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Validity of Islamic economics' behavioral assumptions: A preliminary discussion on charity giving

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ABSTRACT

Economics literature witnessed the revival of Islamic economics over the last few decades as an alternative to conventional economic theory. Islamic economists criticized value-free nature and unrealistic assumptions of conventional economics and offered a new paradigm based on behavioral assumptions. Aim of this paper is to explore validity of these behavioral assumptions, in general, or more specifically, assumptions of Islamic economics concerning to giving.

The validity of behavioral assumptions of IE and their results is rarely questioned in the literature. Particularly, empirical studies, in this regard, are very limited. This study aims to make a contribution to this methodological issue by analyzing country level charity data. Additionally, it also provides a modest contribution to empirical studies on charity/giving at the macro level.

Results of the study shows that countries with more pious citizens give more than the others but found no difference between giving rates of Muslim-majority countries and the others. The finding is consistent with a limited number of other studies claiming that Muslims, in general, are not different from the others or are not behaving as described in Islamic economics. Increasing numbers of studies supporting findings of this study or raising questions about the validity of Islamic economics' assumptions may cause the Islamic economics to evolve in a different direction

Keywords: Islamic economics, Economic methodology, Charitable Behavior.

JEL classification: P40, D64, B40

Introduction

All major religions believe in afterlife in one way or another. It is widely believed that, after the death of the body, the soul either continues to exist in another world or travels for some time to another world and finally returns again to the earth to continue to live in a different body. Quality of one's afterlife depends on the actions taken in this world. Those who follow the rules of their faith and organize their lives according to their religious principles are rewarded in their afterlife, while those who do the opposite are punished. Therefore, a religion can be defined as a set of rules that should be adopted by the believers for interacting with other people and with God in this world, for a better afterlife.

Economics, on the other hand, is a pure earthly "science" that explains how people interact with each other in markets in order to achieve their goals. Like religion, economics tries to set rules about human behavior, but, unlike religion, these rules are about how people actually behave rather than how they should behave. Even some of the explanations of economics are based on behavioral assumptions conflicting with the teachings of almost all religions. For instance, the rules of economics are built on selfish agents who maximize their material well-being. But, the faiths usually promote altruism, and the believers are expected to please others and to earn God's pleasure in addition to maximizing material well-being. Moreover, unlike religious rules, individuals in economics are not tied to any values in their social sphere.

The aforementioned discussion is valid for Islam, too. A true Muslim organizes her life according to the words of Allah (Quran) and sayings of the Islamic prophet Muhammad (*Hadiths*). Teachings in the Quran and of Muhammad, in some aspects, are compatible with economic theory, like recognition of private property and appreciation of market transactions. However, they are in conflict with some other basic economic principles. For instance, in economics, interest is one of the major prices in markets that allocates resources. Changing money supply, which will in turn change interest rates and resource allocation, respectively, is one of the major policy recommendations by economists to stabilize an economy. However, interest (*riba*) is strictly banned in Islam.¹ Again, economics is a value-free science. A consumer may choose any good combination with her given income to maximize her utility. Islam, on the other hand, condemns overconsumption², and consumption of certain goods, like alcoholic beverages, pork, gambling, etc., is banned (*Haram*).

Due to these controversies, some Muslim economists and theologians claimed that the conventional paradigm of economics is inadequate to understand Muslim societies, and they raised the need for Islamic economics (IE), which has grown outside the conventional realm in the last quarter of twentieth century.³ Although a rapidly growing literature has emerged since then, IE is still in infancy and far from being a

¹ *Riba* ban is mentioned in a number of verses in the Quran. See, for instance, Al-Baqarah (2: 275, 276, 278 and 279), Al-Imran 3:130, Al-Room 30:39.

² "And eat and drink but waste not by extravagance, certainly He (Allah) likes not Al-Musrifoon (those who waste by extravagance)" [al-A'raaf 7:31].

³ Although roots of IE go back to studies of Islamic thinkers like Ibn Khaldun and Al-Ghazali, IE has emerged as a formal discipline in the last quarter of twentieth century (Hasan, 2005; s.29).

comprehensive alternative to its conventional counterpart. The majority of the works are about “how IE is different” from the conventional one; in other words, it is about what IE is not. Studies that explain “what IE is” are still limited, and there is no consensus among them (Mahomedy 2013).

One of the main discussions in IE is about the methodology used. Some Islamic economists consider that a modified version of conventional economics’ methodology can be used to study IE (Ahmed, 2002); the others are for a unique IE methodology (Zaman, 2012).⁴ Whichever path is chosen, three characteristics distinguish IE from its conventional counterpart (Kuran 1995): prohibition of interest, redistribution of income through compulsory giving (*Zakat*) and analysis based on economic agents acting according to Islamic norms. This paper basically relates to the second and third of these characteristics.

Being charitable and providing for the needy are virtuous deeds in Islam. Those who give are promised to be rewarded both on the earth and in their afterlife. Helping the fortunate is promoted in almost all faiths, but mandatory giving is available only in Islam and Judaism (*Tzedakah*). Probably for this reason, special importance is given to charity in IE. It is considered a distinguishing feature of the discipline, and compulsory giving (*Zakah*) is always included in the Muslim economic agent’s consumption function (the second characteristic). Giving in these functions does not refer only to *Zakat* but also to voluntary giving (*Sadakah*), since Islamic economists always emphasize that, unlike typical selfish economic agents of conventional theory, Muslims behave in an altruistic way, and their utility does not only depend on their own material consumption but also on helping others (the third characteristic).

This paper explores validity of these two distinguishing characteristics and their compatibility with real lives of Muslims. A major question posed by this paper, then, is: In general, do behavioral assumptions of IE overlap with behaviors of Muslims in practice? Or, more specifically, do Muslims give more than others? The research question has a vital importance for the development and future path of IE for several reasons. First, followers of the discipline claim that IE is an alternative to conventional economic theory, which is based on unrealistic assumptions. This implies – at least raises the expectation – that IE is based on realistic assumptions. Therefore, “Is IE based on realistic assumptions?” is the question that Islamic economists who criticize conventional economics should answer. Second, unlike conventional economics, IE is a normative theory that describes an ideal state that can only be achieved if certain behavioral norms are adopted. Do Muslims adopt these norms? If the answer is “No”, then “why do they not adopt them?” and “how can they be motivated to adopt these norms?” These are the basic questions to be asked by a normative theory in order to achieve the ideal.

⁴ (Mahomedy 2013) The proponents of Islamic economics have had little success in shaping a distinctive paradigm for their discipline, beyond arguing that it is underpinned by a strong moral ethic. By and large, its epistemological roots have remained firmly within the framework of rationalism/empiricism and methodological individualism. Consequently, Islamic economics has not been able to shed its neoclassical moorings, the very paradigm it originally set out to replace. Several of the contradictions apparent in the discipline are discussed. Islamic economists, recognizing that their mission has remained unfulfilled, have variously suggested different approaches to regenerate the process and chart the way forward. These propositions are examined and evaluated.

The validity of behavioral assumptions of IE and their results are rarely questioned in the literature. Particularly, empirical studies, in this regard, are very limited. This study aims to make a preliminary contribution to this methodological issue. Additionally, it also provides a modest contribution to empirical studies on charity/giving at the macro level. The remainder of this paper is organized as follows. The following section discusses the notion of “giving” in Islamic teaching. How charity giving is adopted in IE is discussed in section three. Section four overviews previous studies exploring consistency of Muslims’ behaviors with Islamic teachings, both in general and particularly in the context of giving. In section five, giving behavior of Muslims is compared with other religions by using macro-level data. The final section evaluates the findings and discusses the possible effects on IE.

Giving in Islam

Inequalities, in terms of material well-being, among the individuals of a society have disturbed too many people for ages, particularly those at the lower steps of the ladder. Although policies adopted and technological developments since the industrial revolution have helped to alleviate poverty considerably, inequalities have remained everywhere and continue to be the major concern of researchers, policymakers, and the general public. Ideologies that promised reduction of inequalities and a more-egalitarian society, like socialism, easily attracted masses.

Eradication of poverty and an egalitarian income distribution are the major goals of all religions. A basic tool for achieving these goals is charity giving, which can take the form of money, time, and resources to the needy and can take special names, like *dana* in Hinduism and Buddhism and *tzedakah* in Judaism. Islam is not an exception. Muslims both are obliged and promoted to give to those in need. Understanding the notion of *giving* requires having some background information about the objective of *social justice* and regulations about *ownership of wealth* in Islamic teaching.

In Islamic teaching, it is believed that messengers of Allah were sent to the earth in order to establish *justice* (Quran 57: 25). Justice in the economic sphere basically refers to equality, or more specifically, equal distribution of income and wealth. This does not mean absolute equality. Inequalities originated from skill, effort, or risk differences are admitted, but extreme inequalities are ruled out, because it is believed that these inequalities would destroy the universal brotherhood of human beings, which is one of the most fundamental principles of Islam (*tawhid*)⁵ (M. U. Chapra 1992, 211-212, Kuran 1989, 172).

Islam recognizes and upholds private property⁶. If it is earned and spent in a fair and legal (Islamic) way, people are encouraged to work hard and obtain wealth⁷ and are

⁵ Tawhid refers to “oneness of God” (Quran; 25:2), which also implies universal brotherhood of human beings.

⁶ “And do not wish for that by which Allah has made some of you exceed others. For men is a share of what they have earned, and for women is a share of what they have earned” (Quran, 4:32).

⁷ Islam acknowledges man's desire to be wealthy (Quran, 3:14). Prophet Muhammad, who himself was also a merchant, says that “There is no envy except in two: a person whom Allah has given wealth and he spends it in the right way, and a person whom Allah has given wisdom (i.e. religious knowledge) and he gives his decisions accordingly and teaches it to the others” (Sahih al-Bukhari ,1409).

allowed to bequeath this wealth to their heirs⁸. Islam strictly protects property of the citizen, and stringent punishments are imposed for those who violate this right.⁹ Prophet Muhammad's saying "whoever is killed protecting his wealth is a martyr" (Jami` at-Tirmidhi, 1421) can be considered as the most striking reference for the recognition and protection of property in Islam.

Despite all these references to the Quran and sayings of Muhammad, rights of an individual on her property are not limitless. As clearly mentioned in the Quran, everything is created by Allah, and, therefore, all property is ultimately owned by Him.¹⁰ A legal earthly owner is merely holding the property as a trustee, and her rights on the property are bound by the ultimate owner. The Quran puts certain restrictions on how wealth is earned and how it is spent. Although earning money through trade is promoted, trading *haram* goods (like alcoholic beverages or pork) is banned. Earning interest (*Riba*) is a deadly sin, which is "equivalent to committing adultery with his own mother".¹¹ Similar restrictions are also applied to spending the wealth. Muslims are expected not to over-consume and not to buy banned goods. They also spend their wealth not only for themselves but also in the way of Allah, by giving to those in need.

An economic justice objective, as taught in Islam, is expected to be reached through giving. Allah, ultimate owner of everything, obliges and promotes his wealthy trustees to give part of their possessions to the poor brothers. Giving is described as a win-win activity in Islamic teaching. Not only the receiver but also the giver will be better off, since God compensates the giver by ten times or more the amount given.¹² Therefore, charity giving will help a society achieve two main economic objectives, "fair" income distribution, and growth.

The most important categories of charity defined in Islam are *zakat* (obligatory charity) and *sadaqa* (voluntary charity). *Zakat* is a yearly compulsory giving, which is similar to tax, imposed on the wealthy Muslims in order to meet redistributive aims of Islamic society. It is one of the five pillars of Islam and considered as important as praying.¹³ Wealth, above a minimum amount known as *nisab*, is subject to *Zakah* at a varying rate, between 2.5 to 20 percent.¹⁴ By paying *Zakat* to the disadvantaged members of the society¹⁵, it is purposed both to purify the possessions of the wealthy¹⁶ and to alleviate

⁸ Quranic verses 4:11, 4:12 and 4:176 specify division of property after one's death.

⁹ "[As for] the thief, the male and the female, amputate their hands in recompense for what they committed as a deterrent [punishment] from Allah. And Allah is Exalted in Might and Wise" (Quran, 5:38).

¹⁰ "To Allah does belong the dominion of the heaven and the earth and all that is there in" (5:20).

¹¹ Recorded in Sunan Ibn Majah.

¹² Whoever comes [on the Day of Judgment] with a good deed will have ten times the like thereof [to his credit], and whoever comes with an evil deed will not be recompensed except the like thereof; and they will not be wronged (Quran; 6:160).

¹³ "And establish prayer and give zakah" (Quran, 2:43).

¹⁴ Coverage of *Zakah* is not clear (Kuran 1989, 173).

¹⁵ Major recipients of *Zakah* disadvantaged Muslims. The Muslim employees appointed by a Muslim governor for the collection of *Zakah* to pay their wages. The Muslim in service of the cause of God by means of research or study or propagation of Islam. This share is to cover their expenses and help them to continue their service. The Muslim wayfarers who are stranded in a foreign land and in need of help are also eligible to receive *Zakah*. (The Islamic Bulletin available at http://www.islamicbulletin.org/newsletters/issue_6/zakat.aspx).

¹⁶ "Take, [O, Muhammad], from their wealth a charity by which you purify them and cause them increase, and invoke [-Allah's blessings] upon them." (Quran; 2:43). Basic logic behind purification is related to the principle "everything belongs to Allah".

poverty and remove “unjust” inequalities in the society. In practice, in a limited number of countries, like Malaysia, Saudi Arabia, and Pakistan, *Zakat* is mandated and collected by the state, but it is voluntary in most Muslim-majority countries.

Sadaqa is another form of giving in Islam. Although it has the same aim with *Zakah* and the two words are used interchangeable in some Quranic verses, there are major differences between the two. First, *sadaqa* is voluntary and given out of “heart” rather than wealth. Second, unlike *Zakah*, given once in a year, there is no time limit¹⁷ and no material threshold for *Sadakah*. Third, only the goods that have economic value, like gold, camels, wheat, etc., are considered as *Zakah*, but *Sadakah* may take any form. Even, “Your smile for your brother is charity.”¹⁸ Finally, poor and needy are the main recipients of *Sadakah* too. However, *Sadakah* can also be *given* to neighbors, friends, non-Muslims, and even to the rich.

In Islamic teaching, charity giving is also supported with an incentive mechanism. Those who refrain from paying charity are warned against severe punishments of Allah on the day of resurrection in both the Quran and *Hadiths*. For example, in a *Hadith*, Prophet Muhammad says, “Whoever is made wealthy by Allah and does not pay the *Zakat* of his wealth, then on the Day of Resurrection his wealth will be made like a bald-headed poisonous male snake with two black spots over the eyes. The snake will encircle his neck and bite his cheeks and say, ‘I am your wealth, I am your treasure.’”¹⁹ On the other hand, those who fulfill their duties will both multiply their wealth in this world and be rewarded in the hereafter (paradise).²⁰

Giving and Islamic Economics: Reality or ideal?

As mentioned in the previous section, giving charity is one of the distinctive features of Islam that will improve material well-being of both individual Muslims (givers and receivers) and the society as a whole. Therefore, Islamic economists adopt giving in their micro and macroeconomic models as an element that discriminates their work from their conventional counterparts and reaches different results.

Adoption of giving in IE studies begins with the critique of conventional economics’ assumptions, like in Khan (1987): “The economist assumes that human beings are selfish, rational, maximizers of their own material well-being and possessors of perfect knowledge in the future . . . Islamic economics does not agree any of these assumptions” (pp. 24-25). Their alternative assumption is not as strict as its conventional counterpart. “. . . man is neither selfish nor altruistic; he is both. He has an inborn tendency of to be selfish, to love wealth but he has also been endowed with the ability of being altruistic” (M. A. Khan 1987, 25).²¹ This assumption is supported by the following: “Secondly, by

¹⁷ “From what do we give charity every day?” *Fiqh-us-Sunnah*, Volume 3, Number 98

¹⁸ “The doors of goodness are many...enjoining good, forbidding evil, removing harm from the road, listening to the deaf, leading the blind, guiding one to the object of his need, hurrying with the strength of one's legs to one in sorrow who is asking for help, and supporting the feeble with the strength of one's arms--all of these are charity prescribed for you.” He also said: “Your smile for your brother is charity.” - *Fiqh-us-Sunnah*, Volume 3, Number 98

¹⁹ Bukhari, Vol. 2, Book 24, No.486

²⁰ See for instance, Quran 64:17, 57:11 and 57:18

²¹ This point is mentioned in (Hasan, Scarcity, self-interest and maximization from Islamic angle 2011, 14) “Islamic economists made a mistake in accepting the bifurcation of human motives into self-interest and altruism

education altruistic behavior can be cultivated and made persistent. Thirdly, human beings have imperfect fore-knowledge . . . Fourthly, in ultimate analysis, *falah* of the *Akhira* (well-being in afterlife) is preferable over material progress in this world” (M. A. Khan 1987, 25).

Based on the first and the forth assumptions, a typical consumer in Islamic microeconomic analysis allocates her income between two types of spending: To meet her (her family’s) material needs, E_1 , and to meet the needs of others (charity), E_2 . Utility function of the consumer consists of these two elements. While material consumption (E_1) shows diminishing marginal utility property, like in conventional economics, marginal utility of each additional spending for the sake of God (E_2) is assumed constant, *a*. *a* has a positive relationship with piety of the consumer (a more God-fearing consumer has a higher *a*). Of course, E_2 is only included in a *Nisab* consumer’s (wealthy consumer who is obliged to pay *Zakah*) and is actually consumed by the receiver of the charity. Therefore, in IE, consumption of the charity receiver is higher than her income, while the reverse is true for the giver. Both components of the consumption are subject to Islamic regulations. A limit of the first component is banned (*Haram*) goods. The consumption basket of a Muslim is likely to be smaller than her counterpart in conventional economics, as it only includes permissible goods, and a true Muslim evades overconsumption (*Israf*). A second component of the function is related to giving, and its lower limit is determined by mandatory giving (*Zakah*). It has no upper limit for spending for others. Those who want to acquire appreciation of Allah more will give more voluntarily (*sadaqah*) (F. Khan 1984, 2-11).

At the aggregate level, these individual consumers’ behavioral patterns have some macroeconomic consequences. For instance, after discussing four hypothetical behavioral scenarios, Kahn (1984) concludes that adoption of Islamic values by consumers (consume moderately, save more, and give to the others as much as possible) will improve their well-being, well-being of the poor, and the well-being of society as a whole (higher growth rate). In another study, Iqbal (1985) adopts a very similar methodology to Kahn (1984) and discusses the macroeconomic implications of Islamic injunctions (moderation in consumption and both compulsory and voluntary giving) on consumption. In his macro consumption function, again, the society is divided into two groups. One gives a certain part of his income to the second group as *Zakah*. He discusses the macroeconomic impacts of imposing giving and moderation into consumption function and concludes that while the effect of giving would be expansionary and that of moderation contractionary, the net effect will be ambiguous. This study, together with Kahn’s work (1984), constitutes the two pillars of Islamic consumption theory.

One can find other (but not too many) studies in Islamic economics that adopt compulsory and voluntary giving as an integral part of their economic model or which introduce a “Muslim” economic agent (*homoislamicus*), who spends her income not only for herself but also for others, as a distinctive feature. What you may not find in many of

that initially emanated from the West. In the Islamic faith, man is bipolar in creation: a combination of dust and divine. He has traits both noble and ignoble residing and fighting within his own person. Islam recognizes this fact. Thus, the Shari’ah encourages people to acquire and enjoy all good things in life in gratitude of Divine benevolence. However, they are instructed to observe moderation in consumption and avoid waste.”

them is whether these characteristics describe how Muslims do (what it is) or should (what should be) behave.

As they usually begin with a critique of conventional economics,²² which intends to explain how an economy works in reality, and, as Islamic economics is presented as an alternative to conventional theory, it is expected that Islamic economics is also about reality. However, Islamic Economists lacked in developing an Islamic theory of economics, (what it is) a realistic framework that can provide a basis for understanding the economic behavior of human beings (F. Khan 2013). Studies usually concentrated on (what should be) Islamic Economic models that show an ideal that can be achieved *if* Muslim code of behavior is adopted and suggest inculcation of Islamic values in the life of Muslims through education.²³ This is clearly mentioned by Khan (1987). "Islamic economics is a normative discipline. It explores the ways and means to change the existing economies into Islamic economies. Economics (mainstream), on the other hand, claims to be a positive science which studies the existing economic phenomena. Islamic economics is interested in changing the economic reality. Its predictions also relate to a world which has not yet ushered in" (p. 27).

Do Muslims behave in accordance with the behavioral assumptions of IE

Massive use of the above-mentioned behavioral assumptions in Islamic economics studies raises the question of validity of these assumptions. This question is important, whether Islamic economic theory is about reality or ideal. If it is about the real world, we should expect Islamic Economic theory to be built upon realistic assumptions. This is clearly mentioned by Khan (1987): "The western economists (most prominent being Friedman) have argued that the assumptions need not to be empirically valid. In fact some have gone to the extent of saying that valid predictions are possible only from invalid assumptions. Islamic economics does not accept this position on the basis of rationality and empiricism" (p.25).

Behavioral assumptions are still important, even if Islamic economics is about an ideal. If the Islamic code of behavior is adopted by Muslims (at least the majority of them) we may ask why Muslim societies economically perform below the ideal level. If Muslims (particularly the ones who are living in Muslim-majority countries) do not behave in a way consistent with the assumptions based on Islamic teaching; we, then, may question the reasons. As stated by Chapra (2000), "The task of Islamic economics does not . . . get fully accomplished if it does not show the causes of this deviation" (p.34). Therefore, studies examining the behavior of Muslims in their daily life will help Islamic economists to develop better theories to understand the real world and/or improve the well-being of Muslims.

Major religions have much in common, like believing in a god or gods, practices and rituals, life after death, etc. Adherents of these religions are expected to adopt similar

²² Following quote from Fahim Khan (2013) reveals the basic motivation behind and the aim of developing an Islamic theory of economics: "*Dissatisfied with the conventional economics and its limitations to address economic problems of today, there is need to have more realistic generic theory of economics capable of explaining economic behavior of any society given the socioeconomic and institutional parameters of that society*" (p.209). Again, for a comprehensive critique of conventional economics from IE standpoint see (Zaman 2012)

²³ See for instance (F. Khan 1984, M. A. Khan 1987)

behavioral codes, like protecting the needy, being honest, working hard, living modestly, respecting others' rights. Hence, the level of religiosity has always been considered an influential variable in social research for years, and studies showed that religiosity affects some behavioral outcomes positively, since they adopt the above-mentioned common code of conducts (Iannaccone 1998). Yet, the number of studies, examining validity of Islamic code of conduct in real life, is still very limited, and existing studies do not support the view that Muslims adopt Islamic behavioral codes in their daily lives.

For instance, in his study that examines the developments in Islamic economics, Kuran (1995) devotes a section to Islamic economics in practice. In this section, he discusses whether available Islamic economic institutions operate in compliance with *Sharia* restrictions. He finds that, despite the strict ban on interest, Islamic financial institutions and their Muslim customers continue to give and receive interest under different names. *Zakah* is not collected and distributed effectively and, therefore, does not help to alleviate poverty in Muslim societies. Finally, he asserts that efforts to inculcate Muslims with behavioral norms drawn from the classical sources of Islam have not gained any success (pp. 160-166).

As mentioned above, Islam imposes several measures, like compulsory and voluntary giving, law of inheritance, prohibition of overconsumption, etc., in order to ensure fair distribution of income and wealth. Given these Islamic measures and institutions, it is expected that income distribution in Muslim countries should be better than non-Muslim countries. To test this hypothesis, Ahmad conducts an empirical study (2000) comparing these two groups of countries. Test results show that on average GINI coefficient in Muslim countries is 10 points lower than non-Muslim countries, which implies worse income distribution. He also states that the Pakistani government collects less *Zakah* than it should because of evasion. With these two results taken together, it can be considered that unfair income distribution can, at least partly, be explained by disobedience of Muslims of the Islamic measures.

“To what extent do self-declared Islamic countries actually behave as Islamic countries i.e. following Islamic teachings from the Quran and the life and sayings of the Prophet?” is the question Scheherazade and Askari (2010) seek to answer. They claim that if Islamic teachings are adopted and implemented by a country, we should expect this country to respect human rights, establish social and economic justice, work hard, provide equal opportunity for all, eliminate corruption and waste, adopt ethical practices in business, and have a legitimate political authority. However, their results show that Muslim countries are far from reaching these expectations or, in other words, far from “being Muslim”.

Observed behaviors, which are inconsistent with Islamic values, among Muslims are sometimes defended with the difficulty of living as a Muslim in a world or country ruled by non-Islamic values. For instance, it would not be easy for a Muslim saver to invest his money to a *Halal* asset in a market economy, in which interest is a fundamental price, or to go to a mosque for a Friday prayer in an economy where working hours are organized according to non-Islamic values. This justification may sound reasonable, but we do not have any supporting evidence for it. In opposition, there are studies that show that divergence from basic Islamic values is pervasive, even in the countries ruled with *Sharia*.

Behdad's study (1994) examining economic orientation of Islamic economic thinking in pre- and post-revolutionary Iran is a good example in this regard. In the study, he shows that reference of Islamic economics teaching in Iran shifted from Islamic values to value-free market after the Islamic revolution. While the just order was the main theme of Islamic economics in Iran before the revolution, ideologists of the new order justified overconsumption. The rhetoric of "establishment of the rule of oppressed" was replaced with conventional IMF or World Bank-guided economic policies. But, more importantly – from our point of view – after the Islamic revolution, "It has become apparent that an Islamic economic system is not capable of presenting a viable social alternative. Even worse, Islamic values do not seem to have provided immunity from the material temptations, even for those whose piety was supposed to compensate for any other attribute that they lacked. Corruption is widespread at the very Islamic centers of power. A privileged class of clergy and their cronies, their sons, daughters, and other relatives, have replaced the privileged class that the revolution uprooted" (p. 810).

Do Muslims give more than others?

Researchers have long worked on determinants of charity giving. Studies in this realm have found that many factors (economic, social, institutional, cultural, etc.) influence charitable giving. Religion has received ample attention in charity giving, and many studies found a positive relationship between religiosity and giving. If charity giving is a distinguishing feature of IE, one may expect that Muslims "give" more than others. Do they really do so? This is the question we seek to answer in this section.

Studies show that the level of giving changes with respect to religion and religious denomination. However, it is mentioned even in the most comprehensive survey (Bekkers ve Wiepking 2007), which reviewed almost 500 studies in giving, that studies comparing giving behavior of different religions are quite few (p.7) and refer to only three studies (Berger 2006, Everatt, et al. 2005, Hoge ve Yang 1994), and in these studies, no specific reference is given to Muslims, probably because Muslims were represented at very small percentages in the samples used in these studies and grouped under the title "other".

The only study supporting the view of IE is a poll by the JustGiving. According to the poll of over 4,000 people in the UK, Muslims give more money to charity than people of other religions. Respondents were asked the question: "How much, if at all, would you say you generally donated to charities last year?" Muslims answered that they donated about £371 per person per year, with Jews in second place, with £270 per persons annually. Christians gave considerably less, and atheists were at the bottom of the list, with £116 donated (Gledhill 2013). Nevertheless, the result of the study should be treated with caution, since the results are based on a straightforward analysis, and there is no sign of using control variables that allow us to distinguish the impact of being Muslim from other variables that affect giving decisions.

This section is devoted to a preliminary analysis evaluating the differences in giving patterns across religions, specifically Muslims and others. The major aim of this effort is to see whether Muslims show a significant difference in giving, which justifies adoption of giving in IE, compared to members of other religions. The empirical study is called "preliminary" for several reasons. First, this is the first study in this regard. Second,

giving is an individual decision, and the majority of studies on “giving” or “charity” use individual- or household-level data. Due to lack of publicly available data in the context of this study, we worked with country-level data. But, we expect the result of this empirical work will motivate production/collection of individual-level data and further studies in this regard.

Data and methodology

The data for giving behavior at the aggregate level is obtained from The World Giving Index (WGI), an annual report published by the Charities Aid Foundation, a UK-based charity. Used data were gathered by Gallup from over 150,000 interviewed people in over 130 countries in the World. Survey takers were asked which of the following three charitable acts they had undertaken in the past month: (1) helping a stranger or someone they didn’t know who needed help, (2) donating money to a charity, and (3) volunteering time to an organization. A country’s score shows the average percentage of people involved in one of these three acts. In order to eliminate the effects of arbitrary annual changes, five-year average scores were used in this study.

Do these average scores change with respect to religion? To answer this question, we first affiliated a religion to each country, since the giving data is at the country level. Determination of religious affiliation of a country is determined by the religious affiliation of its citizens. A country is affiliated to a religion, if the majority of the citizens identify themselves as members of this religion. Information about religious compositions of the countries obtained from A Report on the Size and Distribution of the World’s Major Religious Groups as of 2010, by PEW (2012).²⁴ The report classifies people into one of the eight groups. Five out of these eight are widely recognized world religions – Buddhism, Christianity, Hinduism, Islam, and Judaism. Other groups are (1) those who say they are atheists and agnostics, as well as people who do not identify with any particular religion in surveys (religiously unaffiliated); (2) adherents of folk or traditional religions, and (3) adherents of other religions, such as the Baha’i faith, Jainism, Sikhism, Shintoism, and Taoism.

Our charity data covered 164 countries. Of these, 99 are Christian-majority, and 45 are Muslim-majority countries. Buddhism is the major religion in eight, and Hinduism is the major religion in three countries. In three countries, folk religions dominate the countries. In six countries, the majority of the population is not affiliated to any religion. Israel is the only country with a Jewish majority. In no country do adherents of “other” religions hold the majority in population. Table 1 shows distribution of average WGI scores by religion. Higher scores refer to higher involvement in giving behavior. Basic data used indicate that Buddhist countries, on average, have the highest WGI score, followed by Jews, Christians, and Hindus, respectively. Ranking of religions changes with respect to different components of WGI. Buddhist Countries rank first out of the seven religions for volunteering time, followed by Hindus. The Buddhists also show the highest level of “donating money” in the world, with an average of 54.24 percent having donated money. Helping a stranger is the most common way to “give” in Muslim countries. On average, about half of the people in Muslim countries *Help a Stranger*. Christian countries are in second place in *Helping a Stranger*, with 47.59 percent.

²⁴ It is assumed that religious distribution of the countries has not changed radically since then.

Table 1 about here

Although the straightforward analysis used in Table 1 shows that, on average, a higher percentage of people in Muslim countries are involved in the *Helping a Stranger* behavior than the others,²⁵ it would be wrong to jump to the conclusion that Muslims perform better than the others. Muslim countries do not show a uniform pattern among themselves.²⁶ For example, the five-year average of Qatar, a Muslim country in the Middle East, is 47 percent and ranked 12th among 164 countries, while Turkey, another Muslim country in southeastern Europe, is 154th, with an average score of 17.8 percent. Again, Oman, a Muslim country in the middle east is ranked 3rd, with 72 percent in *Helping a Stranger*, showing the behavior in which Muslim countries performed the best. Albania, another Muslim country in Europe, is ranked 150th. This is simply because many other factors, besides religion, influence giving behavior.

To determine the impact of Islam on giving, one needs a broader model that takes other determinants of giving into account. In this regard, the following model, which contains some aggregate-level determinants of giving, is used to determine the influence of Islam on giving.

$$\text{Giving}_i = \beta_0 + \beta_1 \text{Income}_i + \beta_2 \text{Civil Society}_i + \beta_3 \text{Religiosity}_i + \beta_4 \text{Muslim}_i + u_i$$

The dependent variable *Giving* refers to the five-year (2010-2014) average, giving the score of a country. As discussed above, the Charities Aid Foundation published the data obtained from the WGI. It includes WGI and its three components - *Volunteering Time*, *Helping a Stranger* and *Donating Money* – separately.

Income is one of the major determinants of charity giving and, as expected, studies indicate that high-income individuals and households contribute more to charities (Bekkers and Wiepking, 2007; Lammam and Gabler, 2012). The relationship is valid at the macro level as well. Gittel and Tebaldi (2006) found that an increase in a state's per capita income increases the average charitable giving in the US. World Giving Index Reports (Charities Aid Foundation 2010-2015) also indicates a higher percentage of population involved in giving activities in richer countries.

Therefore, here, a positive relationship between income and giving, particularly in the form of monetary donation, is also expected. Again, a five-year average of countries' gross national income based on purchasing power parity (GNI-PPP) is used as *Income* indicator. The data was obtained from World Development Indicators compiled by World Bank from different sources.²⁷

Second, the independent variable *Civil Society* shows strength of civil society in a country. In many societies, most of the giving is organized through charities. Charities help identify, organize, and implement activities that help people in need and make giving more effective. In World Giving Index Reports (Charities Aid Foundation 2010-2015) higher giving scores of Australia and New Zealand compared to the other

²⁵ OLS results, using seven religion dummies only, indicate statistically significant difference among religions.

²⁶ Same is also true for other religions.

²⁷ Data is available at the official web site of the World Bank (<http://data.worldbank.org/data-catalog/world-development-indicators>).

countries of Oceania are attributed to the strength of civil society in these countries, and in all reports, promotion of civil society is recommended to stimulate giving.

Enabling Environment Index (EEI), produced by CIVICUS (2013), an international non-profit organization dedicated to strengthening civil society in the World, is used as an indicator of *Civil Society* strength in a country. EEI is a composite index using secondary data to examine the conditions within which civil society works. The Enabling Environment Index is made up of 71 data sources that cover the period 2005 to 2012 from 109 countries. Over 70 percent of the sources are from the years 2010 and 2011. Higher scores indicate a better environment for participating and engaging in civil society. Therefore, a positive relationship is expected between countries' EEI and Giving Index scores.

Third, the variable is *Religiosity*. As mentioned above, all religions promote giving. Studies also find a positive association between religious involvement and giving (Bekkers and Wiepking, 2007; Lammam and Gabler, 2012). Gittel and Tebaldi's (2006) research also shows that states with a greater proportion of the population identifying with a religious affiliation give more. Data about a country's level of religiosity was obtained from the 6th wave of World Values Survey²⁸, a global research project that explores people's values and beliefs. Data cover surveys conducted in a year between 2010 and 2014, varying across the countries. In the survey, survey takers were asked "how religion is important" in their lives. Given answers range from "very important" to "not at all important". We assumed that the percentage of "very important" answers show a level of religiosity in a country, and the nations with high percentages are more pious than the others. Then, a positive relationship is expected between religiosity (high "very important" answers) and giving.

Muslim is a dummy variable that shows religious affiliation of a country. It takes the value of 1 if the majority of the citizens are Muslim and 0 otherwise. As the majority, two options are considered. First, if more than half of the population is Muslim, we then considered it a Muslim country. Second, we assumed a country Muslim if the vast majority (more than 75 percent) of the population is Muslim. The sign of this dummy should be significantly positive if Muslims give more than the others.

Even though the study covers the years between 2010 and 2014, data for the last three variables are only available for one of the years in this range. Since strength of civil society in a country and the religious affiliation and religiosity level of people in a country do not change drastically in several years, available data can be considered as representative for the period. To eliminate the impact of arbitrary changes in giving and income, averages of available years for these data are taken. Finally we had cross-section data representing 2010-2014.

Descriptive statics for the data are given separately for the World and Muslim countries in Table 2. Mean income for the World is 17,570 dollars. This is about 1,000 dollars lower than Muslim countries if the "vast majority" definition is used or 670 dollars higher if the "majority" definition is used. However, median *Income* is about 1,500 dollars lower than the World average, irrespective of the Muslim country definition.

²⁸ <http://www.worldvaluessurvey.org/wvs.jsp>

Data also show that the income gap between the rich and the poor countries is much higher among Muslim countries, again, irrespective of the definition.

Both mean and median *Religiosity* scores of Muslim countries are about 50 percent higher than the World average. If pious people give more than the others, as we assumed, a high percentage of religiosity scores is an advantage for Muslim countries. Yet, mean and median EEI scores of Muslim countries are below the World average, which reveals weakness of Civil Society and lower potential for giving, accordingly.

Table 2 also indicates a data deficiency problem for this study. As seen, the number of *Income* observations is 156. It drops to 106 for *Civil Society* and merely 60 for *Religiosity*. These observations do not belong to the same countries. Therefore, when each of these three variables is taken into consideration in an analysis, the number of the data considered drops drastically. Unfortunately, no richer data sets are available for a study like this.

Table 2 about here

Results

OLS estimate results for all three components of GWI are given in Table 3. For each component of GWI separately, first (Model 1 of each component), a regression is run to determine the relationship between “giving” and its three determinants (Income, Civil Society, and Religiosity), then, the difference between Muslim countries and the others is explored (Model 2 of each component). In all models, *R-squares* are low, as expected in models with cross-section data, but the *F-values*, which show the overall significance of the model, are significantly high. Logarithms of dependent variables are used to overcome the heteroscedasticity problem, which is common in any cross-section data, and data has an unbalanced design.²⁹

Table 3 about here

Regression results (Table 3) show that countries that are rich, that have strong civil society and that have more religious citizens have higher HS and DM scores. In other words, in countries that are rich, that have strong civil society and that have more religious people, higher percentage of citizens are involved in giving activities, like *helping a stranger* and *donating money*. These findings are consistent with earlier studies in “giving” literature and our expectations. Regarding *VT*, the same model overall gave insignificant results (low F-value). Then, variable *Religiosity* is dropped, and the results given in the fifth column of Table 3 are reached. In this model, we found a significant relationship between *Income* and volunteering activities only while the *Civil Society* indicator gave positive but highly insignificant results.

These three models are considered the best models for each component of WGI, within the limitations of this study. Then, the *Muslim* dummy is added in all models to test whether there is a difference between the Muslim countries and the others. In all three models (Model 2 of each WGI component), *Muslim* dummy gave highly insignificant

²⁹ The Breush-Pagan test does not indicate heteroscedastic disturbances.

results, implying the giving behavior of Muslim countries are no different from the others.

Conclusion

Economics literature witnessed the revival of Islamic economics over the last few decades. It began with the critique of conventional economics. They reacted to the value-free nature of conventional economics and mentioned the need of an approach that is equipped with Islamic values for a more-efficient use of resources and more-just economic and social order. The second stage was constructing an alternative theory based on Islamic values and teaching. Islamic economists have devoted extensive effort to apply Islamic principles and built models adopting value-based behavioral assumptions, interest ban, and giving, which are distinguishing features of Islamic economic theory. These models have shown that an economy operating according to Islamic principles would produce more-efficient and fairer results.

In the third stage, we may expect new studies, both from inside or outside this subfield, testing the hypothesis and the promised results of these newly developing models in this newly developing sub-field. This study, testing giving behavior of Muslims, was a preliminary effort in this regard. By using country-level data, we showed that countries with more pious citizens give more than the others but found no difference between giving rates of Muslim-majority countries and the others. No doubt, charity giving is a decision at the individual or household level. Therefore, we need further studies at the individual or household level to support this finding. However, the finding is consistent with a limited number of other studies claiming that Muslims, in general, are not different from the others or are not behaving as described in Islamic economics.

This and similar findings are important for the development of Islamic economics from several respects. First, Islamic economists have criticized conventional economics, due to its unrealistic assumptions. Replacing a theory based on unrealistic assumptions with another theory based on other unrealistic assumptions would be considered the same as expecting two wrongs to make one right, from Islamic economics' standpoint. Second, some say that Islamic economics is about an ideal that would be reached if the majority of a society adopted Islamic teachings. This raises the question of why Muslims – at least the majority – have not adopted behavioral patterns prescribed by Koran in about 1,500 years, even in Muslim-majority countries. Finally, increasing numbers of studies supporting findings of this study or raising questions about the validity of IE's assumptions may cause IE to evolve in a different direction, like conventional economics experienced during the seventeenth and eighteenth centuries.³⁰

References

³⁰ “There is a great deal that is common between the worldviews of most major religions, particularly those of Judaism, Christianity and Islam . . . If conventional economics had continued to develop in the image of the Judeo-Christian worldview, as it did before the Enlightenment Movement of the seventeenth and eighteenth centuries, there may not have been any significant difference between conventional and Islamic economics. However, after the Enlightenment Movement, all intellectual disciplines in Europe became influenced by its secular, value-neutral, materialist and social-Darwinist worldview, even though this did not succeed fully“ (Chapra, 2008).

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	<i>Volunteering Time</i>	<i>Helping a stranger</i>	<i>Donating money</i>	<i>World Giving Index</i>
Christian	21.20	47.59	28.63	32.48
Muslim	17.99	50.29	24.88	31.05
Unaffiliated	16.94	37.93	29.43	28.05
Hindu	24.67	38.27	33.47	32.00
Buddhist	28.60	43.08	54.24	41.96
Folk	13.60	42.40	30.80	28.90
Jewish	21.20	43.20	52.20	38.80

Source: World Giving Index 2010-2014 and PEW Research Center (2012)

		Mean	Median	Minimum	Maximum	Std. dev.	Number of Obs.
World	GNI	17570	11349	650	124596	18811.5	156
	Religiosity	49.6	47.8	2.6	98.9	30.68	60
	Civil Society	0.56	0.54	0.26	0.87	0.14	106
Muslim (%)	GNI	16899	9722	876	124596	25054.9	39
	Religiosity	72.77	86.5	21.5	98.9	26.03	19
	Civil Society	0.43	0.43	0.29	0.55	0.07	20
Muslim (%)	GNI	18534	9900	876	124596	27161.6	32
	Religiosity	76.47	88.2	34.3	98.9	24.23	16
	Civil Society	0.43	0.42	0.29	0.55	0.07	16

Table 3. OLS estimate results						
	Dependent Variable: lnHS (n=43)		Dependent Variable: lnDM (n=43)		Dependent Variable: lnVT (n=61)	
	(Model 1)	(Model 2)	(Model 1)	(Model 2)	(Model 1)	(Model 2)
Constant	3.13915 ^a (0.198750)	3.06121 ^a (0.183156)	1.32267 ^b (0.516072)	1.14751 ^b (0.504105)	2.67741 ^a (0.299657)	2.76953 ^a (0.301435)
Income	6.91133e-06 ^c (3.59576e-06)	5.92435e-06 ^c (3.56172e-06)	2.49276e-05 ^a (8.33713e-06)	2.27094e-05 ^a (8.4584e-06)	1.00304e-05 ^b (5.20502e-06)	1.06772e-05 ^b (5.06329e-06)
Civil Society	0.613824 ^c (0.359053)	0.776419 ^b (0.35565)	1.87324 ^b (0.916544)	2.23866 ^b (0.927477)	0.0411424 (0.645092)	-0.115632 (0.636880)
Religiosity	0.00430133 ^a (0.00129297)	0.00405651 ^a (0.00140791)	0.00646005 ^c (0.00329411)	0.00590986 ^c (0.00350761)		
Muslim (Vast)		0.0897197 (0.106547)		0.201637 (0.245936)		-0.113250 (0.207139)
R ²	0.364583	0.379051	0.500044	0.508937	0.074146	0.078136
Adjusted R ²	0.315705	0.313688	0.461585	0.457246	0.055813	0.050480
F(3, 39)	6.763293	6.411620	23.50189	18.98512	7.396015	4.988688
P-value(F)	0.000880	0.000480	7.46e-09	1.19e-08	0.001006	0.002884
Breusch-Pagan	4.267384	5.936372	4.773515	7.110692	4.764936	6.962045
P-value(B-P)	0.234001	0.203951	0.189153	0.130153	0.092322	0.073117

Standard errors in parentheses. *Superscripts "a", "b", and "c" show statistical significance at (1%), (5%), and (10%) respectively.*