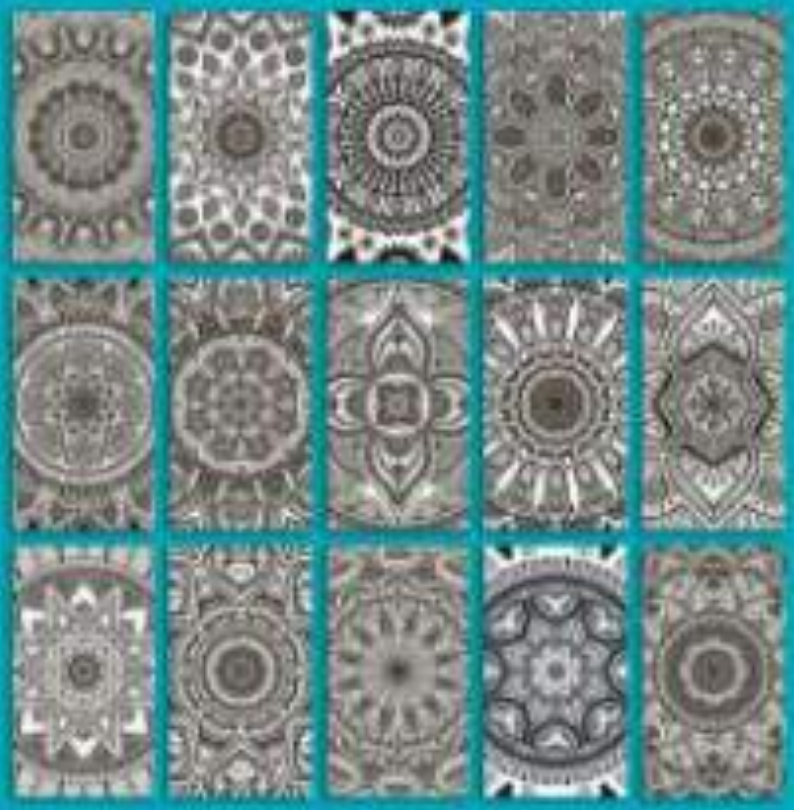
ISLAMIC BUSINESS AND FINANCE SERIES

God Conscious Organization and the Islamic Social Economy



EDITED BY

MASUDUL ALAM CHOUDHURY

A Gower Book

God-Conscious Organization and the Islamic Social Economy

Can there be God-conscious organizational behaviour in the real world of today's capitalist corporations and the alternatives? In this overview of God-consciousness as a moral-awareness model of preference formation, functions, structures, and programs of organization within the purview of institutions and society, the authors explain and compare the major ethical issues of organizational behaviour and structure in Islamic economic theory and application. By analysing the nature of inclusive organizations and institutions, and the ethical preferences in Islamic choice framework, the authors from Saudi Arabia, Australia, Malaysia, Bangladesh, Canada, Indonesia and the UK, can highlight individual aspects to show whether capitalist organizational behaviour is sustainable. They describe how The Tawhidi epistemological framework governing conscious moral decision-making by institutions and organization, are used to establish the meaning and potential application of the concept of sustainability, and whether organizational moral objectives achieve their goals of life-fulfilment development, Poverty alleviation and the equitable distribution of wealth and resources.

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I will value the learned contributions made in this volume by the proof of its wide readership in the world of learning. The chapters have made this work an original contribution to the world of learning. The book has gone beyond the current normal approach in Islamic economics and finance by taking bold steps forward in the areas of theory, analytics and application.

Professor Masudul Alam Choudhury

The Impact of Islamic Development Financing on Poverty Alleviation in Indonesia

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MasudulAlam Choudhury andTatik Mariyanti

Abstract

In developing countries, there are many problems that can act as a barrier to economic growth. One of the major problems is the incidence of poverty. Poverty is a central problem of social and econom.c development. By using the of its *Dur ante* conception and quantitative formalism in terms of circular causation relations, it is possible to show how such a comprehensive methodology and method can **be** applied to the study of poverty alleviation for socio-economic development. In this chapter this comprehensive approach is applied to the case of circular causation interrelationships between the critical variables, namely, economic growth, investment, *zakat* expenditure and poverty alleviation. The incidence of poverty alleviation is measured in terms of the number of *zakat* recipients. *Zakat* is the mandatory paymen by well-to-do Muslims for the alleviation of deprived social and economic conditions in society at large. It has specific rules of collection and distribution, as mentioned in the *Quran.* Among these targeted directions of *zakat* expenditure is poverty nidation. Yet, in addition, the channel through which poverty alleviation ,s attained involves *zakat* expenditure to assimilate the abject poor in the growth and spend- ing cycles of a prosperous society.

Objective

The object,ve of this chapter is to study the case of a productive alleviation of poverty through the attainment of a resilient social and economic the inferences in this regard will be of a general nature .n the field of susta nability and development, the case study is of Indonesia in recent times. Poverty alleviauon

stands out as a central focus of Islamic society. **In** general, such a process towards the productive

alleviation of abject poverty in the midst o development management will be studied in this chapter by using the TSR methodology and*formal quantitative method. The ^distributive function of wealth to attain wellbeing has been brought out emphatically in the eradicated, leaving

> What is the measurement ot poverty must the relative poverty to market resolution? This question mduces the understanding of elements of poverty that affect the poverty line. The usual kinds of elements that underlie abject poverty are sharp deprivation in terms of earnings and income in order to meet basic needs; a failure to gain social participation to enjoy empowerment; the loss of human resources development; the loss of access to market exchange; and the lack of appropriate distributive policies to enable entitlement, empowerment and access to productive resources.

Consequently, two kinds of economic and philosophical approaches are known to have been advocated in the literature. First is the approach of the non-interventionist school that decries the redistribution of income and wealth. It also upholds the idea of ownership by entitlement of the original owner. An example in this case is land that is captured and claimed from nature, as by the settlers of the land originally inhabited by Aboriginals. Subsequently, private lobby groups and governments have ruled by self-reinforcing interests on property rights over land and resources. Moral, ethical, and social values are thereby dispensed with to claim ownership of land and resources to the original owners. Advocates of this school include Nozick (1974) and members of the neoclassical economic school (Lawson, 2013), which believes in the supremacy of the market-efficient process to resolve social issues. Hence, there comes into this kind of economic thought the great trade-off between economic interests and social justice. The tussle in this trade-off is found in its ways of non-acceptance of cooperative embedding. The goal of attaining complementarities between social wellbeing and economic efficiency remains absent in

the substitution nature of these opposing elements in the neoclassical economic methodology. The example given by Schiller (2003) on this issue is interesting.[2]

The above kind of trade-off that disempowers the poor in favour of the wealthy and powerful pervades into the same kind of substituting relationship in technology, resource allocation, capital investment, government expenditure, production menus and economic growth. For instance, in the case of a reproduction of technology as an exogenous force, and payments to workers and capital as inputs of production, the underlying marginal productivity theory of allocation of resources suggests that the exogenous factors cause effects from outside the payments system, as the choice of technology gets determined by the owners of production. The side of capital opposes the participation of labour in the choice of technology. Consequently, the growth path determined by technological and resource augmentation moves perpetually along the backward-bending allocation of resources towards capital.

The second group of social philosophers on the matter of resource allocation to attain social wellbeing argues that social inequality needs to be reformed by policy intervention (Rawls, 1971). In such a case, the continued interaction between the endogenous action of market and productive change and the exogenous policy impact of government is broken up. Consequently, a costly agenda of social reform with high transaction costs is introduced. This too is without sustainable effect as transaction costs increase. Thereby, the very goal of poverty alleviation is defeated. Choudhury (1993) has argued against Rawls' Original Position by using the Difference Principle.

Upon paying close attention to Rawlsian social contract, we note the following flaw in Rawls' way of reasoning: if the Difference Principle is levied to reconstruct a new Original Position each time there is social inequity, then governments become increasingly dominant in such resource allocation. Resources turn in favour of the social alternative. Ultimately, the same neoclassical trade-off of substitution between economic efficiency and social equity takes place in favour of the critically deprived, as in the case of

poverty. Indeed, Rawls' diagrams that he uses to explain the emergence of the Original Positions via the

Difference Principle along the trajectory of social contract happen to be the neoclassical economic kind of convex to the origin surfaces.

Resource allocation inTSR

The continuous resource reproduction function can be succinctly explained. Let R(6) denote knowledge-induced resources, meaning that resources are continuously replenished as the principle of unity (9) between possibilities (X(0)) brings out diversification of the output (Y(0)), employment (L(9)) and the emergence of new technologies, policies and innovations (T(6)). All these interactively integrated and evolutionary (HE) variables and entities remain dynamic in terms of emergences into diversities. This kind of continuity of organic relations in unity of knowledge across continuums of knowledge, space and time dimensions conveys the meaning of sustainability along the HE trajectories. In the context of poverty alleviation (P) out of growth (G), technology (T), *zakat* spending (Z),and the grassroots structure of a productive organization (Y) across the continuums of knowledge (0), space and time dimensions is interpreted as the complex embedding of the multidimensional processes. Such processes describe the endogenous interrelations between the socio-economic variables and their economic, social, moral and institutional embedding.[3]

Two critical matters stand in the way of integrating the neoclassical substitutes into complementary possibilities. This is caused by the exogenous instead of the required endogenous inter-causal evolutionary learning nature of interaction and integration between the complementing possibilities. As long as technology, policies and knowledge stand out as exogenous impacts on creating temporary impetus, production factors increase transaction costs. Such increasing costs hamper the progress of the co-determined path-dependency trajectory of sustainability. It is well-known from economic theory that along

every production possibility curve, the opportunity cost increases along the convex to the origin production possibility surface.

Consequently, the essential factor of a complementary change existing pervasively between the possibilities to overcome the expansion economic path is the endogenous effect of consciousness with a broad meaning. Along the expansion path, participatory complementarities invoking organic unity and ethical choices between the possibilities characterize all induced artifacts that drive the evolutionary learning along the expansion path. Examples of such endogenously induced artifacts by the epistemic unity of knowledge as consciousness in complementarities are technology, growth, distribution and productive transformation. It is also such impacts that cause markets and government to interrelate by inter-causality. Sen (1988) refers to such moral, social and ethical transformation as deontological causation.

Review of the literature

(Mariyanti, 2000) found in her doctoral research using the simultaneous equation model with secondary data the impact of Islamic spending, namely, *Zakat Infaq hdaqah* (ZIS), is significant in poverty reduction in Indonesia. Yet much of the ZIS payment to the poor is found to receive only charitable poor-due. Such a result, although being an instrument of poverty reduction, the influence of ZIS in Indonesian poverty alleviation programmes is found to be statistically insignificant. This kind of statistical result contradicts the expected mission of *zakat* of realizing and sustaining equitable social and economic order in a sustainable society.

The influence of financing BMT *(Baitul Mai Wat Tamwil/Cooperative Islamic Finance)* on poverty alleviation in Indonesia showed that such financing has the potential to reduce poverty levels in Indonesia because micro-finance institutions form a component of the role of *shari'ah* in socio-economic

development. Now in *light of* the interdependency between the circular causation variables, the weak rela-

tionship between *zakat* and poverty alleviation sets off a chain reaction on its weak and non-complementary relations with all the variables.

In reference to the above-mentioned inter-causal circular causation relations, Tatik's research relating to poverty levels in response to the financing of BMT also found *that* poverty is increased in a situation where BMT expenditure is reduced. Such a result is due to BMT being a source of both funding the *zakat* fund in BMT and a saving of financial resources. Thereby, unless such resource mobilization is used for productive transformation, no firm conclusion can be drawn on the circular relations between poverty reduction, BMT spending and productive transformation at the grassroots level. The inter-causal relations between poverty reduction and level of use of BMT funds are not conclusive on a further cycle of usage of the *zakat fund in* productive *activity. Zakat* funds so spent in BMT resources can just *be* hand-outs.

Based on the result of the relations between BMT expenditure and poverty alleviation, and the *critical* importance of these in generating productive transformation, Tatik arrives at the following recommendations: it being noted that the effect of BMT on poverty reduction is marginal (that is, statistically insignificant), the BMT *fund in* grassroots development ought to be enhanced by all forms of charitable funds, *especially by those* from *sharpah*-compliant sources. The fathers of Indonesian independence were pioneers of the grassroots cooperative movement. Yet this was a broad-based approach, focusing not only on microenterprise or the SMEs. Through such complementary cooperative relations at the microenterprise and SME levels, the *goal of* complementary relations between economic productivity and social justice can be achieved.

Thereby, the phenomenon of extensive complementarities, namely between moral, *social* and economic objectives, can *he* achieved by unifying the market forces with institutional forces with the

aim of establishing a sustainable direction of development. It is *explained by* the continuity of complementary and participatory inter-causal relations between development possibilities in the continuums of knowledge, space and time. Indeed, the ends and means of the *maqasid as-shari'ah* is essentially this kind of a participatory development goal by cause and effect in the circularity of change.

Tatik extends the study of *zakat* and poverty alleviation to the compound case of ZIS *(zakah, infaq* and *sadaqah* as charitable spending). Nonetheless, Tatik finds weak statistical relations in such a case. This is thought to be due to the subdued role of charitable institutions and ZIS expenditure in the productive transformation of Indonesia. There is also a cultural factor in this type of inappropriate relationship. The concept *of* charitable receiving has been thought of as a poor-due, not as an entrepreneurial *capital in the self-sustained* growth of resources interrelating with charitable resources. On the other hand, the poor recipients look at ZIS as a hand-out; it does not play a productive role in reducing poverty.

The failure to interrelate ZIS and productive transformation extends to a wider range of development problems. For instance, a weak and often negative relationship between ZIS and productive transformation[4] causes weak employment effect, weak investments and a weak relationship between money, finance and the real economy (MFRE). In this way, an extension of the collapse of complementarities weakens the entire gamut of Islamic relevance to embedded social, moral and productive transformation. Markets and institutions are ruptured. Governments unnecessarily bear a heavier cost of development financing. In the end, a national welfare trap and lethargy in relation to Islamic activities destroy the sustainability of an embedded social economy for the common wellbeing via simulated synergistic circular causation relations between the good things in life.

Yet this was not the goal of the father of Indonesian nation, Soekarno and Hutta. They dwelled on their

Panchasillah (constitutional goal) to bring about egalitarian and practising Islamic social change of justice, equality, and self-reliant development.

Muslims in Indonesia were expected to revive the teaching of the Prophet Muhammad that would establish a self-reliant, caring and entrepreneurial society for the wellbeing of the Islamic world, the *ummah*. The leaders of Indonesia were to lead simple lives according to high values. Poverty alleviation would occupy the central focus in such a moral, social and progressive nation.

Yet the reality is contrary to the ideals. Figure 11.1 shows that although *zakat* expenditure increased over the years in Indonesia, the inter-causal relationship between ZIS, BMT, growth and poverty alleviation remained weak. The Islamic future of an embedded and prospering social political economy is subdued.

The increasing volume of *zakat* payment does not create a national well-being by the complementary Islamic impact on critical variables that can establish and sustain social transformation. Today, Indonesia with its vast natural resources faces a high level of poverty, abhorrent corruption, high unemployment and low overall human resources development, despite high levels of economic growth.

246 Choudhury and Mariyanti The empirical evidence

The empirical objective of this chapter is to study the inter-causal relationships between the following variables: levels of poverty as head counts; economic growth; *zakat* expenditure; BMT resources; and social wellbeing. Social wellbeing is studied *here* as the criterion of measurement and inference on the levels of inter-causal complementarities that are found in the actual case for Indonesia. The undesired results in the light *of* the inter-causal complementarities between the selected variables are then

simulated for a better normative outlook in the critical variables and the consequential wellbeing thus found. Policy and institutional perspectives are thereby analytically developed.

The concepts of "incidence of poverty" and "poverty alleviation"

Such a generalized-system approach as the one we have chosen serves the purpose of studying the inter-causal nature of incidence and alleviation of poverty, the meaning of which is taken in its wider sense of circular causation with the other critical variables.

On a limited examination, we note by tallying Figure 11.1 with Tables 11.1 and 11.2 that although *zakat* and BMT spending increased over a long time period, the incidence of poverty continued to fluctuate around a double-digit percentage point over this time period. Likewise, the observations on increasing economic growth also prove this fact as well.

The incidence of poverty is explained by the compound incidence of the adverse inter-causal effects on indicators like income, employment, human resources development, *zakat* and BMT expenditure, and economic growth. A loss in complementarities between any of these variables will trigger off a generalized weakness in all the inter-causal relations. This will lead to a compounding of the adverse cause-effect circular relations.

When such a failure in inter-causal relations occurs, a sustainable path of dynamic basic needs regime of development is lost. The emergent regime of the wants economy impedes the flow and interconnection of resources into social and ethical alleviation programme is adversely affected due to the blockage ot the free flow of all forms of resources and the realization of outcomes at all levels, including growth and yield on investment, and in social expenditures with *zakat* and BMT.

Indeed, it can be seen that through the years of weathering the financial crisis of the late 1990s, Indonesia

recorded an abominable poverty incidence rate of 24.23 per cent. In this category, the World Bank estimates the percentage of the poor with income under $1.00 a day to be 12 per cent. Those earning under $2.00 a day amounted to 70.30 per cent. The late 1990s was also the era when Indonesia experienced a -13.2 per cent annual rate of economic growth. During the same time period, investment dropped by 50 per cent. This dropped by a further 20 per cent between 1990 and 2000. During these years, the incidence of poverty remained unchanged on a per capita measure of investment in poverty alleviation. These figures amount to weak effects of merely eight per cent for 2010 and seven per cent for 2011.

The markedly low effect of BMT plus *zakat* expenditure on the incidence of poverty can be seen to prevail for 1998 and more recently for 2010 and 2011. The figures here are an increase of 65.17 per cent on the 24.23 per cent rate in 1998. The poverty incidence rate between 2010 and 2011 was 55.44 per cent. The effect of *zakat* on the incidence of poverty recorded similar per unit rates. The incidence of poverty was 32.43 per cent between 1998-99, but had dropped by 7.48 per cent between 2010 and 2011.

The effort towards developing an Islamic approach to poverty alleviation is being pursued by Islamic organizations in Indonesia. A prominent example of such a philanthropic organization is BMT.

BMT comprises a group of non-governmental organizations. Its wellbeing goal (the criterion function) seeks to develop productive efforts and investments along with the improvement of the quality of small entrepreneurs, leading to poverty alleviation. It aims at achieving its goals of wellbeing by encouraging saving activities and supporting economic activities with *sharVab*-oriented instruments.

Summary

In the end, if we were to accept the rate of growth of output as a plausible indicator of development contrary to the social wellbeing index, then the rate of incidence of poverty per unit of economic growth

rate stood at the following values: 183 per cent for 1998 and 195 per cent for 2011. All these estimates

point to the conclusion that in every case, the incidence of poverty remained high in spite of the increases in charitable expenditure, investment expenditure and economic growth. Further socio-economic implications can be extended. The example is of the incidence of poverty in respect of unemployment in Indonesia.

The following general formulae apply for assessing the effect of the critical variables on the incidence of poverty and poverty alleviation in the light of the social well- being index, contrary to the other development indexes that were mentioned above.

Incidence of poverty

$$p(0)/W(z)(G), \text{ such that } (d/d0)[\ln(p(0)) - \ln(W(0))] = [g_1(p(6)) - g_2(W(9))] < 0, \quad (11.1)$$

as the growth rates gdpfO)) declines and $g_2(W(9))$ increases with the growth of "9", the knowledge flow and representation of measured wellbeing. "9-values" are then premised both on the prevailing state of the problem under investigation and in terms of its simulated values in accordance with the transformative outlook of *maqasid as-shari'ah*. That is, the conceptual version of the wellbeing function has its approximation in the evaluated (estimated and simulated) form $0 = F(z(0))$. z(9) symbolizes the vector of selected critical variables.

Poverty alleviation

Expression (11.1) can interpreted to explain complementary inter-causal relations between the components of the z(0) vector. Therefore, the expression now changes to the following one:

$Zj(0)/W(z(6))$, subject to circular causation relations,

$$Z_j(9) = f_j(z_j(e), e),\ i,j = 1,2,\ldots,n;\ i^*j \qquad (11.2)$$

In the case of expression (11.1) or (11.2), the z(0) vector becomes the predictor in the light of their "estimated" coefficients (as they are) and "simulated" coefficients (as they ought to be). In either case, a good deal of analytical policy study and embedded moral, social, economic and institutional structures is invoked. In our crude form of calculations, in order to point out the relevance of selected critical indicators on the incidence of poverty and its implications on the relational meaning of poverty alleviation, we have used expression (11.1) with crude single variables to interrelate the social and economic indicators. Yet a more elaborate empirical exercise will be carried out later on in this chapter.

The end result of a complementary combination of circular causation between the i critical variables interrelating with poverty alleviation feeds into the measurement i of social wellbeing. This acts as a conceptual and empirical measure of the degree i of unity of knowledge and inter-causal HE process relations in the systemic sense.

Thereby, if the incidence of poverty and poverty alleviation were to be understood in ! the systemic inter-causal complementary sense of relationships between the critical i variables, then the proper index of such an evaluative indicator is social wellbeing rather than any of the development indicators examined so far. Among such indicators that are different from and cannot compete with the social wellbeing index are the real rate of growth of output, the human development index, the poverty index, the gender empowerment index, the millennium development index, the corruption i index, the happiness index and the like. This is because of the absence of circular causality as a structural characteristic of these indexes, which thus have no explanatory • power, simply index measurement.

i Summarizing the HE methodology of unity of knowledge in poverty alleviation

i Inter-system treatment

; We prove here that if any one of the critical variables, such as poverty alleviation, does ; not relate to

the other variables, then ultimately all the other variables can become dissociated with poverty alleviation. The generalization of this result is that any par- ! ticular inter-variable dissociation will lead to overall independence between all the ! variables.

Consider three sets of indicators, namely, poverty (S_1),, growth (S_2) and Islamic) expenditure (S_3), denoted by S_i? i=1,2,3. According to our results on the weak effect of I economic growth and charitable spending to alleviate poverty by productive means, (Figure 11.2 shows almost no intersection of S_n with S_2 and S_3.

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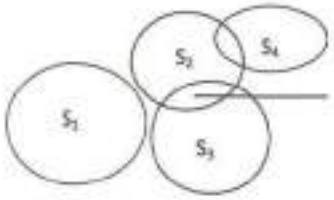


(11.6

* S_2nS_3 * 4>; but Sin(S

=(SinS_2)u(SinS_3) = <|

(11.

This result can be extended to any number of sets of critical indicawith similar properties.

Figure 11.2 A theorem of weak, strong and nullif inter–systemic effects

Next consider that any of the sets of critical indicators (say S_4) is independent of any of the other ones besides Sj. In this case:

(S_4nS_2)n(S_4nS_3) = cp; but also S_1n(S_2nS_4) = cp; and $S_1nS_3nS_4$ = cp.

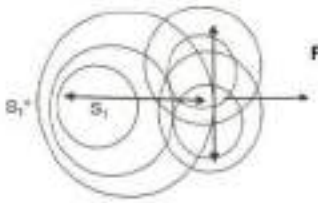
Therefore, $S_1n(S_2r\backslash S_4)r\backslash(S_3r\backslash S_4)$ = $n_{i=1}^{4}$Sj = cp.

This result is generalizable to all sets of indicators having the properties of partial independence between all the sets. The case of complete independence between the sets is a trivial result.

Thus, in order to realize the inter-variable and inter-causal circular causation relations in unity of knowledge:

(11.

k:



I

$(d/de)[(u_k n_,)(n_i S_i^{kl})] > 0$ denotes evolution by processes of learning, {8}.

Figure 11.3 Evolutionary forms in the limiting case of circular causation by systemic complementarities

Figure 11.3 shows the evolutionary movement (double arrows) by unity of knowledge of the three systems into increasing complementarities by way of circular causation.

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(^{lim}\{Q\}IIEprocess[(U,n)(n,S,^{lim})-9]

with the property of evolutionary learning:

1=1,2,...,n_2(integrations) across learning processes denoted by the differential operator (d/d©) in reference to knowledge flows, {0}, premised in unity of knowledge.

Note that tangential points between expanding Si and S_2 (point "a") and between expanding Sj and S_3 (point "b") are intermediate equilibrium points of the learning systems advancing further into evolutionary equilibriums by Si", i=l,2,3. Such temporary equilibrium points emerging into evolutionary points (Burstein, 1991) can be studied as evolutionary Walrasian equilibrium points

in learning systems.

Extension over knowledge-induced variables representing IIE **systems** over learning processes

If now we consider the S; systems to be characterized by their respective variables, then by the general theory of circular causation, either of the complementary or differentiated type, we can evaluate ("estimation" followed by "simulation") the social wellbeing function. This criterion function is now denoted by W(P,E,G). Here P denotes the incidence of poverty (rate of poverty in the population), E denotes charitable and microfinance expenditure (or rate), and G denotes the economic growth rate.

We can then evaluate the wellbeing index, given the HE properties and dynamics in determining the circular causation relations in the estimated and the simulated cases of the coefficients of this system of inter-variable relations:

$$(d/d9)[W(x(e)) + X_1(x_1-f_1(6,x_1'(0)) + Mx_2-f_2(0,x_2'(9)) + Mx3-f3(e,x_3'(9))] \quad (11.11)$$

Here x(0) denotes the knowledge-induced vector irrespective of whether there is null, weak or strong induction by (0) at any level between the variables of the vector. Xj'(0) denotes the vector excluding $x_i$variable i=l,2,3, but can be any number of variables.

Let the Lagrangian function be:

$L = W(x(0)) + X_1(x_3\text{-}f_1(0,x_1'(0)) + A_2(x_2\text{-}f_2(0,x_2'(0)) + Mx_3\text{-}f_3(9,x_3'(0))$ (11.12) Thereby, we evaluate:

(d/d0)L(0,x(0))

= 2..(3W/3x.)*(dx/d9) + Z_1A_4*{(dx/de) - [(dffix1WdxJdd)}

+ sdxrfjHdyde] = {> 0; < 0; = o, (11.13)

according to the nature of the theory underlying the episteme used. In the case of evolutionary learning in unity of knowledge, the value is > 0. In the case of "de-learning", the sign can be either > 0 or < 0. In the case of neutrality to all forms of evolutionary dynamics, the sign value can be 0.

In the case of Indonesia and expressions (11.4)—(11.7) and Figure 11.2, the sign of (dxj/dO) « 0. Since this result also implies that there does not exist any significant of technology-like change as of learning, therefore, dV^0 = 0. These are true identically with each variables according to expression (11.7).

Hence, the neoclassical case of Lagrangian classical optimization applies strongly due to the identical vanishing terms.

The case implied by expressions (11.8)-(11.10) and Figure 11.3 is that of the dynamic effects of evolutionary learning moving towards simulated complementarities by limiting values of knowledge flows. In such a case, the sign of each of the terms would be positive. Thereby, dL./d0 > 0.

The implications of determining the signs of expression (11.13) are several. On analytical grounds, the result draws on the substantive difference between the mainstream economic theory of optimization, the steady-state equilibrium and the methodological independence of competing alternatives, and the axioms

and methodology of evolutionary learning ("de-learning") between systems and their representative vari-

ables. The applied simulation implication is the policy, institutional and behavioural structural change that can be launched in order to arrive at an evolutionary learning possibility of participatory (complementary) change. This latter case is explained by desired changes in the signs of the "estimated" coefficients by the "simulated" coefficients. Empirical results of circular causation and wellbeing by i complementarities

i Estimation results

; The estimated equations involving circular causation between the variables of the natural logarithmic version of the vector x(9) = {P,ZIS,BMT,G,0} as defined earlier are:

lnP = 4.638 + 0.050 ln ZIS +0.010 ln BMT + 0.190 Ln G - 0.829 lnO (11.14) R-square 0.706 = 70.6%

[The empirical implication of estimated equation (11.14) is that the incidence of pov- I erty is positively related to ZIS, BMT and G in the natural logarithmic form, but is negatively related with the learning variable {0}. This result agrees with the data] analysis that we undertook earlier. It is a perverse result in respect of the episteme of unity of knowledge that feeds into the wellbeing function with the appropriate complementary signs. The statistical reliability of this result is sufficiently high, as i evidenced by the R-square values. In the end, the negative sign of InP to lnO is cor- i rect. That is, a unit increase in complementarities between all the variables (measured I wellbeing) will reflect in a decrease of 0.829 (82.9 per cent) in the rate of incidence of i poverty. This is a significant result, which shows how important it is to have systemic complementarities between inter-causal variables in targeting poverty alleviation. The concomitant points were discussed in the previous section:

ln ZIS = - 14.732 + 2.498 InP - 0.024 ln BMT - 0.572 InG +4.735 lnO (11.15)

R-square 0.632 = 63.2%

i The empirical results here are also perverse in respect of the wellbeing function accord- ; ing to the

episteme of unity of knowledge. ZIS and BMT are not complementary. An increase in BMT lowers ZIS and vice versa. Yet BMT is supposed to be an Islamic i charitable spending body. This does not show the effectiveness of either BMT or ZIS I in the system of inter-variable causality required in poverty alleviation and other systemic inter-causal reinforcements. It is also questionable to note that an increase in : the growth rate lowers dependence on ZIS. This is an obvious interrelationship, for an increase in G can increase the volume of ZIS via employment, the wealth effect ; and an increase in BMT. Because of the substitution between ZIS and BMT, it appears i that more is being drawn from G into BMT, thus causing a marginal rate of substitu- i tion of G and BMT for ZIS. The negative relationship between ZIS and G can also be : explained by the fact that the increased size of GDP is being directed into investment. 'The positive sign with a coefficient of 4.735 for ln9 is acceptable, but is very large. This once again points out the distinct importance and effectiveness of inter-variable i circular causality in generating ZIS and, thereby, in poverty alleviation with a coefficient of 4.735. The lower R-square value may mean that there are other variables i that ought to be included to specify the structural equation more completely - for ; example, including the investment variable in the estimated equation:

$$\ln BMT = -4.692 + 2.808 \ln P - 0.126 \ln ZIS - 0.523 \ln G + 0.785 \ln 9 \quad (11.16)$$

R-square 0.754 = 75.4%

The perverse results of inter-variable causality and poverty alleviation continue, but more strongly so. An increase (reduction) in the incidence of poverty, P, heightens (lowers) the use of BMT. The relationship is explicable only through the circular causation chain of interrelationships. The sensitivity between the percentage change in P on the percentage change in BMT is strong (2.808). Therefore, the volume of BMT remains sensitive even to a one per cent level of increase (decrease) in P.

The negative coefficients of ZIS and G to BMT once again highlight the rates of substitution between these variables. This result further reinforces our earlier conclusion that the Indonesian economy fails to model its social sector while considering its economic sector. These two sectors are thus found to be immersed in the neoclassical economic perspectives of competition and substitution. As a result of such a socio-economic pursuit, the Indonesian economy remains ineffective in bringing about poverty alleviation and a participatory modality of socio-economic transformation.

The relationship between the partial rate of change in the 6-value and BMT is acceptable. Yet this trend is not revealed by the effects of the other variables in bringing about socio-economic change through the use of Islamic instruments, ZIS and BMT:

InG = -12.166 +2.446 InP - 0.146 In ZIS - 0.25 In BMT + 3.007 lnG (11.17)

R-square 0.754 = 75.4%

[1] Consistently so, the circular causation relations pointed out above remain true in this ; structural equation of the relationship between G with (P,ZIS,BMT,0}. No circular I productivity effect is found to exist between all these variables. Also, the moral, eth- i ical and social effects of poverty alleviation attainable by means of the generation of I Islamic charitable funds, ZIS and BMT remain weak.

The relationship of the rate of change of G to the a similar rate for "0" is accept- ; able. The result shows significant sensitivity, meaning that a significant increase (decrease) in wellbeing by the measured 0-value will affect G and all the other vari- i ables (P,ZIS,BMT). The pointer is thereby towards a reformation of the Indonesian ; social economy in the direction of developing proper complementary links between i all the mentioned socio-economic variables towards attaining the wellbeing index, i ln0, and thereby "0":

InG = 4.045 - 0.768 InP +0.087 InZIS + 0.003 InBMT +0.217 InG (11.18) R-square 0.951 =95.1%

$$6 = (\log 4.045)^{(s)} P^{\{*a768)(t)} ZIS^{(0\_087)sir} BMT^{(0\_003)*} G^{(0.217)} \qquad (11.19)$$

The sum of the coefficients equals -0.340 due to the significant effect in poverty alle- i viation using the spending variables. It can be seen that of the variables showing the i percentage rate of change in expenditures shown to alleviate poverty, the growth rate I plays the most significant role. The effects of ZIS and BMT are weak. This is contrary i to expectations on ZIS and BMT in poverty alleviation. In relation to the necessary moral and ethical transformation of the Indonesian) social economy towards Islamic change, policy-theoretic simulation is required. ! Expression (11.18) highlights this fact. The measured index of social wellbeing gives the correct signs, but not the coefficient values. The coefficient signs point out that a decrease in the rate of incidence of poverty and increases in the rates of ZIS, BMT and G all feed into their complementary effects on the wellbeing index. However, the coefficient values will change in accordance with the simulated predictor values of the socio-economic variables in the structural equations. As the estimated results stand, the correct signs of the inter-variable coefficients indicate the possibility of Islamic social transformation by the episteme and organization of unity of knowledge by complementarities. Yet this is to be attained by means of simulation of the equations to attain the correct coefficient signs of the interrelations between the variables.

Conclusion

The statistical observation of data and the estimation of the circular causation relations between the same critical variables have shown that the Islamic principles of *maqasid as-shari'ah* in poverty alleviation remain as ideals for all communities to adopt. Yet the expected results are far from being achieved in Islamic communities. An example of this is the incidence of poverty and the realization of poverty alleviation in Indonesia. As yet, there are no integrated institutional arrangements, cooperative mechanisms, networking, plans and programmes to address the hideous problem of poverty and low human resources development in the Muslim world.

This chapter has examined the estimated results that comprise the present state of failed development in relation to *maqasid as-shari'ah*. This is found to be true not simply in terms of observed socio-economic results, but also in terms of an absence of intellection along the lines of the foundational theory and the reconstruction of the *Tawhidi* methodological worldview. In this respect, a significant gap remains in

Investment per capita of growth (Rp)

terms of understanding, education and reconstruction according to the theory and practice of the episteme of unity of knowledge. This is explained in a methodical way by evaluating the social wellbeing function subject to the circular causation relations.

This chapter has shown that this potential for attaining the Islamic social economy in theory and practice remains alive. Its realization will require the will with Islamic icommitment, and policy and programme formulation of the co-determining comity of Islamic nations as a whole *(ummah)*.

The function of BMT is providing capital with payment as the amount of fund that has been borrowed. The funds are *zakat, infaq* and *sadakah* (ZIS = Charity) managed by BMT. The growth of BMT in cities can provide the solution to funding (capital distribution) that can easily and quickly spread to the villages, especially farmers i and SMEs.

Notes

1 *Qur'an* (104:2-4): "Who piles up wealth and lays it by, thinking that his wealth would make him last for ever! By no means! He will be sure be thrown into that which Breaks to Pieces."

Qur'an (2:177) on *zakat*: "To spend of your substance, out of love for Him, for your kin, for orphans, for the needy, for the wayfarer, and for those who ask, and for the ransom of slaves; to be steadfast in prayer, and practice regular charity, to fulfill the contracts which you have made."

2 Schiller, B.R. (2010) slightly edited: "Markets reward individual according to their output, governments rewards people according to their needs. How might these different systems affect work effort?"

3 $(d/d0)[X(0) = R(Y,G,E,P,T,Z)(0)] = (dRk)Y)*(dY/d0) + (3R/3G)»(dG/d0) + 0R/3E)*(dE/d0) +$

$>0 \quad >0 \quad 0R/3P)*(dP/d0) + (3R/aT)*(dT/de) + (3R/3Z)*(dZ/d0) > 0,$

identically by individual terms. Because of the common relationship between all the variables to 9, interrelations must exist between the variables.

Thus, as an example, $[0R/aY)TdY/d0)]/[(3R/3G)»(dG/d0)] = (3G/3Y)*(dY/dG) = a.p > 0$, where a = (3G/3Y); p = (dG/dY).This expression establishes the fact that the total change is proportionately contributed by the contribution of Y to G in the functional relationship of total resource function R(Y,G,E,P,T,Z)(9). The same result can be repeated with other relations as well. Yet again, consider $[(3R/3Y)*(dY/d0)]/[(3R/3P)*(dP/\mathbf{d0})] + 0P/3Y)*(dY/dP) = a'.p' > 0$. This is explained in the same way. In all cases, we explain such interrelations by the circular causation model between the variables. In terms of the pervasive effect of 0-values, the circular causation relations explain continuous transformation across continuums of knowledge, space and time dimensions. 4 Choudhury and Malik (1992) found negative relations between economic growth and employment in respect of *zakat* expenditure in Malaysia. Even today, a clear assessment of the circular impact between *zakat*, employment, growth and development by entrepreneurship at the grassroots level cannot be ascertained. This is due to the absence of micro-disaggregation of data in Islamic banks and other outlets.

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