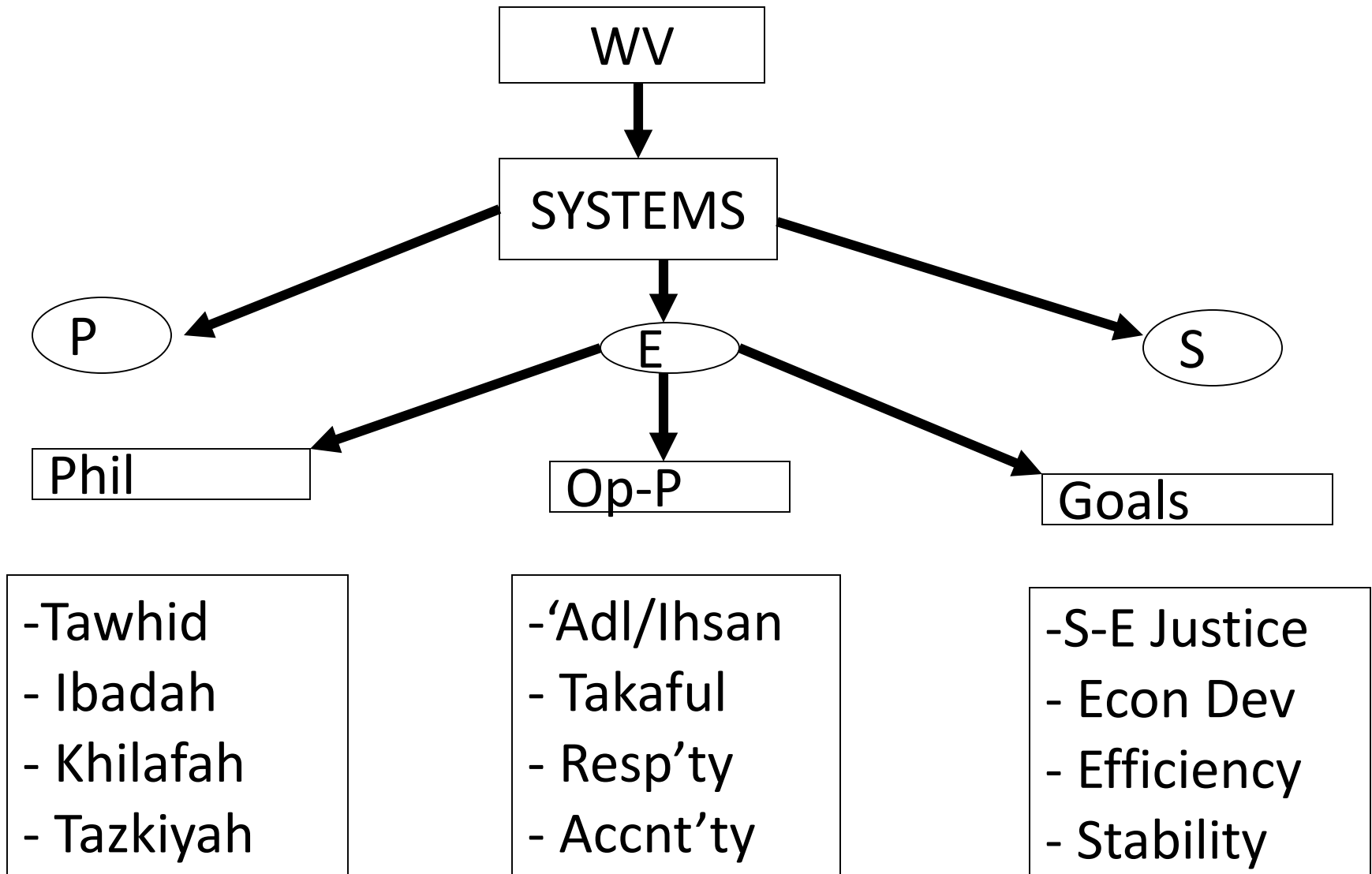
Concentration
of power in the
socialist party

Institutions are based on
Cooperation --- to lead to
the development of a
perfect society

Distinctive Features of an Islamic Economic System



ISLAMIC ECONOMIC SYSTEM



<i>Central Economic Questions</i>	<i>Capitalism's Answer</i>	<i>Socialism's Answer</i>	<i>Islamic Economics</i>
What to produce?	What business firms believe people want and firms will make profit.	What central planners believe socially beneficial.	What is permissible in Islamic <i>shariah</i> and needed. No extravagance is allowed.
How to produce?	Producer decides how to produce efficiently keeping in view desire to make profit.	Central planners decide keeping in view the greater benefits of the society.	Producer decides how to produce efficiently keeping in view their profit motive.
For whom to produce?	Distribution according to ability and inherited wealth.	Distribution according to individual need determined by the central planners.	Every one in the society is provided with the basic necessities by the Islamic State.

Source: Mimeo, *Principles of Microeconomics - An Islamic Perspective*, Department of Economics, IIUM.

DISTINCT CHARACTERISTICS OF ES

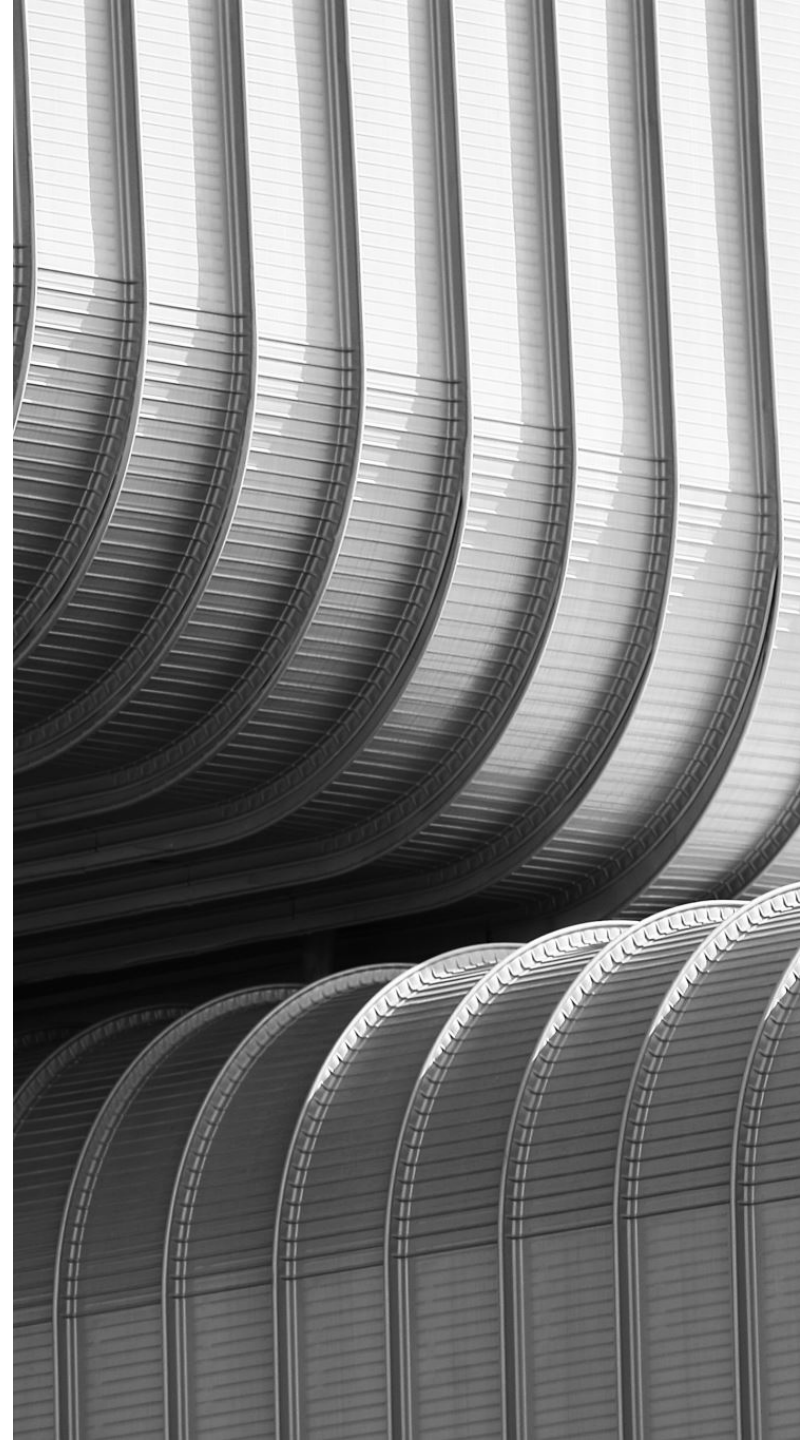
Property
ownership

Motivation

Decision making

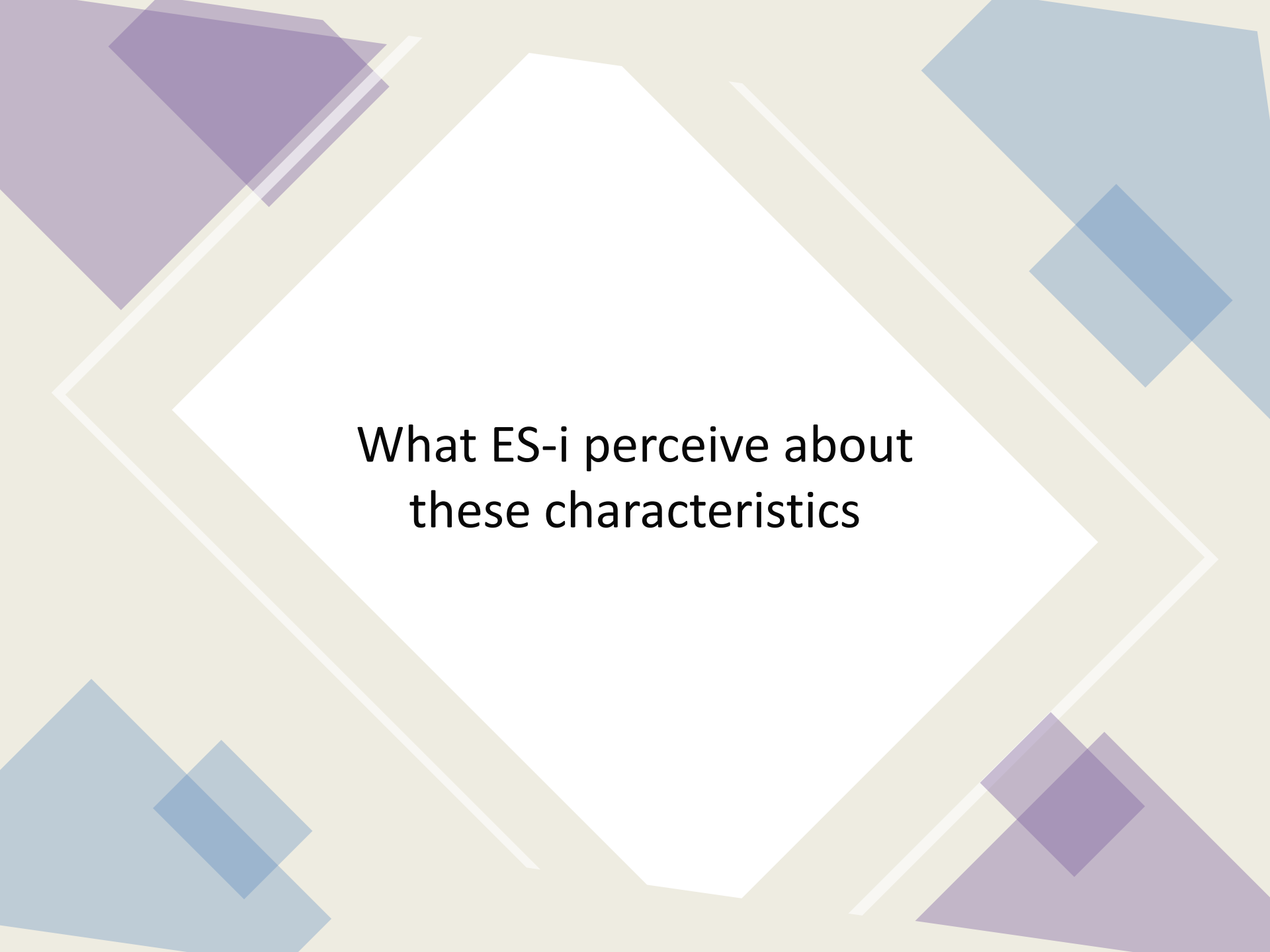
Coordination

Role of government



ES: THE TWO EXTREMES

CHARACTERISTICS	CAPITALISM	SOCIALISM
PROPERTY OWNERSHIP	Private	Public
MOTIVATION	Self-interest	Altruism
DECISION MAKING	Decentralized	Centralized
COORDINATION	Market	Planning
ROLE OF GOVERNMENT	Minimal	Focal



What ES-i perceive about
these characteristics

ES: THE TWO EXTREMES VS. ES-I: THE MIDDLE PATH

CHARACTERISTICS	ES-i
PROPERTY OWNERSHIP	Private & public (i.e. mixed)
MOTIVATION	'Self-interest' & altruism (moral & material)
DECISION MAKING	Shura (mainly bottom-up approach)
COORDINATION MECHANISM	Market > plan
ROLE OF GOVERNMENT	Facilitating role

There are
three criteria
that all
economic
systems
should
target to
achieve.
These are:

public interests
(maslahah)

productive
efficiency

allocative
efficiency.

Maslahah under Capitalism

Under capitalism the resources are owned privately and the allocation of resources is driven by profit motive. If a certain economic activity maximizes profit (e.g. production of alcohol) then capitalism allows that activity even though it may be harmful to the society. Hence capitalism fails to fulfil these criteria.

Maslahah under Socialism

Under socialism the government controls all the resources and the central planning board decides about what to produce and for whom to produce. If the planning board decides to produce something (e.g. alcohol), then it will be produced and made available to the people even though it (i.e. alcohol) may be harmful to the society.

If something good, for example hospital, then should be fine

Maslahah under the Islamic Economic System

Under the Islamic economic although private ownership of resources and profit maximization is allowed, yet no goods/services can be produced that can harm the society. Hence Islamic Economic system meets the criteria of Maslahah as it follows the Maqasid as-shariah by aiming at protecting and preserving: religion, life, reason, descendants and property.

PRODUCTIVE EFFICIENCY -It means producing a product/service at least cost.

Both capitalism and the Islamic Economic system practically force the producer to produce at the least cost - as both systems allow market and competition. If a producer produces at higher cost then his rival producing at lower cost can drive him out of the market. In socialism where there is no market and no competition, the state owned and state run production plants can produce at higher cost, and can still remain operation as they are state owned and state funded hence no fear of going out of business due to high cost. Hence under Socialism Productive Efficiency Criteria is generally not met.

ALLOCATIVE EFFICIENCY -


This means
producing
goods and
services that
the society
wants most.

- Allocative Efficiency under Socialism
In socialism production decisions are made by the government through its planning agency. Sometimes the government may achieve allocative efficiency and sometimes it may not e.g. If the society want BEST schools and HOSPITALS free of charge – a socialist economy may decide to produce it. In this case allocative efficiency will be achieved. If the society wants luxury cars and houses – the socialist system will NOT produce it. In this case allocative efficiency will not be achieved.



Allocative Efficiency under Capitalism

As under capitalism resources are allocated according to market demand and supply with a profit motive, hence the producers will produce whatever the buyers want to buy. Hence under capitalism allocative efficiency will be achieved.



Allocative Efficiency under Islamic Economic System

- Although Islamic Economic System allocates resources through market demand and supply with profit maximization as the driving force yet the market itself is constrained by the Maslahah criteria. Hence even a certain product/services (e.g. alcohol) may be demanded/wanted by the society it will not be produced by there Islamic economic system.
- The Islamic economic system achieves allocative efficiency only within the constraints of Maslahah. Products and services that are prohibited by Shariah, even if wanted by society, will not be produced under the Islamic Economic System. In such situations, Islamic Economic System will NOT fulfil the allocative efficiency criteria.

Thank you

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