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## PARETO OPTIMALITY: IS IT VALID AS A CRITERION FOR JUDGING SOCIAL EFFICIENCY IN AN ISLAMIC ECONOMY

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**Abstract.** *Optimization aims to reach the best, and in order for optimization to have meaning, there must be a function of goals that are maximized, and there should be more than one solution available to choose the best among them. The most efficient situation according to Pareto optimization is the situation in which we cannot make a member of society better off without making a member or other members worse off in the country under consideration. The maxima we arrive at is just one of an infinite number of Pareto optimizations from which we cannot choose without assuming a scale of values to evaluate individual utilities because there is always a system for weighing these utilities that makes any point optimal. Thus Pareto optimization is a criterion that requires the existence of a function of value goals that is different in the Islamic economy from that in the capitalist economy.*

*Justice in the Islamic economy has a concept based on rights regulated by Islamic Sharia, and this makes difference in the content and scope of the optimization process, which makes justice an organic component of the concept of efficiency in the Islamic economy, and the criterion of Pareto optimization is a criterion that does not achieve justice by itself.*

*Pareto optimization is a quantitative criterion that depends in its judgment on efficiency on the overall quantitative result and does not take into account qualitative aspects of great importance in relation to the concept of efficiency and its judgment in the Islamic economy.*

*Reaching a situation in which it is not possible to improve the situation of some people without making others in a worse situation, which is what is known as Pareto optimization can serve as a criterion for judging efficiency in the Islamic economy if the rulings of the Sharia in the acquisition, use, and spending of funds are applied in the economy under consideration, taking into consideration there is a difference in the content and scope of the maximization process, which makes justice an organic component of the concept of efficiency in the Islamic economy, and the difference in the concept of justice itself, and if the concept of “improving the status of some” is determined within the framework of achieving sufficiency, and the concept of “worse situation” is determined by violating sufficiency. Based on the foregoing, we suggest that the Pareto criterion, by itself, is not sufficient to judge efficiency in the Islamic economy.*

**Keywords:** *Pareto, Pareto Efficiency, Pareto Improving, Pareto Optimal, Redistribution.*

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### **Introduction**

Islam is concerned with preserving money, as one of the five purposes of Islamic Sharia, and using money to fulfill the needs of people in order to help them worship God. within the framework of justice. Hence there is an urgent need for a criterion of efficiency in order to evaluate the economic policy alternatives with regard to the rational allocation of resources. Among the criteria offered by classical economics for judging social competence is the Pareto optimality criterion. The question arises, is this criterion suitable for judging the efficiency of resource allocation in the

Islamic economy? This question raises other questions: Is Pareto optimality recognized as enough criterion for judging efficiency in the traditional economy? What are the most important defects of this criterion? Does this criterion have no value dimensions? Welfare economics works to allocate a group of alternatives that include the best solutions by excluding those that seem less preferable than other solutions, and the next step (which is choosing the best or optimal among the available alternatives) is a matter of personal evaluation that does not fall within the scope of scientific analysis, "preface" (Bohm, 1987). Can this criterion remain valid for use in Islamic economics?

In light of the foregoing on the subject of the research, we put forward the following hypothesis for this research: "Pareto optimization is an insufficient criterion for judging efficiency in Islamic economics".

### **Literature Review**

There are many studies on the efficiency of resource allocation, from which we extract the following recent research:

1. Iwan Setiawan, "Maqashid Shariah's Criticism of the Pareto Optimum Theory", *MUQTASID Jurnal Ekonomi dan Perbankan Syariah* 11(1):14-28, June 2020.

The results of this research show that the optimum Pareto theory has weaknesses and does not guarantee justice for the whole community. For instance, in achieving maximum efficiency, others must be sacrificed. This is contrary to the concept of the Islamic economy which emphasizes justice for all parties to a transaction. This research shows that Pareto efficiency cannot be used as a basis for achieving economic goals since it is not impartial ([https://www.researchgate.net/publication/342288332\\_Maqashid\\_Shariah's\\_Criticism\\_of\\_the\\_Pareto\\_Optimum\\_Theory](https://www.researchgate.net/publication/342288332_Maqashid_Shariah's_Criticism_of_the_Pareto_Optimum_Theory)).

However, this research did not accurately explain efficiency in the Islamic economy. It did not address how to avoid the deficiency in the Pareto optimization criterion to become applicable in the Islamic economy, nor did it present an accurate concept of justice that could be applied in this economy.

2. Widiyanti, Dwi Retno, "Redistribution Adjusts Efficiency In Economy; Islamic Paradigm", Universitas Brawijaya 1 September 2015 Online at <https://mpra.ub.uni-muenchen.de/67809/> MPRA Paper No. 67809, posted 12 Nov 2015 07:54 UTC.

In this research, the term efficiency is taken from the efficiency concept initiated by Vilfredo Pareto (1848-1923).

This research shows the concept of Islam in regulating the redistribution of wealth, examines how the concept of redistribution gives the benefits of economic efficiency and uses the partial equilibrium model to study how zakat gives the adjustment on the equilibrium of aggregate demand-supply side, compared with how taxation and subsidies do ([https://mpra.ub.uni-muenchen.de/67809/1/MPRA\\_paper\\_67809.pdf](https://mpra.ub.uni-muenchen.de/67809/1/MPRA_paper_67809.pdf)).

This research does not discuss the validity of the Pareto optimization criterion for judging efficiency in Islamic economics, what it added in this regard is that it showed analytically the advantage of the zakat system in promoting the achievement of efficiency compared to a method of taxes and subsidies as methods of redistribution of income and wealth.

3. Aydin, Necati, "Pareto efficiency in individualistic vs. altruistic society", *The International Journal of Systems and Ethics - Emerald Group Publishing*, Vol. 30.2014, 4, p. 304-324. This paper shows that Islam offers a comprehensive paradigm that focuses attention on spiritual, moral, social, and material needs in a balanced manner. Particularly when it comes to a welfare policy, a major difference exists between capitalism and Islamic economics. Whereas capitalism promotes a secular individualistic society, Islamic economics aims for an altruistic society.

This paper shows that free market equilibrium does not maximize social utility. It theoretically demonstrates that even under efficient allocation of material goods, there is still room for Pareto improvement through the redistribution of resources. The paper suggests a role for the government to reach optimum-level income transfer for social welfare maximization.

The paper suggests income transfer through altruistic acts would provide higher social welfare. Therefore, it is in the best interest of nations to promote altruistic behaviors and support voluntary welfare programs for higher social utility. Originality/value – The paper contributes to the Islamic moral economy doctrine by proving that altruistic behaviors encouraged by Islamic teaching could provide higher social welfare (<https://www.econbiz.de/Record/pareto-efficiency-in-individualistic-vs-altruistic-society-aydin-necati/10011145159>).

This paper did not explain the concept of efficiency in the Islamic economy, nor did the paper show a governing criterion for increasing efficiency through the policy of redistributing income and wealth, nor did it provide, in our opinion, an accurate concept of justice in the Islamic economy.

4. Chapra, M. Umer, "Islamic Economics: What Is and How It Developed", Islamic Research and Training Institute.

The researcher sees that all conventional economists have never been value-neutral. They have made value judgments in conformity with their beliefs. Without justice, it would be difficult to realize even development. Muslim scholars have emphasized this throughout history. Development Economics has also started emphasizing its importance, more so in the last few decades.

Justice and the well-being of all may be difficult to realize without a sacrifice on the part of the well-to-do. The concept of the Pareto optimum does not, therefore, fit into the paradigm of Islamic economics. This is because the Pareto optimum does not recognize any solution as optimum if it requires a sacrifice on the part of a few (rich) for raising the well-being of the many (poor). This concept did not harmonize with Islamic economics. In fact, Islam makes it a religious obligation of Muslims to make a sacrifice for the poor and the needy, by paying Zakat at the rate of 2.5 percent of their net worth. This is in addition to the taxes that they pay to the governments as in other countries (<https://eh.net/encyclopedia/islamic-economics-what-it-is-and-how-it-developed/>).

However, this research did not accurately explain efficiency in the Islamic economy. It did not show a governing criterion for increasing efficiency through the policy of redistributing income and wealth in the Islamic Economy, nor did it present an accurate concept of justice that could be applied in this economy.

#### **What does our search add?**

##### ***Our research:***

1. Present an accurate concept of efficiency in the Islamic economy, in which justice is an organic component, unlike the concept of efficiency in the traditional economy which does not include justice.
2. Present a precise concept of justice in the Islamic economy.
3. Our research proves that Pareto optimization can serve as a criterion for judging efficiency in the Islamic economy if the rulings of the Sharia acquisition, use, and spending of funds are applied in the economy under consideration, taking into consideration there is a difference in the content and scope of the maximization process, which makes justice an organic component of the concept of efficiency in the Islamic economy, and the difference in the concept of justice itself, and if the concept of “improving the status of some” is determined within the framework of achieving sufficiency, and the concept of “worse situation” is determined by violating sufficiency.

#### **Research related concepts**

##### ***Priority in fulfilling needs:***

It is intended to classify the degree of importance of goods in terms of their entitlement to fulfill them, so they are arranged in descending order, starting with the necessary, then the quasi-necessary, then the improvements. Goods are divided in this way based on their service for a necessary, quasi-necessary, or improvement purpose.

Priorities also mean the classification of uses for individual expenditure in terms of the degree of entitlement to whom the spending is directed. They are arranging a descending arrangement that begins with the person spending on himself and his dependents, then spending on the owners of merit expenditures from his relatives, then spending for the sake of God in general,

then saving. It is clear that these priorities, with their two branches, are based on the guidance and purposes of Islamic Sharia, and do not leave entirely to the discretion of the individual without a guide from Sharia.

***Moderation in spending:***

In fact, the broad concept of moderation in spending includes, among other things, taking care of priorities and achieving sufficiency in meeting needs. However, in this analysis, moderation will be limited to a narrow concept related only to the scope and amount of spending. So that spending is characterized by moderation if it does not include spending on taboos, and it is within the framework of what is known about the likes of this individual, and the care of right justice between the needs of the present and the future, and finally, if this spending does not absorb all of the income unless this income is already insufficient, except to achieve sufficiency of the necessities.

***Commitment return and legitimate utility:***

Commitment return is intended, in this research, an indirect return estimated by the individual, resulting from his commitment to the requirements of Islamic Sharia in his economic decisions. This return expresses the state of contentment and conscience comort that a Muslim sense from his feeling that he has fulfilled what God has commanded in terms of halal and moderation in spending, and caring for rights and priorities within the framework of ability.

This does not negate the material return that can result from this commitment, which may be represented, for example, in preserving health as a result of moderation. It also does not negate the blessings that an individual can get, as well as the reward in the hereafter, but we exclude it because it cannot be subjected to analysis.

As for legitimate utility, it is intended as a direct return that the individual also appreciates, and that results in making various economic decisions. Utility derives the adjective "legitimate", from its permissibility in the Islamic Sharia.

***The concept of "right justice":***

Right justice is based on giving everyone who holds a right his right, as defined by Islamic Sharia, and is based on combining and reconciling different rights, as well as between moral principles and material interests. So it does not recognize absolute rights and freedoms but rather sets controls for these freedoms and rights that will establish a balance that does not bias a party without a party.

Right justice is the characteristic of Islam in everything, not just in allocating resources (See, for example, verses Nos. 18 of Surat Al-Imran, 159 and 181 of Surat Al-A'raf, and 60 of Surat Al-Nahl). The right justice concept in the area of resource allocation is aimed at achieving justice in meeting needs, that is, moderation in meeting needs according to priorities and within the framework of achieving sufficiency for all people (See the verse 29 from Surat Al-Baqara).

***Sufficiency level in meeting needs:***

Its amount is determined in a way that is sufficient for the moderate fulfillment of needs with its three levels of necessities, quasi-necessities, and improvements. This moderation in fulfilling the needs is determined in light of the income available to the individual, and that is for those who achieve his sufficiency by themselves or the sufficiency of the likes or (if the likes cannot be found) with the sufficiency of the middle class, and that is for those who achieve part of their sufficiency, or all of his sufficiency, from the distribution institutions In the Islamic system.

The duration of sufficiency is determined in a way that achieves the sufficiency of life for those who can achieve the sufficiency of themselves but lacks a tool for work or capital for trade, for example, and in a way that achieves the sufficiency of a Hijri year for the incapable of earning such as the blind, or the one who gains what is not sufficient for him.

**Methods**

This is theoretical research, and by God Almighty's will, we will use a comparative descriptive approach to check the research hypothesis, so we will discuss the controversy regarding

the Pareto optimality criterion in traditional economics and the differences in the value judgments within which this criterion operates in both traditional and Islamic economics. And then access to prove or deny the research hypothesis.

Accordingly, we will divide the research into two sections:

The *first section*: the position of traditional economics on Pareto optimization

The *second section*: the position of Islamic economics towards Pareto optimization.

Then, in light of these two sections, we present the results and recommendations.

## Results

***4.1. The position of classical economics on Pareto optimization can be recognized by the following: the need for the existence of value judgments under which efficiency standards operate***

Optimization aims to reach the best, and in order for optimization to have meaning, there must be a function of goals that are maximized, and there should be more than one solution available to choose the best among them.

It is known that welfare economics is that branch of economics that tries to explain how to identify socially efficient solutions to the problems of resource allocation for the national economy, and how to reach them. In other words, welfare economics works to choose from the set of available alternatives the best solution by excluding those that seem less favorable than the other solutions. This requires defining the concept of the best target. There is no doubt that the concept of the best requires a personal evaluation that does not fall within the scope of scientific analysis.

How we understand and describe economic issues and the results that we reach in the form of economic policy depends on the logical premises that we started from in the form of hypotheses.

A distinction should also be made between the market as a mere institution and the actual market, which influences and is affected by the institutions and forces within which the market operates. There is a difference between the market as an institution and a product of institutions, and the concept of the market as a price mechanism. Markets are not efficient in themselves, but they can produce efficient results. Therefore, the expressions "efficient functioning of markets" and "efficient markets" are expressions without substantial content.

The results that are characterized by efficiency, although they take place in the markets, are obtained from the actions of the dealers in the markets and not from the markets alone. Efficiency cannot be used to define correct structures without prior value premises in the light of which calculation can be made. Therefore, resources are not allocated by the markets themselves, but by the institutions and forces that markets operate through them, in addition to the actions of the dealers. The term market includes a mechanism, institutions, and transactions, all together at the same time (Samuels and Warren, pp. 357 – 358).

### *Can justice be separated from efficiency?*

The debate on the criterion of well-being from Pareto to Barron to Hicks, Kaldor, Iskowski, and Little did not add to the subject of evaluating policy changes (which benefit some people while harming others) on purely factual grounds. Efficiency cannot be separated from justice. In recognition of this complete failure, Bergson suggested for a long time that welfare changes should be evaluated by a social welfare function, that is, a map of whether different combinations of individual benefits order according to a set of implicit judgments about the distribution of income. Unfortunately, it is not clear whether these judgments will be the value judgments of the economists, the project, the electorate, or any other particular group. Nor is it clear how we can resolve the problem of differences in such judgments. It is these differences in the value judgments of different people and groups that are the source of concern in welfare economics. The new welfare economics, starting from Pareto, was an attempt to show what can be said about general welfare without resorting to interpersonal comparisons (Cudd and Ann, pp. 596 - 597).

The real function of welfare economics is to break into the discipline of applied ethics rather than avoid it. In any existing social system, there is a tendency for there to be a good degree of consensus on social ends. In any case, economic policies are almost always meant to end that are

themselves incompletely understood, rather, the goals conflict with one another. The goal of welfare economics should be to influence social consensus by clarifying the aims and instruments of various policies and by showing the consistency or inconsistency of specific relationships between means and ends. This is not a vain aim for a reform of the content of welfare economics, because the recent work of economists like Arrow, Black, and Buchanan (Arrow, Kenneth and Scitovsky, Tibor, "Readings in Welfare Economics", Part 3) on social choice and democratic group decisions goes along this way, raising the possibility of the emergence (in the near future) of some sort of intersectional branch of politics and economics, which will rescue welfare economics from the theoretical problem it worries (Cudd and Ann, pp. 596 - 597).

*Is there agreement on Pareto optimality as the sole criterion for rationality?*

In neoclassical and contemporary economics, rationality is defined as optimizing certain economic variables, i.e. maximizing, or minimizing, some quantities, and an example of this is maximizing profit and economic benefits.

Within the framework of defining rational (or not rational) behavior within the scope of utility theory, optimality assumes maximization of utility. In this way, the benefit analysis is based on the basic assumption of rationality that the individual, in a framework of given prices and a definite amount of resources, chooses the groups of commodities which is on top of his preferential scale.

In addition to the concept of rationality as an optimization of utility, there is another concept that rationality means achieving satisfaction in what is known as the theory of efficiency limits. Supporters of this theory believe that the optimization contains implausible elements with regard to complete rationality that depends on complete information, and instead presents the concept of limited rationality that reflects the reality of life. This limited rationality expresses satisfaction as expressed by achieving a certain level of profit rather than optimization that requires profit maximization.

There are multiple answers to the question: What is rationality?: Among these answers is that rationalization is the implementation of logic, knowledge, and science, and a link between means and goals, that it is followed by pleasure and self-benefit, that it is economy and efficiency, and that it is consistency and satisfaction, and many other concepts. However, we can decide that these answers converge when traditional economics and social theory suggest a collective vision in defining and analyzing rationality. It seems that these answers show a vast diversity in light of the dominance of a logical model of rationality in the contemporary economy and rational social choice. Thus, the rationality model of maximizing benefit or profit is nothing but a simplified form.

Therefore, some contemporary economists suggest that a more complex approach should be adopted that allows the rationalization of goals as well as the rationalization of the means to achieve them. This should at least be applied to rational social choice, breaking away from the marriage bond with neoclassical theory and working within a family of convergent, asymmetric theories rather than being bound by a single model. Rational social choice it is not the same: the optimization of neoclassical theory (Zafirovski, Milan, p. 38).

*Limitations of Pareto Optimization:*

Traditional and neo-traditional economists were interested in using efficiency criteria to prove that the market economy system is efficient. Traditional economics has presented several criteria in this regard, perhaps the most important of which are: the utilitarian pentami approach, which is based on the expression of utilities and costs in a quantitative form and deducting costs from the utilities to reach the net benefit so that the most efficient economic alternative is the one that achieves the largest net utility. It is clear that the rational and ethical basis for this approach is what individuals want, and this approach has been criticized in terms of the fact that it requires a quantitative measurement of utilities, and in terms of the fact that the idea of utilities is an internal, personal idea and not objective. This characteristic does not negate by what some have tried to give an objective meaning of efficiency despite the personal utilities, costs, and goals, by taking the preferences of individuals as data.

The Italian economist Vilfredo Pareto (1848-1923) tried in his book "Political Economy" in 1906 AD to overcome this difficulty by dispensing with the measurement of utilities and relying on the mere ability of individuals to arrange the different economic conditions in a gradation that shows their preference from the point of view of their own preferences. And Pareto showed that the efficiency situation is achieved when we cannot, by selecting specifically available alternatives, make one person better without making another worse. Within the framework of the welfare theory in the traditional economy, and by excluding the problem of externalities and public goods, a competitive economy guarantees the achievement of an economic outcome that meets the Pareto optimality criterion.

However, the competitive economy which achieves this consequence optimization does not necessarily mean that it is a good economy, as optimization and quality are not synonymous because optimization does not take into account the pattern of distribution. An alternative of greater total utility may conceal severe distributive disadvantages, so there can be several situations all of which are Pareto-optimal, but some are good and some are not. Hence a complementary theory of welfare has been developed according to which, through minor modifications (which may include a transfer of money between individuals) the competitive mechanism of profit and utility maximization can achieve any desired Parity situation.

Nevertheless, the issue of defining the socially preferred situation among the situations that fulfill the Pareto criterion is something that goes beyond the scope of the capabilities of this criterion and constitutes a fundamental shortcoming in it. Many proposals have been made to remedy this shortcoming, including the standard of justice presented by (John Rawls), and according to this criterion, alternative (X) is more just than alternative (Y) if the person is in the worst condition under alternative (X) is in a better position than the person which is in the worst condition under variant (Y). Also among these criteria is the voting mechanism and the adoption of the alternative chosen by the majority. Sam Wilson also provided a criterion according to which alternative (X) is socially preferable to alternative (Y).

If for each consequence(z) of consequences (Y) there is a consequence (w) of consequences (X) thus (Y) is considered a Pareto optimum.

Some believe, rightly, that the reason for the limitations of welfare economics in the traditional economy is due to the separation of economics from the science of morals, and the restriction of rational calculation to self-benefits with the claim of achieving the public interest as well.

This was reflected in the standards of well-being, the most prominent of which is the Pareto criterion, which operates within the framework of calculating subjective utilities, avoids comparisons between benefits, and assumes a given distribution of income, which leads to unacceptable results with regard to social optimization. As the author says, "Within the scope of this criterion, a social condition can be a point of Pareto optimum although some people living in extreme misery and others enjoying luxury and extravagance as long as the poor cannot be made better without cutting off the luxury of the rich. The writer also shows that the claim that social optimization requires, among other things, Pareto optimization is a claim based on the belief that if the change is beneficial to all persons, then it is a good change for society. Still, the matching of interest with benefit is far from clear. On the contrary, if interest is interpreted in a sense other than self-utility, Pareto optimization defined in terms of these utilities would lose its status even as a necessary condition rather than a sufficient condition for general social optimization (Sen Amartya,"Economics-Moral and Ethical Aspects", pp.32-33).

#### ***4.2. The position of Islamic economics on Pareto optimization***

The position of Islamic economics on Pareto optimality can be identified in the following exhibition:

*The difference in the philosophical basis for each of the capitalist and Islamic systems*

The capitalist system is based on individualism and utilitarian philosophy.

Individualism is a moral, political, or social outlook that stresses human independence and the importance of individual self-reliance and liberty. It opposes most external interference with an individual's choices, whether by society, the state, or any other group or institution (collectivism or statism), and it also opposes the view that tradition, religion, or any other form of the external moral standard should be used to limit an individual's choice of actions. Ethical Individualism, then, is the position that individual conscience or reason is the only moral rule, and there is no objective authority or standard it is bound to take into account.

Some Individualists are also Egoists (the ethical position that moral agents ought to do whatever is in their own self-interest), although they usually do not argue that selfishness is inherently good. Rather, they would argue that individuals are not duty-bound to any socially-imposed morality and should be free to choose to be selfish ([https://www.philosophybasics.com/branch\\_individualism.html](https://www.philosophybasics.com/branch_individualism.html)).

"As for utilitarianism, "nature has placed mankind under the governance of two sovereign masters, pain and pleasure. They alone point out what we ought to do and determine what we shall do; the standard of right and wrong, and the chain of causes and effects, are both fastened to their throne. They govern us in all we do, all we say, all we think... A man may claim to reject their rule but in reality, he will remain subject to it. The principle of utility<sup>1</sup> recognizes this subjection and makes it the basis of a system that aims to have the edifice of happiness built by the hands of reason and of law. Systems that try to question it deal in sounds instead of sense, in caprice (whim) instead of reason, and in darkness instead of light. But enough of metaphor and declamation! It is not by such means that moral science is to be improved" (Bentham, 2017).

"By 'utility' is meant the property of something whereby it tends to produce benefit, advantage, pleasure, good, or happiness, to prevent the happening of mischief, pain, evil or unhappiness to the party whose interest is considered. If that party is the community in general, then the happiness of the community; if it's a particular individual, then the happiness of that individual 'The interest of the community' is one of the most general expressions in the terminology of morals; ... The community is a fictitious body composed of individuals ... Then what is the interest of the community? It is the sum of the interests of the members who compose it" (Bentham, 2017).

As for the Islamic economic doctrine, it does not agree with this philosophy and instead offers the philosophy of justice, which is based on achieving a balance between the different interests of individuals and the group. This is done by establishing right justice between these interests by giving everyone who has a right his right as indicated by the Islamic Sharia. Individual freedom is guaranteed and safeguarded, and the interests of the group are observed and considered, within the framework of a fair balance that is established between them, regulated by the Islamic Sharia.

Right Justice in Islam, in our opinion, does not negate the pursuit of personal utility, but the Islamic Sharia sets a framework for this utility to protect it from the whims and the shortcomings of human knowledge hence limiting it to the pure real benefit, not the imaginary benefit, which may be harmful, or its harm may be greater than its benefit, or it may be useless.

Sharia sets detailed rights for all segments of society so that all people's needs are fulfilled within the framework of lawfulness and moderation and care for priorities and justice between the present and the future while respecting the value of legitimate humanitarian work and approving Disparity in income and wealth if it is from legitimate sources and fulfills the rights imposed by Sharia in funds.

At the root of the characteristics of the Islamic system, there is an inherent role for each of the individuals and the state and each has its own field. The role of the state narrows and expands according to the circumstances and according to the requirements of accomplishing the tasks entrusted to it in the Sharia. This role is never absent, otherwise, it would violate the system's philosophy, characteristics, and goals.

One of the most important duties of the state is to take care of achieving justice and development, and it has many tools for that, including managing and allocating public property resources and controlling markets in order to achieve the objectives of the system.



The market in the Islamic economy is a tool and not a leader in the resources allocation process it works within the framework of auspices of achieving the right justice and development.

*The difference in the concept of efficiency:*

The concept of efficiency in the allocation of resources in the traditional economy includes achieving static efficiency, that is, achieving the maximum output from a certain amount of available resources, provided that this output is a preferred compromise. Achieving dynamic efficiency necessitates that the economy achieves an optimal expansion across time, and finally necessitates achieving distributive efficiency, ie that the distribution of income associated with the achieved output be fair.

This concept of efficiency is valid for application in all societies at this higher level of abstraction, but if we move to a lower level of abstraction, the matter may differ as a result of differences in concepts of the preferred composition of output, optimal growth rate, and fair distribution of income, which raise the need for the existence of value judgments that guide the social preferences of the community under consideration.

Social efficiency in allocating resources assumes the existence of alternative uses for certain resources and then choosing the alternative that achieves the best possible result, that is, there is a behavioral process that includes a choice between alternatives that results in the allocation decision, and aims to make the best decisions. Value judgments play a role in guiding human behavior in the selection process and defining the concept of the best choice.

It is assumed that human behavior is framed in Islam by the Islamic creed and its Sharia, and when this behavior is framed by that, it is rational behavior. Righteousness in Islam is a very important concept. In general, rationality in Islam means, in the opinion of the writer, adherence to the Islamic creed and its law, as they are the way to direct measures towards their goal. In the Holy Qur'an, God, may He be glorified and exalted, has described all religion as rationality (Verse 256 of Surat Al-Baqarah of Holly Koraan), and the Islamic religion is nothing but the belief and Sharia of Islam. rationality in the field of economics does not deviate from that either, as it is adherence to God's commands and prohibitions in this field, and this includes all economic activities, including the allocation of resources, which is, as we mentioned above, a selection process that results in allocation decisions, and this choice in the Islamic economy is framed by Sharia frameworks the most important it in our point of view is:

1. That it does not conflict with Islamic Sharia: texts and objectives.
2. To aim at fulfilling legitimate needs from the Islamic Sharia perspective and through Islamic legitimate methods as well, without wasting resources.
3. To fulfill these needs, it must abide by the Sharia priorities and the public interest without wasting the legitimate individual interest, unless they conflict.
4. To be committed to fulfilling needs in moderation, and to achieving balance in fulfilling needs between the present and the future.

Thus, the human behavior governing the selection process is supposed to be framed by Islamic Sharia and from it derives a criterion of what is best in relation to the results of allocation. It is assumed in this that production is only done to meet legitimate needs in moderation and according to their priorities across time. It is also assumed that the evaluation of the process of fulfilling needs is done through caring for legitimate preferences in the first stage, and then by nurturing individual preferences in a later stage.

In the first stage, allocation is made between spending in the present and spending in the future, then between groups of necessities, semi-necessities, and improvements according to their priorities. The criterion for allocation at this stage is mainly represented (Because changes in prices can play a role in this stage of allocation if they are in such a way as to leave an impact on the real income, which represents the capacity ceiling in allocation) in the legitimate obligation to limit the choice to the Halal circle and to use the criterion of legitimate priorities within the limits of moderation and balance between the present and the future. This is within the framework of income as it represents the ceiling of the available capacity. At a later stage, the allocation takes place

within the groups between the items of different goods and services, and at this stage, individual preferences and relative prices can play a major role.

Thus, there is a major role for legitimate priorities, moderation, and balance, and in general, the legitimate commitment, along with the level of income with regard to determining the main proportions in individual spending, as well as at the level of the economy, not only in the present, but in the allocation between the present and the future as well, and this can provide a base for fair comparisons between the different utilities. Then in the next stage, the choice among alternatives within groups can be influenced mainly, in addition to real income, by relative prices and individual preferences.

Thus, it can be said that an Islamic economy is characterized by rationality in the allocation of resources when the allocation leads to the production of a volume of output that satisfies the legitimate needs of all members of the nation according to its priorities across time and by the lowest possible cost, and when the final distribution of income associated with that is fair, and all of this is within the framework of full adherence to the Islamic Sharia. It is not the "maximum possible amount of output" from certain resources. Although the two matters appear to be formally similar in the possible outcome, this is not the case specifically. In this case, the amount of resources used is disciplined by meeting specific needs and using the least possible amount of resources to meet these needs. While the second saying means allocating a certain amount of resources to produce the maximum amount of output, and this output may come in excess of what is needed to meet the needs characterized by moderation and care for priorities and justice between the present and the future.

But what is the difference between the concept of efficiency in the Islamic economy as we see it, and the concept of efficient allocation of resources in the traditional economy? The difference between the two concepts lies, in fact, in the words "preferred", "optimal", and "fair", which are mentioned in the definitions of static, dynamic, and distributive efficiency. Hence, the difference between the concept of efficient resource allocation, as presented by the author, and the concept of efficient resource allocation in the traditional economy, is a difference in value judgments.

This difference is evident in the response of Shuaib's people to him when he commanded them to give full measure and weight and not to underestimate people's things, as they responded to him with what means that the concept of rationality for them to do with their money whatever they want (Holy Quran, Surat Hud: Verse 87). The criterion of what is "better", "optimal" and "fair", that is, the criterion of efficiency for them is that a person can do whatever he wants with his money, which is a saying that means that the individual is the source of value judgments. Whereas in the Islamic economy, the criterion of "better", "optimal" and "fair", in our opinion, is taken from Islamic Sharia and is determined in light of the criteria of right justice.

This is reflected in our assumption that the allocating behavior, in the Islamic economy, is guided by two mechanisms, instead of a single mechanism, which is the mechanism of maximizing the return of commitment with Sharia in the first stage, and in the next stage mechanism of maximizing the utility. This makes the right justice a criterion of efficiency and not a policy objective that may conflict with considerations of pure efficiency.

In light of this concept, justice is an integral part of efficiency in the Islamic economy, because it is necessary to expand the scope of efficiency, that is, to expand the content of the process of maximization to include all the needs considered by the Islamic Sharia. ... By adhering to Islamic legitimacy, including moderation, preventing a waste of resources in things that are harmful or useless, or whose harm exceeds their benefit ... By adhering to priorities that are having guidance from the purposes of the Islamic sharia that prevents wasting a measure of resources in Less interest at the expense of greater interest.

## **Discussion**

1. The concept of efficiency in the Islamic economy differs from that in the traditional economy as a result of the different value judgments within which the concept of the optimal combination of goods and services, the concept of the optimal growth rate, and the concept of fair

distribution of income are determined. These concepts are defined in the traditional economy within individualism and utilitarianism. In contrast, these concepts are defined within the framework of value judgments derived from Islamic Sharia, which crystallize in caring for what is lawful (Halal), moderation, and priorities that have guidance from the Sharia, as well as right justice that takes into account giving everyone his right as defined by this Sharia.

2. This follows that there are two mechanisms for economic behavior: the mechanism of adherence to Sharia in the first stage and the mechanism of maximizing the benefit in the next stage. As a result of activating the mechanism of maximizing the return of commitment, justice becomes an organic component in the concept of efficiency in the Islamic economy. This is contrary to the concept of efficiency in traditional economics, as it is magnified by Pareto optimization. Thus, the content of the objective that the positions of efficiency maximize according to the criterion of Pareto optimization differs from this objective in the Islamic economy, where Pareto optimization takes the fairness of income distribution as a given.

3. When it is desired to correct the conditions of Pareto optimization through the income redistribution policy, it differs from the Islamic economy in two respects:

The first: is the difference in the concept of justice.

The second: is the ambiguity of the basis on which the redistribution policy is based, which takes place on the basis of a comparison of benefits, while in the Islamic economy, it is assumed that there is a basis that can be controlled to a large extent, where justice includes, among what it includes, the assumption that the allocation achieves the level of sufficiency for all members of society, in normal circumstances, and this is considered a condition for achieving efficiency in the Islamic economy.

### **Conclusion**

1. Pareto optimization is a criterion that requires the existence of a function of value goals that differ in the Islamic economy from that in the capitalist economy.

2. The concept of efficiency that the Pareto criterion is used to judge is different in the Islamic economy than in the traditional economy.

3. Justice in the Islamic economy has a concept based on rights regulated by Islamic Sharia, which, in our opinion, unlike traditional economics, is an organic component of the concept of efficiency in the Islamic economy, and the criterion of Pareto optimization is a criterion that does not achieve justice by itself.

4. Pareto optimization is a quantitative criterion that depends in its judgment on efficiency on the overall quantitative result and does not take into account qualitative aspects of great importance in relation to the concept of efficiency and its judgment in the Islamic economy.

5. Reaching a situation in which it is not possible to improve the situation of some people without making others in a worse situation, which is what is known as Pareto optimization, can serve as a criterion for judging efficiency in the Islamic economy if:

a. The rulings of the Sharia acquisition, use, and spending of funds are applied in the economy under consideration.

b. taking into consideration there is a difference in the content and scope of the maximization process, which makes justice an organic component of the concept of efficiency in the Islamic economy, and the difference in the concept of justice itself

c. If the concept of “improving the status of some” is determined within the framework of achieving sufficiency, and the concept of “worse situation” is determined by violating sufficiency.

This gives us a guide with regard to income redistribution policy: if the transfers are made from people’s surplus money and do not affect their sufficiency, and give to others to complete their sufficiency, then these transfers will improve the position of efficiency in the Islamic economy, and this is assuming that other factors remain the same.

6. Based on the foregoing, we suggest that the Pareto criterion, by itself, is not sufficient to judge efficiency in the Islamic economy.

### **Research recommendations**

1. The criterion of Pareto optimality in judging social efficiency in Islamic economics should be accompanied by qualitative criteria, It can if met, be an appropriate and neutral quantitative criterion.

2. There is no need in the Islamic economy for the criteria that were presented to avoid the shortcomings in the Pareto optimization criterion with regard to comparisons between benefits for the purposes of redistributing income to achieve more justice and efficiency, because these criteria, in addition to being all based on the concepts of individualism and utilitarian, which may not be compatible with the Islamic values, have not been spared criticism in their environment. The Islamic economy, in our opinion, provides us with a guide to the justice of income distribution and social and individual preferences, which the pure mechanism of markets cannot do.

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