

# Pure Economics and The Socioeconomic Policy –Making Process

*(Pure economists emphasize a theoretical and objective approach to the existing conditions of an economy. In Islamic socioeconomic practice, the existing conditions are not taken for granted and radical measures, consistent with Islamic ideology, can be expected–Ed.)*

Both Islamic formulators of socioeconomic policy and non-Islamic economists may be interested in a supply–demand –price situation. For instance, a book on Arithmetic is priced at five Tomans in a market governed by free competition. Subsequently, it is selected and prescribed as, a text–book by the competent authorities. Then, its price goes up simultaneously with an increase in the demand. This may be viewed differently by the pure economists and Islamic policy–makers.

In the above case, pure economists tend to take it for granted that prices under free competition are not susceptible to any control or official measures for their stabilization. On this assumption, they would proceed to investigate the relationship between the price and demand increases and fluctuations in supply and demand. Yet, in all probability, their scientific and objective assessments will not basically alter the economic situation indicated in the above example.

On the other hand, formulators of an Islamic socioeconomic policy are likely to evaluate any free market pricing, in terms of its social 'costs' or impact and social benefits. They may seek a just and equitable solution to any problem created by any undue price increases. They may take into consideration the relevant factors, such as supply and demand, without necessarily determining their inter–relationship, with their terms of reference often broader in scope than those of the theoretical economists.

The question as to whether or not any concepts of justice and equity can be reflected in a freely competitive market may be extraneous to the realism of the knowledgeable economists. However, it is crucial to formulators of Islamic economic policy. For they are bound by Islamic principles to so regulate economic activities as to identify and uphold all that is just and equitable for the transacting parties without accepting any status quo in this regard.

On the other hand, economic theorists cannot determine as to whether or not any transactions under free competition have been carried out on a just and equitable basis of meeting the people's socioeconomic needs. They can measure and quantify supply, demand and price trends, as a part of an assessment of the existing free market conditions only. The protagonists of Islamic school of economic thought may not be able to assess the same in the manner of pure economists.

A classical economist, David Ricardo (1772– 1823), for instance, theorised that a worker's wages, offered independently and not under any government prescription, would not generally attain a level of sufficiency (that leaves a surplus above his living wages – Ed.). Any exception in this regard are said to be of a temporary nature, so that these revert to their earlier state of equilibrium at a below sufficiency level. If and when the normal wage level goes up, one eventual consequence will be excessive supply of labour resulting from earlier marriages of workers in favourable conditions of earning.

This, in turn, causes an inadequacy of the positions and wages offered. Thus, according to Ricardo, the tendency of wages is to return always to a lowest possible level. He implies that low wages increases the mortality rate and eventually reduces the number of workers; so as to raise the wage level before it comes down once again. He calls it the "iron law" of wages.

Ricardo's theory of wages is based on the natural and social realities that tend to stabilize wages at a low and insufficient level. He theorized on the basis of what was happening in reality. He did not propose any method to basically improve the situation. His investigation was confined to the limited scope of classical economics. In contrast, any socioeconomic policy-maker can be expected to conceptualize the phenomenon in the overall regulatory context of meting out socioeconomic justice.

Yet another case in point is that of production.

Economic theorists examine the factors of production, including the relevant specialization and techniques. They try to identify the positive and negative influences affecting production, in theoretical terms such as of diminishing returns.

The socio-economic policy-makers, on the other hand, investigate the very rationale of any free or unplanned production, specially the question as to whether or not any production should be undertaken as an aim in itself, or as a part of a socioeconomic plan seeking higher, including moral, aims.

Furthermore, the policy-makers may, before setting any production targets, resolve issues, such as whether or not any distribution needs should be determined on the basis of actual production, or production should be so planned as to serve the distribution requirements, all in the context of bringing about mutually harmonious socioeconomic effects.

Then, it may involve the question as to how can an appropriate distribution of wealth be achieved, so as to have a positive effect on the productivity of the economy, also, if production is assigned primary importance, it will be necessary to provide incentives for capital investment in that sector, as well as for

commercial loans, in any plan that aims at regulating distribution of wealth and which considers the interests pertaining to capital.

If not, they may formulate a distribution programme in keeping with the needs of socioeconomic justice and determine the nature and extent of production accordingly. All these considerations and qualitative or other evaluations are possible within the framework of an appropriate socioeconomic policy-making, and lie beyond the theoretical scope of pure economists.

From the foregoing, we may draw two conclusions involving different guidelines. Firstly, the pure economists' identification of the actual economic realities, and recognition of the underlying laws and phenomena present in economic life. Secondly, the socioeconomic policy-makers' system of evaluating and regulating socio-economic life based on the concept of justice. Thus, distinguishing between "knowledge of economy" and "method of economy" is made easy for us.

The scientific method recognises the motives and achievements and relationship between them, through the investigation of the realities presented. Therefore, 'knowledge' is analogous to a Pair of glasses to look at the actual economic life of a society. Just as a person puts on glasses to look at the existing facts not desiring to add something to it or alter in it any way, likewise, the scientific method plays the role of the glasses in economic life, to reflect economic laws and their dependency. Thus, the general foundation of scientific thought is for discovery recognition.

But a school of thought cannot be compared to a pair of glasses for looking at any existing facts. It represents an abstract concept governing life under a just and equitable socio-economic system.

Therefore, "knowledge of economy" states "what is taking place in reality", and 'method' states "what kind of system is the best to be pursued".

We find similar differences between knowledge of history and moral investigation, because knowledge scientifically viable facts of historic or actual significance, as in the case of pure economics, and moral investigation is similar to socio-economic policy-making and its inductive and deductive, evaluations.

People, without doubt, realise that .knowledge of history is a separate subject from moral investigation. They also know that historians will inform them of historical events, and their causes.

Any branch of knowledge like history investigates the past events and discovers their causes, and explains their relationship to other historical events and the impact on human lives. History confines itself to the discovery of causes and effects of historical events, and under no circumstances does it evaluate these events from the moral point of view.

History is not concerned with the morality of the crusades, or the attack of barbaric Germans on the Roman Empire, and, as such, it does not determine as to whether or not these actions were just or unjust. It is only a moral investigation which can make this kind of judgement.

Moral investigation is able to evaluate these events and decide whether they were just or unjust, correct or deviate, on the basis of a philosophy of justice.

Just as knowledge of history introduces events as they happened, and moral investigation evaluates these events, likewise knowledge of economy introduces the phenomena of economic life, and the socio-economic policy-making process evaluates the phenomena, and produces a system worthy enough to constitute the basis of an economy, which is just.

All branches of scientific knowledge have a duty to discover facts. Thus, there is no difference between an economics professor and other professors, except that the economist deals with the facts of an economy, and other professors deal with their own subjects involving facts.

For example, physicists investigate the different frequencies of light, sound, etc, and discover the precise equations and relationships concerning the natural phenomena. An atomic Physicist may discuss an atom bomb from the purely scientific and technical point of view, without showing any concern for the immorality of its use for genocide.

Clearly, the role of knowledge of economy is to discover the phenomena of economic life, and the circumstances they depend upon, and the aim of a socio-economic policy-making process is to arrive at a system that can regulate economic life in order to make it just and equitable for society.

Many groups make a mistake when they attribute a subjective difference between pure economics and the socio-economic policy-making process. These groups believe that economics, as a branch of knowledge, may discuss topics, such as production and the factors involved in its growth, and the socio-economic policy-making process involves primarily the question of distribution in an equitable manner, and the relationship which exists between the individual and society on one hand and distribution system on the other.

The examples have shown that a purely economic investigation depends upon the phenomena and facts of an economic situation. If the investigation concerns itself with the concept of justice, and the manner of regulating the economic situation, then it is an ideological or moral investigation.

This can be further explained by referring again to the contexts of the law of diminishing returns and that of wages, which concern 'production' and 'distribution' situations, respectively. In the case of the law of diminishing returns, it signifies mostly the realities of agricultural production, in which land is a constant factor, irrespective of the ownership and the kind of the overall socioeconomic system affecting the same.

The Ricardian 'iron law' of wages, too, involves a scientific basis of investigation. Unlike the law of diminishing returns, however, it is predicated on a specific kind of economy. Yet, it cannot be construed as something resulting, exclusively from either scientific or ideological considerations or investigations. While its validity depends solely on a control free (capitalist) economy, it cannot represent a sufficiently

comprehensive basis for any argument that it is more ideological than scientific in nature and content.

A society which follows a free economy, not a society in which the price of goods and wages are controlled by the government and where a fixed wage has been determined for the workers. So we see that free capital itself is the condition for the scientific law to be realised, and this law, in the framework of a capitalist system can give certainty to society. This is what we mean when we say the law from the point of view of content is scientific, and the conditions which must be present for it in actual practice could reflect an ideology.

It seems that by not emphasising the differences between the content of the law, and the conditions it is realised in, led some people to say that all investigations concerning distribution are ideological in nature, and scientific investigations would never interfere in matters concerning distribution.

Also, in view of the fact, that the scientific law concerning distribution is only realised in a certain economic system caused some groups of people to say that the law is an ideological law, not a scientific one.

From the above discussion we may conclude that:

An economic (scientific) investigation in a purely theoretical framework is different from an ideological assessment of an economic or socioeconomic situation, so as to produce a system for regulating the same in a just and equitable manner. The conclusion, therefore, is that the duty of pure economics is to establish the facts, and the duty of an ideological assessment of a socioeconomic situation is to indicate a just solution to any problem.

Pure economics discusses both production and distribution, just as the socioeconomic study does. Thus, their difference is one of approach to the problem. It does not lie in the subject-matter itself. Accordingly, it would be meaningless to say that their difference concerns microeconomic factors like production and distribution.

Any factual analysis of production that does not take into consideration the kind of the overall socioeconomic system and the regulatory policies represents an academic approach of pure economists. Any extension of this approach to a situational analysis of distribution remains oriented to, the same assumption of a pure economist that any socioeconomic policy regulation should be within the ideological framework of an existing system, such as that of a free market economy. Thus, his assessments can only be specific to the laws of distribution applicable to that socio-economic system.

Further, the difference between the approach of a pure economist and that of socio-economic policymakers is reflected in their means of investigation. The former employs scientific method to identify facts based on an existing situation, including subjective criteria such as one's observation and experience. At the same time, the scientific investigation is related to general economic laws and relationships.

In the event of finding a problem with no clear-cut definition or decisive outcome, the pure economist will draw on his, experiences of investigations of the past economic events. Then, he scientifically evaluates the probabilities of certain phenomena and makes a judgement with all his personal integrity as to what could take place in a given situation. In this respect, his method is similar to that of a physicist in discovering, say, the boiling point of water. An economist, when he wishes to discover a solution to an economic crisis, which all capitalist societies (cyclically) face, might investigate the relevant events which may have been recurrent throughout man's economic life.

The approach of a socioeconomic policy-maker is completely opposite to the above. It would be rather impossible for him to investigate and come to conclusions in the manner of a pure economist. This is simply because of his concern for socioeconomic justice.

No doubt, (the abstract concept of) justice is unlike the (empirical reality of) water temperature, or even viewing an economic crisis in a historical perspective without involving any scientific basis of measurement. Justice is neither a natural phenomenon to be susceptible to the empirical method and/ or a scientific scale of measurement.

In the above context, let us consider a visualization of justice in a distribution process. Many groups believe, justice in distribution would only come about with a system such as Marxism, in which all members of society have an equitable income and wealth. Also, there are others who believe that justice in distribution can only be achieved when all people have equal freedom (of economic opportunity), although this freedom may yet result in differences of individual incomes and wealth (assuming that all people use this freedom equally in the capitalist system) .

Some groups believe that justice in distribution will come about when all people are guaranteed a fixed income, with provision for earning more, as indicated in Islam.

Now we would like to discover what could be a basis for a just or an unjust distribution system. We would like to discover whether having a system in which all people have an equal income and wealth is just, or whether it is just to give freedom for people to behave as they wish, and allow their incomes to remain at any level. Or is there a third path between these two ways?

To find the most just among these three paths, it is impossible for us to use the scientific method. Because justice is not a natural phenomenon like the boiling point of water, which we are able to see and verify. Also justice is not a historic or social phenomenon, like an economic crisis in a capitalist society, which can be identified from experience, through comparisons between people and recognition of the extent of equality or inequality existing in their attributes and physique.

A pure economist may measure and compare people's income, yet, he will not deem it proper to say: "Justice would be ensured if everybody had equal incomes or unequal incomes". For equality and justice are not the kind of attributes that can be measured on a scientific or physical scale, in the same way as physical quantities and certain natural properties.

A believer in a capitalist economy may say that it entitles its constituent people to freedom and treats them equally, even if their standard of living is not uniform. A believer in a communist society may say that it enables its members to obtain virtually a uniform standard of living. They both would be unable to answer a question as to whether or not they can measure social justice in the same way as they do any ambient temper true . For people's rights are not to be measured in the scientific manner of physical properties (such as measurement of sound levels in decibels).

We may conclude, therefore, that neither the socioeconomic policy-making process, nor any purely economic or social theory, can use scientific means to investigate justice and rights of men. The concept of justice can only be derived from the principles of a comprehensive: ideology, so as to justly and wholesomely regulate a people's socioeconomic system.

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