

## **Review of Divine Economics Framework**

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### **Abstract**

*The primary research aim of the Divine Economics framework is to provide an empirical basis of behavioral comparison between religious and non-religious agents with regards to their economic and non-economic choices. Divine Economics framework is an effort to establish cross communication between mainstream economists and faith-inspired economists by using an appropriate and universal methodological framework, which is sufficiently scientific, objective and broadly agreeable in academics. Divine Economics framework endogenizes religious attributes which may potentially enable the comparison of choices between religious and non-religious as well as less-religious and more religious economic agents. However, reliance on stated preferences, overlap between religious and non-religious activities, inability to observe the motivation and intention behind choices and to judge the quality of religious activities are some of the challenges in this research framework. In the future research, Divine Economics framework could incorporate how faithful economic agents use common property resources and public goods. It can explore whether the faithful economic agents differ in their choices with regards to biodiversity and negative externalities. Lastly, the future research in Divine Economics framework can also explore whether faithful economic agents differ in their willingness to pay for public goods, environmental protection programs, animal protection programs, social protection programs and other voluntary welfare activities.*

**Keywords** *Divine Economics, Islamic Economics, Economics of Religion, Religious Values, Economic Behavior, Philanthropic Behavior*

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### **1. Issues in Self-Centric Utility Framework**

In traditional mainstream neoclassical consumer theory, the consumer is supposed to maximize a utility function subject to some budget constraint. To conduct maximization analysis, certain axioms are imposed on the consumer choice set that enable mathematical tractability and optimization analysis. These axioms can be summarized into the following: completeness, transitivity, invariance of preferences, convexity, continuity of the utility function and monotonicity or local non-satiation.

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Apart from economics, other social sciences are not always thrilled to restrict consumer behavior analysis within such a framework only for mathematical tractability. Lehtinen & Kuorikoski (2007) defend the neoclassical methods for analyzing consumer behavior by arguing that the false assumptions are not potent reasons to abandon the mainstream methods and analysis. Empirical validity of predictions with observed behavior is what gives credibility and wide acceptability to the mainstream tools and methodology.

However, the relevance and validity of these axioms are not trivial to Gowdy and Mayumi (2001). They opine that if consumer behavior does not conform to the set of axioms adopted in neoclassical theory, then one cannot make the leap from maximizing utility to constructing welfare measures of consumer surplus using Hicksian or Marshallian demand curves.

Thaler (1980) explains that since mainstream consumer behavior theory is based on a rational maximizing model, it describes how consumers *should* choose given the model and its assumptions; however, not necessarily describing how they *do* choose. Mainstream consumer behavior theory is normatively based and it only claims that it is also a descriptive theory.

But, in many cases, the mainstream consumer theory fails to predict the economic choices either because of rigid axioms or simplistic preference structure. Sen (1977) explaining the shortcomings in the structure in neoclassical approach comments as follows:

*“A person is given one preference ordering, and as and when the need arises this is supposed to reflect his interests, represent his welfare, summarize his idea of what should be done, and describe his actual choices and behavior. Can one preference ordering do all these things? A person thus described may be “rational” in the limited sense of revealing no inconsistencies in his choice behavior, but if he has no use for these distinctions between quite different concepts, he must be a bit of a fool.”*

Gowdy and Mayumi (2001) correctly argue that monotonicity axiom is irrelevant in environment goods where the balance and coherence matters more than abundance. Health goods also require a balance for their effectiveness. Same is true when consumption is analyzed with respect to health effects. Using an example from social choice, Sen (1977) states that even when individual voters have limited probability of affecting actions and when the costs of casting votes could be substantial in particular circumstances, people still take the pain to cast votes to document their true preferences.

Furthermore, ‘Ultimatum Game’ reflects the fact that people tend to look at their choice outcomes relatively. Prisoner’s Dilemma highlights the fact that choices by each player in a self-centric way are not necessarily going to be the best for them either individually or collectively.

Furthermore, recent evidence in behavioral finance and consumer psychology points to the fact that consumer information processing capabilities are limited and prone to error. Allais paradox (1990) and Ellsberg paradox (1961) are good examples of this phenomenon.

Though, in neoclassical utility maximization literature, social interactions had been explored by Becker (1974) as a matter of fact. Becker (1974, 1976) explores intra-family relations, charitable behavior, merit goods, multi-persons interactions and attitudes like envy and hatred. But, the analysis is focused on rationalizing non-economic behavior to study it as following an economic decision making process without any change in assumption about worldview or set of beliefs. Andreoni (1989, 1990) explains that people engage in impure altruism when they contribute in charity or donate for public goods. Hence, these charitable acts also emanate from self-interest, i.e. to get fame, satisfy ego or change the living environment to improve one's own social experience and relations. However, it is clear that these are not the strong motivations where people also pay anonymously and even when they have non-satiation. In the next section, we provide a brief review of literature on self-less behavior.

## **2. Brief Review of Literature on Self-less Behavior**

Charitable spending is not an exceptional phenomenon. Total charitable gifts of money now exceed 2% of GDP in USA (List, 2011). Alam (2010) informs that the magnitude of philanthropic giving in Muslim communities is estimated to total between \$250 billion and \$1 trillion annually. A recent study by the Aga Khan Foundation on Pakistan finds that giving by Pakistanis is four times the amount of foreign aid that Pakistan receives (Alam, 2010).

Feddersen and Alvaro (2009) highlight that people can be socially responsible in various roles of life and real world scenarios. Citizens may endure long lines to vote in large elections even though their single vote is unlikely to change the election outcome. People recycle paper and plastic even though the impact of their individual action is environmentally negligible. Lilley and Slonim (2014) present a model and experimental evidence to explain the "volunteering puzzle" where agents prefer volunteering time to donating money when monetary donations are more efficient for providing resources to charity.

Harbaugh (1998) opine that charitable donations buy two things for the givers: private warm glow and public prestige. In mainstream economics literature, 'Warm glow' is defined as the feeling of moral satisfaction generated by contributing. Harbaugh (1998) explains that charities publicize the donations they receive generally according to dollar categories rather than the exact amount. Donors in turn tend to give the minimum amount necessary to get into a category. It is true that in real world observations and laboratory experiments in contrived settings, certain factors like the presence of audience makes people

behave more altruistically. Sometimes, people pay just out of peer pressure to redeem their image in public and to avoid the guilt of saying 'no' (Andreoni and Bernheim, 2009).

DellaVigna *et al.*, (2009) design an experiment in which subjects donate individually (control group) or in pairs (treatment group). Those in pairs reveal their donation decisions to each other. As expected, the average donations in the treatment group are significantly higher than in the control group. It suggests reluctant altruism due to peer pressure in charitable giving.

In another experiment, DellaVigna *et al.*, (2009) design a door-to-door fund-raising drive in which some households are informed about the exact time of solicitation with a flyer on their door-knobs; thus, they can seek or avoid the fund-raiser. The experiment finds that the flyer reduces the share of households opening the door by 10% to 25% and, if the flyer allows checking a 'Do Not Disturb' box, it reduces giving by 30%. Hence, both altruism and social pressure affect door-to-door charitable giving.

However, Crumpler and Grossman (2008) infer from an experiment that approximately 57% of the participants made a donation even when the pure altruist did not have any incentive. Hence, charitable spending or voluntary time contribution in social causes can be due to pure altruistic reasons rather than due to factors like satisfying ego, enhancing public image or due to peer pressure.

But, what is more important is to strengthen a person's moral commitment towards social needs. Altruistic behavior is also learnt like other behaviors (Mayr *et al.*, 2009). Praising toddlers for sharing their toys promotes altruistic behavior even when no one is looking (Mayr *et al.*, 2009).

Hence, in order to promote charitable spending, we require right form of learning as well as reinforcing permanent incentives. It requires a worldview which extends the responsibility of humans to society, future generations, and other living species on planet with accountability for every intentional act done by every human being. We need a worldview that regards humans as trustees for whatever material resources and mental faculties they come to possess in this world. In the next section, we evaluate the contribution of Divine Economics framework to incorporate religious beliefs and worldviews in rational economic choice framework.

### **3. Contribution of Divine Economics Framework**

The seminal contribution for Divine Economics framework was made by Dr. Syed Nisar Hussain Hamdani. Divine Economics is defined as a "framework for the study of religion and economics in each other's perspective." [Hamdani (2002); Hamdani and Ahmad (2002a, 2002b); Hamdani (2003a, 2003b)]. Two seminal published contributions in Divine Economics framework came in 2002 and 2004 in one of South Asia's most prominent academic journal in economics,

i.e. Pakistan Development Review [Hamdani *et al.*, (2002) and Hamdani *et al.*, (2004)].

Divine Economics framework takes religion or religious activities as an object of choice in a rational framework and studies it in the labor-leisure choice; inter temporal consumption choice and differences in product choice set between religious and non-religious people. The link between economics and religion is created by arguing that time is money and when time is allocated on religious activities too, these activities can also be analyzed within the framework of economics. For instance, Confucius thought has bearing on one's outlook about work and consumption habits. East Asian people generally tend to work harder, longer and their labor force participation rates are higher. Hence, as per Lifecycle Consumption Hypothesis, greater the number of working age people in a society, higher will be the propensity to save. From growth theory, we know that savings is the most crucial variable affecting growth along with other macro and institutional variables. Hence, it can be appreciated that there is a link between religious beliefs as institutions to impact preferences and hence influence economic and non-economic choices which can potentially have significant bearing on macroeconomic outcomes as well.

The motivation for developing Divine Economics framework as explained by its pioneer contributor came since most of the work done by Muslim economists under the rubric of Islamic economics is normative, legalistic and idealistic, according to Hamdani (2002). In the contemporary literature, very few scholars and studies have tried to focus on the positive aspects of economic behavior in religious and non-religious economic agents. Such research would not define or defend the ideals of Islam, but in case, the religious agents fall behind in ethical aspects in their decision making, then at the very least, it will help to point towards weaknesses in faithful economic agents.

The fundamental research aim of the Divine Economics framework is to provide an empirical basis of behavioral comparison between religious and non-religious agents with regards to their economic and non-economic choices. For instance, if religious people use common property resources and public goods more responsibly, then it is worthwhile to promote and create awareness about religious values. On the other hand, if religious and non-religious agents do not differ in their choices, then still it suggests that we need appropriate education and learning to create right kind of awareness about true religious values.

Divine Economics framework establishes a link for cross communication between mainstream economists and faith-inspired economists by using an appropriate and universal methodological framework, which is sufficiently scientific, objective and broadly agreeable in academics.

Divine Economics framework attempts to endogenize the religious variables. In earlier literature, religion or religious identity has been taken as a categorical variable. It is not differentiated from other demographic characteristic

of an economic agent. Some indices are also available, but they do not incorporate the religiosity levels. Divine Economics provides a framework to rank the agents on their religiosity. It is true that measurement of religiosity is God's prerogative. It is also true that true religiosity is founded in good actions as well as good intentions. So, it depends on observable and unobservable factors. However, the measurement of religiosity in Divine Economics framework, is not meant to actually reward and punish people on this estimation, rather it is meant to measure religiosity by using a robust set of observable indicators as far as possible so as to be able to rank people on their religiosity levels. This approach enables the comparison of choices between religious and non-religious economic agents.

In this way, Divine Economics framework provides a basis of comparison between non-religious and religious people where one could study any of the various religions which different people follow around the world. Hence, this heterogeneity comes before necessary abstraction for the model requirements. The implications of such studies and their findings could be to provide a sound and scientific basis of comparison by using behavioral and experimental economics methods to study the contribution of religious values on economic choices.

#### **4. Some Challenges and Methodological Issues in Divine Economics Framework**

Islam provides a code of life in which even the pursuit of material sustenance can be worship if the believer does it with acknowledging his true role and place in this world. This creates an overlap between religious and non-religious activities. Furthermore, the quantity of religious activity is not the appropriate indicator of religiosity level if the quality and motivation behind religious activities differs. Hence, a busy professional surgeon, a broadcaster or a steward devoting less time to religious activities, but fulfilling the professional duties with sincerity and commitment may get equal or more reward and be as much religious as a person whose professional and personal life is centered on religious activities like a teacher in Madarsa or an Imam of mosque. While the quantity can be measured, the quality, motivation and contextual differences which determine quality of religious activities is unobservable as well as beyond a justified examination. Hence, relative comparisons are difficult to make and which makes the generalization and aggregation immensely difficult. Without the possibility of aggregation and generalizability, the policy use of empirical findings becomes weaker. Indeed, studies in Divine Economics framework can explain differences in social and economic choices between religious and non-religious groups, but measuring both the religiosity and its exact *ceteris-peribus* causal effect on behavior is difficult to establish.

Furthermore, the stated preferences method of survey is a weak method of finding motivations behind actions where the questions of ethics are involved. Behavioural economics confirms through empirical evidence that people tend to be overconfident. They have their personal biases which make people to consider themselves more righteous than they really might be in reality if they face actual trade-offs. It is also difficult to create an exact situation of real trade-off scenario by using stated preference method of survey. People responding with an agreement on the high value attached to truthfulness may act otherwise when they face the actual trade-off involving real payoffs to them in real world scenario.

As per Islamic principles, certain sins can overshadow other noble and charitable acts almost completely. Some of these sins relate to Huquq-ul-Ibaad. Hence, if a person has not fulfilled his duty towards his mother and his wife, then, his statement about himself is not an exhaustive means of determining his religiosity since his shortcoming in social relations can better be gauged from the views of those related to him.

Another potential issue is the possible misuse of this framework as a way of validation or invalidation of religious values and principles. Only the right actions can justify the effects of religious teachings and validity of beliefs. Principles cannot bring contradictory results in behavior if applied and followed correctly. Contradiction and variety in action is not due to principles, but because of human preferences and sovereignty in choices. It is the compliance to religion that makes a person religious and not his performance determining the effectiveness of religion.

## **5. Synthesis of Divine Economics with Islamic Economics**

Islamic economics is part of the overall Islamic social system. Besides shaping preferences and impacting behavior and choices with two-worldly view of life based on belief in Tauheed and afterlife accountability, Islamic principles as moral, financial and redistributive institutions have several beneficial economic merits.

The institution of productive enterprise and prohibition of Riba closes the door for an extractive source of earning money. It helps in the circulation of capital in productive enterprise leading to higher levels of capital formation and production in the real sector of the economy and higher levels of employment. Islamic financial institutions help in channeling savings into investments and convert money capital into productive capital. Islamic ethics limits the consumer choice from immoral activities, lavish consumption and wastage of resources. Furthermore, Islamic ethics compels firms to avoid hoarding essential items, distorting price mechanism and from engaging in unethical marketing and promotion of consumerism. On the other hand, Islamic redistribution institutions like Zakat redistribute wealth from the rich to the poor. It discourages hoarding

of wealth and ensures circulation of capital. The institution of Waqf ensures decentralized provision of public goods and social safety nets in an Islamic economy. Lastly, the Islamic inheritance laws ensure wealth redistribution across generations in every family.

Islamic economics can admit micro foundations as description of human behavior in economic sphere of life; however, the systems, institutions and policy making offered by Islamic economics cannot take human behavior as a rule, but only as a guide. Islamic economics cannot just be a description of animalistic pursuit of materialism. In mainstream economics, the important issues of equity, welfare, equitable distribution and institutions that can ensure these are at the periphery rather than at the centre. That is where; Islamic economics has something distinctive to offer. Islam as a comprehensive doctrine offers basis of a credible social contract and institutions that address issues of welfare and equity effectively.

If Divine Economics framework could show that preferences are amenable to the changes in environment and institutions, then it will be a significant leap forward. As much as people can be selfish, they can be altruist as well. They have authority to choose and they can be as much responsible as they can be reckless. Hence, the real question is that what can provide a credible social contract that encourages co-operation, altruistic, responsible and self-less behavior. This discussion can start once it can be empirically proven that preferences are amenable in the light of different beliefs in worldviews.

In the future research, Divine Economics could incorporate how faithful economic agents use common property resources and public goods. It can further explore that whether the faithful economic agents differ in their choices with regards to biodiversity and negative externalities. Lastly, the future research in Divine Economics framework can also explore whether faithful economic agents differ in their willingness to pay for public goods, environmental protection programs, animal protection programs, social protection programs and other voluntary welfare activities. Using panel data, the change in religiosity overtime can be explored and that can better explain the relation between change in religiosity levels and economic choices.

## **6. Conclusion**

In this paper, we discussed that Divine Economics framework provides an empirical basis of behavioral comparison between religious and non-religious agents with regards to their economic and non-economic choices. The framework establishes cross communication between mainstream economists and faith-inspired economists by using a sufficiently scientific, objective and broadly agreeable methodology in academics. We noted that Divine Economics framework endogenizes religious attributes which may potentially enable the comparison of choices between religious and non-religious as well as less-



religious and more religious economic agents. We also highlighted that reliance on stated preferences, overlap between religious and non-religious activities, inability to observe the motivation and intention behind choices and to judge the quality of religious activities are some of the challenges in this research framework. Finally, we recommended that in the future research, Divine Economics could incorporate how faithful economic agents use common property resources, public goods and how they differ in their choices with regards to biodiversity, negative externalities and willingness to pay for public goods, environmental protection programs, animal protection programs, social protection programs and other voluntary welfare activities.

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