



1995

Social responsibility accounting, sustainability accounting and Islam

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Recommended Citation

Sadeghzadeh, Akbar, Social responsibility accounting, sustainability accounting and Islam, Doctor of Philosophy thesis, Department of Accountancy, University of Wollongong, 1995. <http://ro.uow.edu.au/theses/1005>

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In The Name of Allah, The Compassionate, The Merciful

**The beginning of knowledge is to know God and
the end of it is to delegate any affair to Him.**

Social Responsibility Accounting, Sustainability Accounting and Islam

A thesis submitted in fulfilment of the requirements for the award of
the degree

Doctor of Philosophy

From

The University of wollongong

by

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March 1995

Acknowledgment

Praise be to God, the Cherisher and the Sustainer of the world because of every thing, especially because He taught (the use of) the pen¹. He taught man which he did not know (the holy Qur'an, 96:5-6). However, whoever is not thankful to God's creature cannot be thankful to God. Therefore, some valuable contributions must be acknowledged here.

This thesis is completed under the supervision of Professor Michael J. R. Gaffikin, the Head of Department of Accountancy at the University of Wollongong. I would like to thank Professor Gaffikin for his continuous kind and sincere supervision. I am also grateful for the academic understanding and the opportunity to strive he provided.

This work has also benefited from the academic advice of Richard Laughlin (University of Sheffield, England), Alistair Preston (University of New Mexico, USA), Peter Booth (University of Technology, Sydney, Australia), Michael McCrae, Mary Day, Warwick Funnell, Sudhir Lodh and Mary Kaidonis of the University of Wollongong. Likewise, the directions, encouragement and support provided by my colleagues and friends played a major role in completing this research. I am grateful to all of them as well.

I am also grateful to Tabriz University, Tabriz, I. R. Iran and the Ministry of Culture and Higher Education of I. R. Iran for their sponsorship.

I owe a very large debt of gratitude to my parents, my family members, the present and former members of the Islamic Association of Iranian Students at the University of Wollongong as well as the present and former staff of the Iranian Ethnic School for their assistance in providing the supportive environment to carry out the work in this thesis. Once again I would like to appreciate my parents and my family members for their patience and encouragement during the years of my study.

This work is dedicated to those who work for the advancement of humanity.

¹. The first person to write was Prophet Enoch (Idris (P.B.U.H.)).

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Abstract

Social Responsibility Accounting, Sustainability Accounting and Islam

People in the present age have enjoyed unprecedented levels of (material) welfare due to the advancement of science and technology. On the other hand, they have been suffering, considerable reductions in their socio-economic welfare due to the adverse effects of the activities of corporations. Since the 1980s the dimensions of this reduction in people's welfare has grown to a level which threatens, even, the sustainability of humans on the planet. People are well and truly in need of figuring a way out of these crises. This study aims to investigate the role accounting can play to this end.

A great deal of business activities are socially undesirable. The micro local/regional-level socio-economic welfare-reducing problems of the 1960s and 1970s have grown to a macro global/universal-level. Their significance, furthermore, has increased to an extent which makes the bases of the sustainability of humans on the Earth questionable. The socio-economic ills of the 1960s and 1970s, such as air, water, noise, heat and soil pollution, oppression, production and sale of unsafe and faulty products as well as injustice and unfairness resulting from discrimination have all reduced the welfare of members of societies at the micro local/regional-level. With the crises of the 1980s and onward, the macro-level adverse results of the activities of corporations threaten the sustainability of not only the neighbouring habitants, but also the sustainability of all of the members of present as well as future generations. Such unsustainability issues as the greenhouse effect, the global warming of the planet, ozone layer erosion, acid rains, species annihilation and so forth have well and truly surpassed the social responsibility accounting issues of the 1960s and 1970s. A **Sustainability Accounting** is called for.

This study is an attempt to research the way in which accounting can contribute to the solution of these problems. A cause-effect-analysis perspective will be taken to approach the problem. That is, the research will be held on the general assumption that the only basic and crucial way to treat any phenomenon is to perceive and study it in relation to its cause(s). If the causing phenomena are treated, the phenomenon itself is treated as well.

To formulate a system of accounting for the welfare reducing and sustainability threatening issues, therefore, the underlying philosophical foundations/factors which rationalise and justify the undesirable activities of corporations will be investigated. Western capitalistic economic system, the dominant economic religion of most of the present day societies, will be critically analysed and compared with Islamic Economic System (IES). Based on the findings, then, solutions will be researched.

CHAPTER ONE

Introduction

People in the present age have enjoyed unprecedented levels of (material) welfare due to the advancement of science and technology. On the other hand, they have been suffering considerable reductions in their socio-economic welfare mostly due to the adverse effects of the activities of corporations. Since the 1980s the dimensions of this reduction in people's welfare has grown to a level which threatens, even, the sustainability of humans on the planet. People are well and truly in need of figuring a way out of these crises. This study aims to investigate the role accounting can play to this end.

The Problem

The adverse effects of the activities of corporations on the socio-economic welfare of members of societies have increased especially since the 1950s. Actions have been taken by researchers and academicians in the fields of law, political science, management, economics, accounting and other areas to tackle the discourse. The results are the establishment of the new bodies of knowledge by the research and academic centres as well as new enactments by governments and political authorities to regulate the activities of corporations and to control the adverse effects of their activities on the people's welfare. The contribution of the accounting discipline and accountants to the solution of the problem is manifested in the establishment of social responsibility accounting (SRA) and its related fields.

The life styles of people, however, have been influenced dramatically by an increasing pursuit of income, wealth, consumption, material welfare and enjoyment. This influence is rooted in the dominance of materialistic worldviews and the capitalistic ideologies. By its nature, behaviour based on these foundations is self propelling. That is, pursuit of wealth, for instance, becomes accelerated as it is exercised which recalls the old idioms: "the more they have, the more they need", or "if you like something, more is better".

A result of the absence of a preventive/divine worldview in the economics and management of the industrialised societies has been the acceleration and strengthening of materialistic/capitalistic worldview. Consequently, the exercise of social responsibility (SR) by corporations has been limited to complying only with the regulations, and only if the adverse effects of their activities on the welfare of people is known and/or detected. The feeling of conscience, more often than not, is either out of sight or not functioning. The bottom-line is very regrettable - socially, economically, environmentally, ecologically, psychologically and culturally.

The micro local/regional-level socio-economic welfare-reducing problems of the 1960s and 1970s have grown to a macro global/universal-level. Their significance, furthermore, has increased to an extent which makes the bases of the sustainability of humans on the Earth questionable. The socio-economic ills of the 1960s and 1970s, such as air, water, noise, heat and soil pollutions, oppressions, injustice and unfairness resulting from discrimination, production and sale of unsafe and faulty products, have all reduced the welfare of members of societies at the micro local/regional-level. With the crises of the 1980s and onward, the macro-level adverse results of the activities of corporations, threaten the sustainability of not only the neighbouring habitants, but also the sustainability of all of the members of present as well as future generations.

The unsustainability issues include such phenomena as the greenhouse effect, the global warming of the planet, thawing of ice in the Poles and the rise of sea levels, ozone layer erosion, acid rains, soil erosion and degradation, deforestation and tropical desertification, species annihilation, loss of wild life and biodiversity, habitat destruction, air pollution, water pollution, land pollution, noise pollution, heat pollution. Energy usage, resources scarcity, depletion of fishing stock, inequality, population, ethnic peoples, poverty and starvation, third world debt, waste disposal, litter and rubbish, decline in the planet's waste-sink-absorption capacity, water depletion, toxic chemicals, nuclear waste, radioactive waste, insecticides and fertilisers, oil spills and coastal degradation, drinking water quality and loss of the green belt, an accelerating rate of

increase in technological catastrophe and scientific ignorance, pressure on water resources are further examples of sustainability issues.

Accounting for a Solution

This study is an attempt to research the way in which accounting can contribute to the solution of these problems. A cause-effect-analysis perspective will be taken to approach the problem. That is, the research will be held on the general assumption that the only basic and crucial way to treat any phenomenon is to perceive and study it in relation to its cause(s). If the causing phenomena are treated, the phenomenon itself is treated as well.

To formulate a system of accounting for the welfare reducing and sustainability threatening issues, therefore, the underlying philosophical foundations/factors which rationalise and justify the undesirable activities of corporations will be investigated. Based on the findings, then, solutions will be researched.

Outline of the Study

The research will have the following structuring. Chapter two is entitled Corporate Social Responsibility Accounting (CSRA). It will review the literature on the historical background by answering such questions as "Why do societies need corporations?" and "Why did not the social contract of business corporations work?" It will also review the literature dealing with public awareness of the adverse effects of the activities of corporation on their welfare, changes in the public attitudes and concerns toward business corporations. Social benefits (SB), social costs (SC) and social responsibility (SR) will be defined. The chapter, then, will focus on the magnitude and significance of the social costs as threats to public welfare, give the major categories of SCs and will highlight the need for corporate social responsibility (CSR). The analysis will continue by reviewing the literature on the corporate response to the emerged public demands. The chapter will introduce social accounting as accountants' response, will classify

various types of social accounting and then will concentrate on corporate social responsibility accounting (CSRA). Objectives of CSRA, the *raison d'etre* for CSRA, its definition will follow the analysis. The measurement as well as the problems and difficulties involved in the measurement of SCs (and SBs) will proceed the chapter summary section.

Chapter three will continue the analysis of chapter two at a macro level. It, first, defines the problem at the macro level and will give the significance of the study. It, then, will investigate the way in which the CSR issues grew in significance and became the subject of sustainability discourses. The analysis will continue by defining sustainable development (SD) and reviewing the literature dealing with the objectives, concepts, interpretations and principles of SD. SD versus traditional economic development will be compared and the need for a shift from the traditional economic development to the new concept of SD will be emphasised. Based on that, justifications will be given to the need for substituting the traditional accounting systems with an accounting system which best fits the requirements of SD. This thesis prefers the term "**Sustainability Accounting**" (SA) to explain this required accounting discipline. Theories of SA which cover policies or strategies of SA as well as the principles of SA, which cover the needed tactics in applying SA, will be analysed. The chapter will conclude by emphasising the fact that although the sustainability issues may appear much more important than the SR issues of the 1960s and 1970, the opposite is true. Concern in sustainability is but a part and one aspect of SR. The strong need for a returning point, a return to a sound worldview which underlies social and economic activities of people, therefore, will be emphasised. This need will be highlighted by emphasising a need to return from sustainability back to social responsibility. Taking a cause-effect-analysis approach the summary and extension section of chapter three will introduce the major reason(s) for the undesirable activities of corporation which reduce social welfare and threaten human sustainability. The dominance of materialistic worldviews and capitalistic ideologies and the exercise of western capitalistic economic system, the analysis concludes and

introduces as the major reason for the socio-economic ills and ecologico-environmental crises of the world.

On the basis of the analysis of chapter three, chapter four will investigate the way in which adherence to the materialistic worldview and the exercise of capitalistic economic systems cause SRA and SA issues. The investigation will start by defining capitalism and analysing its principle tenets as well as its theoretical (ideal) perspective. The principle tenets will cover such institutions as "private ownership", "material incentive", "market and price system for allocation and distribution", "individualism", "consumer sovereignty", "limited role of government" and "free competition". Then, the analysis will continue by detailing the problems involved in the implementation of "pure" capitalism. The results of the exercise of each separate tenet of capitalism as evident by its adverse effects on the socio-economic welfare and sustainability will be articulated. The suggested solutions to the drawbacks of capitalism will be evaluated and the reason(s) for the insurmountable difficulties of capitalism researched. After analysing the failure of capitalism as well as its proposed alternatives (including socialism) chapter four will leave capitalism with its insurmountable difficulties and societies with their continuous search for a sound and sustainable economic system.

Chapter five will introduce the Islamic Economic System (IES) as a final response to this long-lasting call. Similar to the analysis of chapter four, the basic beliefs, that is, the foundations of Islamic beliefs and Islamic economics will be introduced. The analysis will continue by defining Islamic Economics (IE), providing objectives of the IES and analysing its features. The institutions of "ownership", "incentives for economic activities", "allocation and distribution mechanisms", "individual, *Umma**¹ (society) and state", "Sovereignty" and "competition" will form the components of this part of the analysis. Chapter five will end to a summary section.

Chapter six will critically compare the two systems of capitalism and the Islamic Economic System (IES) using a social responsibility accounting (SRA) and sustainability

¹. Terms with asterisks can be pronounced in three ways; for example: *Umma*, *Ummah* and *Ummat*.

accounting (SA) perspective. The results of the exercise of the tenets and principles of capitalism on the social welfare and sustainability of peoples are compared against their counterparts within the IES. The last sections of the chapter six will be devoted to researching answers to the following questions: "Is the IES only a theory or is it applicable in the real world?", "To what extent the IES has been put into practice?", "What is the state of the art in Muslim countries?" and "Whether Islam and the IES are capable of solving the problems of our present age?". Reference will be made to the Holy Prophet Mohammad's (P.B.U.H.)² government in *Madina**, as a real world example of the applicability of the IES. An Appendix at the end of the thesis will answer to the last question: "Whether Islam and the IES are capable of solving the problems of our present age?" Conclusions will be derived in the summary section to the chapter.

Chapter seven will summarise the whole analysis and will derive the major conclusions. This chapter also will argue the fields in which this analysis can be extended.

Process of this Study

Thus, the principle aim of this study is to demonstrate that there are weaknesses in relying on conventional western economic notions when considering broader social issues. These include environment, social and economical issues and the ecosystem. A possible solution in the form of Islamic Economics is proposed. The methodology used in this thesis is a cause-effect analysis. Thus, it is primarily historical and descriptive in nature and draws on extant debates on issues of SRA and SA.

The analysis will conclude that Islamic Economics System (IES) can best cure the socio-economic ills of societies and the one which matches best the requirements of SD. It is a system which guarantees sustainability and prosperity - prosperous sustainability - of humankind. Therefore, the ultimate economic religion of people, although after doing research for many years or even centuries, is nothing but a system with the characteristics and features of the IES, no matter with whatever nomenclature.

². P.B.U.H. stands for Peace Be Upon Him.

Caveats and Assumptions

Before moving to chapter two it is necessary to state some assumptions used and caveats for this study.

1. The analysis is based on the assumption that the audience does not have prior knowledge of Islamic and Islamic Economic System (IES). Therefore, (a) the use of technical terms will be kept in minimum and (b) a glossary will be provided in the Glossary section.
2. This study will not attempt a thorough introduction of either Islam or IES. It is not among the objectives of this thesis. Instead, this study will attempt a very brief introduction to IES. It intends to introduce IES as a window through which many things can be seen, and can be seen differently to what can be seen and how they are seen through any other window.

A thorough knowledge and understanding of Islam and IES requires much more extensive research works. Neither the time and space limits of this thesis nor the author's abilities permit doing this great task. No claim is made that this work is a comprehensive source of IES.

This research aims to introduce a new perspective to approach SRA and SA issues. Very few research reports exist on this ground.

3. In recent years "non-sexist" writing is becoming a discourse. However, imitating Qur'an, this study prefers to use "he" when reference is made to a third person in general.

CHAPTER TWO

Corporate Social Responsibility Accounting

Introduction

The prolonged debate over corporate/society interrelationships and corporate social responsibility (CSR) is reemerging. The reason is that unethical and immoral activities of corporations seems to be increasing. Societies expect corporations to behave responsibly according to their social contract. Societies, moreover, expect corporations to render an account of the social consequences of their activities with the societies in fulfilling their stewardship and in justifying their legitimacy. The increased public awareness of the adverse effects of activities of corporations on societies puts them in a position to behave more responsibly in reaction to public expectations. Accounting is the most important informational element of (managerial) decision-making and accountants are the trustees of the wealth of nations. Both, therefore, are significantly responsible in devising accounting and reporting techniques for information on social consequences of corporate activities, though it might be difficult.

This chapter is an attempt to investigate the contribution of the accounting discipline and accountants to CSR issues. It will investigate why and how the notion of Corporate Social Responsibility Accounting (CSRA) evolved, what it is, what arguments are involved, and what social problem it intends to solve. The chapter will also analyse the difficulties associated with the measurement and reporting of the social consequences of corporate activities as well as the reasons for the slow progress of CSRA.

The organisation of the chapter is such that a review of the literature of the historical background in section two provides answers to such questions as why do societies need corporations; why corporations, as the production agents of societies, have not worked at the betterment of societies; and what has the public reactions been to the divergence of corporations from societies, their violation of their social contract and to the various adverse effects of corporations' activities on societies. Section three analyses the

literature on the concepts and definitions of social costs, social benefits and social responsibility. The section also introduces the main categories of social costs; highlights the magnitude of social costs, the significance of the problem, the need for feeling social responsibility by corporations and the necessity of behaving responsibly. Section four reviews the literature dealing with corporate response to the shifted attitudes and evolved concerns of public toward corporations. It also reviews the response of accountants, as organisations' elites, to the demands of special interest groups. The section will analyse social accounting (SA), the accountants' response, and its various classes. Section five is devoted to the analysis of corporate social responsibility accounting (CSRA), as the most frequently occurring form of social accounting. This section will provide definitions and objectives of CSRA and will investigate why it is needed. Lastly, the section will discuss the measurement problems of the social consequences of corporate activities, the difficulties involved and the reason for the slow progress of the discipline. Section six will summarise the last sections and will extend the analysis to the areas of the next chapters.

Historical Background

Why have so many corporations appeared in societies? What are their roles? What are their interrelationships with societies and their effects on peoples' lives? Do people (have to) think about the corporations' effects on their life and welfare and take an attitude toward the activities of corporations? What should the corporations' responses be for social changes and evolving public concerns? Do the corporations and the accounting profession (have to) account for the effects of corporations' activities on various classes of people? ... These are only a few examples of many questions which can be posed about the existence and results of activities of the corporations in societies.

The analysis of this chapter aims to provide answers to these kinds of questions within the context of business corporations and the social consequences of their activities, as related to the accounting discipline.

Because of the increase in the adverse effects of the unethical and antisocial activities of corporations on societies during the 1960s and 1970s these kinds of questions were the centre of attention of universities and social scientists. This resulted in the evolution of new areas of social responsibility (SR) and the related topics within the fields of law, politics, management, economics and accounting to name a few.

Corporate social responsibility accounting (CSRA) was one of the hotly debated topics of that time. Many journal articles as well as scientific conferences were devoted to this topic. Many research institutions as well as political bodies were established in relation to the various aspects of the discourse. Courses were offered to teach the topic at various levels in universities around the world. Gambling (1977, UK); Gaffikin (1978, NZ), Bremser (1982, US), Booth, McCallum and Greenwell (1982-83, Australia), Mathews (1983, US); Bremser, Schwartz and Huang (1983, US) and Mathews (1984, NZ) were the pioneers (Mathews 1986, 2).

During the 1980s, however, the topic underwent a recess (Cauthorn 1977, 55). As noted by Hines (1991, 38):

Following its emergence in the 1960s and 1970s, it became rather unfashionable during the early 1980s when the Thatcher government sought to emphasise the importance of wealth creation in the context of a relatively unfettered market economy.

The election of a Conservative Government was swiftly followed by the publication of another Green Paper, *Company Accounting and Disclosure* in 1979. This reversed many of the legislative proposals, including statutory requirements for value added statements and employment reports, and reemphasised the obligations of the company to its shareholders, along with the importance of the stewardship context.

Fortunately, with increasing attention being given to business ethics, social responsibility accounting is reemerging as a "hot" topic (Cottell and Perlin 1991, 140) and "as a serious discussion topic" (Hines 1991, 38). "In recent years the topic of social responsibility and accountability and the underlying factors of ethical conduct among professions (accountants included) has again appeared in the forefront of public attention" (Said 1991, 495) and "still more heated and complex" (Klonoski 1991, 9). "There is evidence of a renewed interest in the social performance of companies and the disclosure of social information in annual reports" (Dunham 1988, Rockness and Williams 1988 and Ness

and Mirza 1991).

The reason for this renewed interest and the attention now paid to the discourse is the fact that "the ethic abuses are common and are on the increase everyday" (Alam 1991, 559). As noted by (Norman 1991, 52) "moral restraints ... are often absent in modern commerce". "[F]raudulent business practices, corporate misconduct" (Rezaee 1993, 46), "increased incidence of white-collar crimes and fraudulent acts" (Said 1991, 495), "demeaning the worker, deceiving the customer, destroying the environment and disillusioning the younger generation" (Rockefeller 1971 in Said 1991, 495) are increasing. As noted by Alam (1991, 559):

Insider trading scandals, fraudulent practices by management and non-reporting of material facts in the financial statements are some of the common ethical problems that we face today.

The underlying philosophical reason for these kinds of unethical and immoral behaviour is the dominance of materialistic and capitalistic ideologies and "the fact that we measure everything in material terms and we want to succeed at any cost. ... There is an immense pressure on the decision makers to compromise personal ethics to achieve corporate goals" (Alam 1991, 559). We keep forgetting that "[m]an is accountable to God for all his actions and will be called upon to render an account of them in the hereafter¹" (Alam 1991, 559).

Because of this neglect and the resultant social ills the area of social responsibility accounting (SRA) has received the most attention (Mathews 1993, 64) and "provides a fertile area for research" (Ness and Mirza 1991). Social accounting "will be an area of growing concern" (Harte *et al* 1991, 231) and business and corporate ethics is perceived to be a major social theme for the 1990s (Alam 1991, 559).

One significant question to be answered here is "Why do societies need corporations?" The next section will answer this question.

¹. "And you will surely be called to account for all that you ever did" (The Holy Qur'an, 116:93).

Why Do Societies Need Corporations?

Corporations come to exist in societies in response to some human need(s) (Dierkes and Preston 1977, 3). People are needy creatures. Neediness is the human being's nature and characteristic. Needs can be satisfied by consuming goods or services. Corporations come to exist as a result of these needs - to produce goods and services which can be (directly or indirectly) consumed to satisfy human needs. The main role of corporation in societies, therefore, is understood from their *raison d'être*; production of goods and/or services to meet societies' needs.

According to Maslow (1987), and other social scientists, all human behaviour is rooted in their needs. These needs motivate humans. They also drive, direct and channel human activities not excluding the establishment of corporations. The corporations come to existence in response to the needs of their founders. These needs have, traditionally and except for some rare instances, been (solely material) profit oriented and profit seeking. That is, corporations exist (and struggle) for the accumulation of capital. This is evident by the formation of such theories as '*the theory of the firm*', '*the rational economic man*' and so on.

One major aspect of the discourse of CSR encompasses corporate/society relationships. Societies need corporations to provide them with their needed products (quality goods and/or services) and in exchange they benefit from societies in having access to societies' scarce resources. Corporations exist to respond to this call, meanwhile to pursue their own objective which is making profit and accumulating wealth. Corporations are not an end in themselves. They exist to serve humans. Nor are they essentially public institutions and creatures of the state, but rather, are private institutions whose existence is recognised by law (Den Uyl 1984, 22-23 in Mathews 1993, 33). An explicit or implicit contract exists and governs their relationships. This is referred to the "social contract of business" (Mathews and Perera 1991, 344 and many others) or "social permission approach" to the analysis of CSR. Mathews (1993, 32) stated.

The social permission approach is based upon the notion that corporation management

must deal fairly with all constituents (constituency theory), be good citizens (citizenship theory) and recognise that corporations are creations of the state (legal framework theory).

On the basis of the ongoing analysis, not only is the role corporations play in societies very important, they even become an integral part of societies, the contributions of which have been regarded as indispensable (Mathews and Perera 1991, 269). In the long run the vitality of corporations and the health of societies are interdependent (Brooks 1986, 1).

The question arising, then, is how well this interrelatedness and interdependence has been acknowledged and to what extent the social contract of business has been put into practice by both corporations and societies. This will be discussed next.

Why Did Not the Social Contract of Business Corporations Work?

In spite of the extensive importance of corporations to societies (Ali ibn AbiTalib (P.B.U.H.)², 329 and 330), unfortunately the image has been impaired and public confidence in corporations has diminished (Anderson, 1977), if not disappeared. Attitudes toward business houses has changed (Anderson 1977, 6) and public concern over social issues has increased (Harte *et al.* 1991, 227). The study of the reason(s) for the endangered and jeopardised social and biological order, the shift in attitudes and the offspring of the shift seems significant in searching for a solution to the dilemma.

Review of the literature about the history of the changes in public attitudes toward business corporations, the aroused public concerns about their activities, the necessity felt by the public for the scrutiny of corporations' activities and government intervention, the evolution of social responsibility issues, changes in relevant theories and the conditions as well as factors which gave birth to social responsibility accounting will, hopefully, help to provide an understanding of why the social contract of business corporations did not work.

Though industrialisation brought higher material progress—and interdependence for industrialised societies, their social and biological order has been imperilled (Klein 1977,

². Ali ibn AbiTalib (P.B.U.H.) is the successor of the Holy Prophet of Islam, *hadhrat* (His Excellency) Muhammad (P.B.U.H.).

1). This "corporate social contract", the general agreement within the business community that corporations be given right to pursue their profit making objectives while operating fairly and honestly and remaining accountable to society (Brooks 1986, 8 and Henderson and Peirson 1994 818) seems not to be followed in practice. Corporations' deviation from the preset agreement is evident. Conflict has proven to exist between "the decisions that serve the best interest of shareholders and decision that serve the best interest of society" (Henderson and Peirson 1994, 874). The interests of societies are not in congruence with the interests of corporations. Examples of imperils abound in the literature and will not be brought here for the sake of brevity. Chapters four and six will show in detail that the dominance of capitalistic ideology and greed in material wealth and secular enjoyment as well as the exercise of the market system in economics are the major reasons for the breaking of social contract and the resultant social ills.

Public Awareness and Shifts in Attitudes and Concerns Toward Business Corporations

Public awareness of the negative aspects of industrialisation³ (Radebaugh and Sidney 1993), particularly since the 1960s, has increased, "public opinion has become critical of the traditional role of private enterprise" (Hariadi 1991, 512) and confidence in corporations has fallen. Expectation from business to feel and exercise more responsibility toward social issues and public welfare has risen and "pressure associated with the corporate interface with society" has grown and "will continue to grow" (Brooks 1986, 1).

No longer are corporations considered pure, private enterprises (Williams, the Chairman of the SEC in 1978) or merely the maximisers of shareholders' wealth but active members of society (Lynn 1992, 105). Public expectation is that corporations "must refrain from crossing the boundaries of others" (Den Uyl 1984, 25 in Mathews 1993, 34). So called "private enterprises" lose their traditional concept and meaning as people

³. For information about the evolutionary stages of public awareness refer to: Brooks 1986. *Canadian Corporate Social Performance*.

become more aware of their effects on "the political process, the quality of life, moral values, economic conditions and social relationships" (Lehman 1983, 24 in Mathews 1993, 44). In 1971 the Committee for Economic Development reported:

Today it is clear that the terms of the contract between society and business are, in fact, changing in substantial and important ways. Business is being asked to assume broader responsibilities to societies than ever before and to serve a wider range of human values. Business enterprises, in effect, are being asked to contribute more to the quality of ... life than just supplying quantities of goods and services (Heard and Bolce 1981, 16).

Various social interest groups (managers, employees, customers, suppliers, lenders, government, host community, etc.) arose (Parker 1986, 69), claimed and proved interests and possession of stakes in corporations. "In a speech to the Harvard Business School in 1969, Henry Ford II is reported to have stated:

The terms of contract between business and society are changing. Now we are being asked to serve a wider range of human values and to accept an obligation to members of the public with which we have no commercial transactions (Donaldson 1982, 36 in Mathews 1993, 26).

The '*stockholders theory*' has been taken over by the '*stakeholders theory*', as coined by Edward Freeman in 1984. He argued that the manager's task was to protect and promote the rights of the various corporate stakeholders. For him stakeholders were represented by members of groups whose existence was necessary for the survival of the firm - stockholders, employees, customers, suppliers, the local community and managers themselves. The following section will provide some more subsequent consequences of the public awareness and shifted attitudes and concerns about business corporations and their activities.

Offsprings of Public Awareness Towards Corporate Activities

Brooks (1986, 9) provided a four-stage analysis of industrialisation as related to corporate-society interrelationship and '*corporate social contract*'. He declared that at our present phase, the fourth stage of industrialisation, "(t)he corporation has come to be seen by many as a vehicle for achieving an effective use of resources in society but is no longer looked upon as having rights which should dominate all others".

No longer is profit believed to work as a precise yardstick for measuring corporations'

activities (Brooks 1986, 10) and judging them. The adequacy of private profit as a measure of the impact of economic activity on the "quality of life" is perceived to be questionable (Harte *et al* 1991, 227). Their activities, therefore, must be measured by more than just short-term profit (Harte *et al.* 1991, 227). "The pursuit of profit should be considered by social consideration and the environment should be protected from industrial malpractice" (Hariadi 1991, 512). As Parker *et al.* (1989, 170) argued:

that formerly "free" goods were no longer costless (eg., clean air and water often required heavy expenditures on regulation, pollution control, and purification), that the model of efficient markets did not capture social externalities, that organisations caused costs that had to be borne by society, and that corporate management had wider responsibilities than just to owners of capital.

Public awareness (of the effects of activities of corporations on society) flourished in the 1960s and had several important consequences. It laid the ground for and made fashionable the discussions about such issues as externalities and the necessity for the corporations to take more responsibility for these externalities. Concerns also arose about such issues as satisfying jobs, stable communities, pollution, and natural resource use, as stated by Parker *et al.* According to the authors, the awareness caused:

moves for greater power-sharing in public and organisational life; an increasing mistrust of government and politicians; abuses of social responsibilities in business; the rise of environmental, consumer, public interest, and civil right groups; leftist political challenges to the private enterprise system; and an environment of greatly improved mass media communications, investigative journalism, interest in public affairs, and demands for increasing disclosure in all areas of public life (Parker *et al.* 1989, 170).

Moreover the public awareness of the 1960s motivated the mass movements of the decade. Some of those, who were responsible for focusing attention on social cost and benefits, were the *civil rights movement*, the *women's movement*, the *environmental movement*, the *consumer rights movement*, and the passage of the *occupational safety and health* (OSHA) legislation (Seigel and Ramanauskas-Marconi 1989, 500).

In such a way did the fields of law, management, economics and politics expand to include the evolved areas dealing with social costs, social benefits, CSR and the related issues. On the basis of the literature, the next section provides some concepts, meanings, and definitions of the most commonly used terms and phrases in the field.

Social Benefits, Social Costs and Social Responsibility

Though intended to produce goods and/or services (hereafter collectively referred to as products) to fulfil society's needs, corporations' activities may have (unintended and by negligence or even intended) adverse effects on societies as well. As stated by Hariadi (1991, 511):

Exchange between a firm and society consists primarily with the use of social resources. This results in a social cost if the activities of a firm leads to a depletion of social resources and a social benefit if they lead to an increase in social resources. ... an externality arises whenever a firm's activities have a negative or positive impact on the environment for which the firm is not held accountable. If the impact is positive, it is an external economy, or social benefit; if the impact is negative, it is an external diseconomy, or social cost.

Based on what has been discussed already, these effects should be accounted for. To perform this task, the acquisition of the knowledge about the nature, concept and the definitions of the terms "*social*", "*social benefits*", "*social costs*", and "*social responsibility*" seems necessary. Mathews (1993, 58) argued that:

The use of 'social' in conjunction with accounting does not seem to work as well as the addition of 'financial', 'management' or 'tax'. These words add a large measure of explanation and precision to 'accounting' that 'social' does not. Perhaps one difficulty ... is the range of total activity which may be included under the heading social accounting.

On the contrary, the definition of 'social', according to the American Institute of Certified Public Accountants (The Measurement of Corporate Social Performance, 1977, 21),

is clearly a broad one. It includes positive and negative externalities - the unpriced efforts resulting from actions taken for private benefit for which compensation is neither paid nor received. However, it also includes a number of priced actions. ... 'social', thus will be applied to an action and impact of either an economic, psychological, sociological nature as long as it is of significant concern to people.

Social Benefits (SB)

Corporations give benefits to societies by providing the societies with their products, as they are established to do so. The quality goods and services traditionally were conceived to be the sole contribution of corporations to society. However, other types of benefits which societies receive from corporations are acknowledged as well.

One category of the unplanned effects of the activities of corporations on societies are welcomed by people since they are for the good of society and society benefits from them. For example, a new firm in a town according to the traditional *theory of the firm*,

is established to produce some products and to gain financial profit. This results, however, in the creation of some new jobs as well as some degrees of enhancement in the economic growth rate of the community, although the main objective of the enterprise is its own financial profit. These are gains for society, of course unplanned by the firm⁴; hence uninvested in by the firm but, of course, beneficial for the society. These kinds of consequences of activities of corporations are welcome by both the society - since the society benefits from them and by the enterprise itself. It is likely that those involved with the enterprise feel an inner satisfaction for the contribution and cooperation it makes to the society without incurring any excessive expense. This strengthens the social, political and economic position of the enterprise, enhances its reputation and goodwill and changes public attitudes toward itself favourably. In the social responsibility literature this is referred to by such terms as "*social benefits*", "*positive externalities*", "*economies*" and the like.

Social Costs (SC)

Contrary to social benefits, corporations' activities may have some adverse effects on society, as well. Instances and examples of these adverse effects abound, but a few references will suffice to lay the ground, namely, oppression, injustice and unfairness resulting from discrimination, unsafe working conditions, production and sale of unsafe products to customers, air, water, noise, heat and soil pollutions, oil spills, nuclear radiation, toxic gas leakages, and mineral exploitations, land distractions, etc.

These are the unplanned effects of corporations on society which affect people adversely in one way or another. These are (actual or potential) threats to people's welfare. The threats might have different features. People, as citizens, will have to pay for that. Those are costs for citizens. Social responsibility literature terms these "*social costs*", "*negative externalities*" or "*diseconomies*". Those are so called because they have the nature of cost to the society. Society either should pay for getting rid of them (for

⁴. The political authorities of the communities, however, should search for investment opportunities that create new jobs as well as new tax and public income sources which result in social and economical growth and development and an eventual increase in public welfare.

example, for cleaning air and water) or tolerate them and suffer. In both cases its welfare is adversely affected by the activities of the corporations.

Freedman (1989) briefly defines social benefits and social costs positive and negative effects of economic development, industrialisation, and technological change.

It is, of course, obvious that social benefits and social costs are not new phenomena, rather emerge from a prolonged debate along the history of human civilisation. The only new aspect is that the conditions of the 1960s and 1970s - the consequences of acceleration in the materialistic and capitalistic worldview - brought them into focus and highlighted them and attracted public attention to the subject. It is also noteworthy that what worries societies are SC only. That is why most of the studies in the CSR literature focus on SC rather than on SB. This study also will follow that tradition.

The magnitude and significance of the problem (the social costs)

As an example of the adverse effects of corporations' activities on societies, the smoke and chemical wastages emitted (either regularly or leaked incidentally/accidentally) into air and water by corporations are most commonly referred to. Polluted air and water can, at least, have the following direct consequences - indirect effects as well as the macro-level effects are not considered at this stage⁵:

- People and other life forms will have to breath unsafe air. This may cause actual or potential diseases, losts of enjoyment, put citizens' lives in actual or potential jeopardy and threaten their welfare both materially and non-materially. According to Ferrall (1991, 234) "illnesses and premature deaths resulting from breathing polluted air costs \$40-50 billion annually";
- Building and art works, some of which may be cultural heritages, lose their beauty and magnificence;
- Fishes and other aqua-culture in lakes and downstream of the polluted rivers will die. This will result in economic losses to agriculture, gardening, sea food sources as well as loss of aesthetic and recreation (Klein 1977, 4); and
- Polluted air will contribute to such macro-level effects as acid rains, the greenhouse

⁵. The macro-level effects will be analysed in chapter three.

effect, the ozone weakening of and erosion in the layer, the global warming of the planet and many other similar unfavourable phenomena, which will be detailed in chapter three.

Both kinds of pollution adversely affect (directly and/or indirectly) various dimensions of human life such as physical, economic, social, psychological, as well as cultural dimensions.

The following citations are some further examples which highlight the magnitude of the problem and the significance of the adverse effects of the activities of corporations on the "social welfare loss" (the phrase used by BIE 1992, 6).

- 1 In a town in West Virginia, miners were digging coal in a tunnel thousands of feet below the surface. Some gas buildup had been detected during the two preceding days. The director of safety had reported this to the mine manager. The buildup was sufficiently serious to have temporarily stopped operations until it was cleared. The manager of the mine decided that the buildup was only marginally dangerous, that he had coal orders to fill, that he could not afford to close down the mine, and that he would take the chance that the gas would dissipate before it exploded. He told the director of safety not to say anything about the danger. On May 2, the gas exploded. One section of the tunnel collapsed, killing three miners and trapping eight others in a pocket. The rest managed to escape.

The explosion was one of great force, and the extent of the tunnel's collapse was considerable. The cost of reaching the men in time to save their lives would amount to several million dollars. The problem facing the manager was whether the expenditure of such a large sum worth it. What, after all, was a human life worth? Who should make the decision, and how should it be made? Did the manager owe more to the stockholders of the corporation or to the trapped workers? Should he use the slower, safer, cheaper way of reaching them and save a large sum of money, or the faster, more dangerous, more expensive way, and possibly save their lives?

He decided on the latter way, and asked for volunteers. Two dozen men volunteered. After three days, the operation proved to be more difficult than anyone had anticipated. There had been two more explosions and three of those involved in the rescue operation had already been killed. In the meantime, telephone contact had been made with the trapped men, who had been fortunate enough to find a telephone line that was still functioning. They were starving. Having previously read about a similar case, they decided that the only way for them to survive long enough for any of them to be saved was to draw lots, and kill and eat the one who drew the shortest straw. They felt it was their duty that at least some of them be found alive; otherwise, the three who had died rescuing them would have died in vain.

After twenty days, seven men were finally rescued, alive, they had cannibalised their fellow miner. The director of safety, who had detected the gas before the explosion, informed the newspapers of his report. The manager was charged with criminal negligence, but before giving up his position, he fired the director of safety. The mine eventually resumed operation.

There are many issues in the foregoing account. ... (De George 1990, 18);

- 2 Three Mile Island, Love Canal, Bhopal: the names conjure up all the public fears and concerns, and intensive media scrutiny, that attend environmental spills and catastrophes. ... in June 1991 the soil underlying the Ciba Division in Cambridge, Ont. was found to be

- contaminated with a herbicide product. Discovery of a 15-year-old chemical spill at a Cambridge, Ont., Plant plunged Ciba, Canada into a lengthy and costly environmental remediation process. ... workers uncovered a large patch of yellow material in the soil and gravel under an indoor section of railway track. Testing revealed that the powdery material was the remains of Dinoseb, a herbicide that Ciba had handled during the mid-1970s. ... the herbicide had been spilled inside the main building about 15 years earlier. The remediation process itself will probably last beyond the year 2000, at an estimated cost of more than \$10 million ... to protect the community's drinking water (Rich 1994, 24):
- 3 A toxic gas leak from a Union Carbide plant in Bhopal, India in 1984 caused 3500 deaths (Wheatley 1993, 15) and a possible 100,000 permanent disabilities (Lebolt 1984, E1). Brooks (1986, 2) quotes from Reuter-AP (1984, A11) a report of the loss of Union Carbide's investment in India and Class action suits for over \$15 billion. In Canada, he quotes from the Lebolt (1984, E1), a news paper story appeared entitled "Union Carbide Canada jarred into safety checks at plants here", which quoted its Chairman as stating that the company has to 'push hard to win back the confidence of people when they doubt us.'" The legal ramifications run on almost ten years later (Wheatley 1993, 15). "... estimates of the cost to just clean up existing toxic waste sites runs to upward of \$100 billion. In addition, the expense of cleaning up our air and preventing future deterioration of the environment is estimated to cost even more (Easterbrook, "Special Report: Clean Up," *Newsweek*, July 24, 1989: 26-42 in Rittenberg *et al.* 1992, 12).
 - 4 ... on 26 April 1986 a nuclear reactor exploded ... in Chernobyl, then the Soviet Union. Thirty-two died in the explosion and its immediate aftermath, ... But far more people will eventually die - some of them thousands of miles far from the disaster site. One US study has estimated that Chernobyl will eventually claim 12,000 Soviet citizens and 21,000 European through the radiation induced cancer. But there is considerable uncertainty about figures like this: worldwide, as many as one million people may eventually fall victim. Even five years later, British sheep in certain parts of the UK were still being declared unfit for human consumption because of the level of radioactive dust on the moors and pastureland on which they grazed (Wheatley 1993, 15-16).
 - 5 An oil tanker of the *Exxon Valdez* struck a reef in March 1989. The cleanup cost was estimated by *The Wall Street Journal* to exceed \$1.25 billion (Ruestein 1990, 40). [it was] ... the worst in the US history ... Fifty million litres of oil scaped to water shore on almost 1200 miles of unspoilt coastline, including three national parks and four wildlife refuges. Millions of sea and coastal animals and birds died ... Exxon drafted thousands of people in an attempt to save wildlife and cleanup what they could of the spillage, spending over a billion dollar in the process. ... consumed thousands of man years of managerial effort and embroiled it in over 150 complicated law suits - which ... could add enormously to the total cost (Wheatley 1993, 17).

These and many similar industrial catastrophes highlight the magnitude of the problem, the significance of the SC as well as social welfare losses and reveal the extent to which human life has been threatened (Rittenberg *et al.* 1992, 12) by the activities of corporations. Neither corporations, nor accounting discipline nor accountants should remain indifferent and neutral to these kinds of phenomena.

The main categories of social costs

Corporate social responsibility, corporate social activities and *social costs* are interrelated and intertwined. Social responsibility is a matter of feeling, a task of the mind. It is the result of recognising the influential factors which, in turn, motivates behaviour. Therefore, the extent to which a corporation's management may feel social responsibility and to what extent the corporation is willing to perform socially responsible actions depends upon its managers' attitudes toward society. This, in turn, is based on their philosophical stand points, which will be discussed in a later chapter.

Social costs are the adverse effects of the activities of corporations on society. The more a corporation's management feels social responsibility, the more socially responsible it performs and the less social costs its activities cause. Hence, social costs are the results of socially irresponsible feelings and actions.

Therefore, to make a precise categorisation of social costs, it is feasible to study the kinds of issues within CSR idea. Brooks quotes from the Report of The Royal Commission on Corporate Concentration (1978, 377) "What issues should be thought of as part of CSR, the carrying out of which is corporate social activities?" According to the answer provided by the report:

The kinds of issues encompassed within the idea of corporate social responsibility can be grouped into three broad categories. First there are things that are intrinsically bound up with a firm's regular business activity: equal opportunity for employment and promotion, occupational health and safety and the quality of working life in general. The second set of issues is slightly outside the regular business operations; in economic terminology they are described as "externalities" and include pollution, product safety and reliability and the social effect of plant locations, closings and layoffs. The third category is more clearly external to the firm, and comprises social problems of larger society, which flow only indirectly, if at all, from business operations, but which business is or arguably should be interested in alternating. Examples of things in this third category are urban decay, poverty in general and regional disparities.

This categorisation parallels the three activities areas meant by CSR as attempted by the Human Resource Network (1979, 3), which will be brought in the section "Definition of Corporate Social Responsibility". Freedman (1989, 507) classified SC from the standpoint of the varieties of their effects. He recognised SC in terms of economic loss, physical loss, psychological loss, or social loss⁶.

⁶. For examples of social cost of each category refer Freedman 1989.

Need for Corporate Social Responsibility

Societies demand responsible behaviour (Tootley 1993a, 2). Public expectation plays an important role in the organisation's and managers' development of social responsibility (Mahon and McGowan 1991, 80). The success and prosperity of the corporations lies not only in the hands of their traditionally conceived autonomous managers, but rather in the hands of the public and special interest groups as well. According to the Iron Law of Responsibility "in the long-run those who do not use power in the way that society considers responsible will tend to lose it" (Frederick *et al.* in Said 1991, 503). "[A] freedom of choice and delegation of power such a business exercise, would hardly be permitted to continue without some assumption of social responsibility" (Greenwood, in Said 1991, 495). It is quoted from the former President of Ford Motor Company that:

management cannot effectively discharge its long-run responsibilities to shareholders unless it also behaves responsibly toward employees, customers, government, education and the public at large. The ability of a corporation to protect and enhance the stockholder's equity depends crustily upon the prosperity, goodwill and confidence of the larger community. Acceptance of a large measure of responsibility toward the community is therefore good business as well as good citizenship.

Knowledge of public expectations from and attitudes towards business corporations places corporate managers in a position to accept social responsibility and to act socially responsible.

The question arising then is *what is social responsibility?* "The notion of 'corporate social responsibility' is controversial" and the issue has been subject to a great deal of analysis (Mahon and McGowan 1991, 79). Its meaning has been interpreted very broadly (Henderson and Peirson, 1994). As a result, to understand it and to provide a comprehensive definition of it are difficult tasks. According to the Human Resource Network, "Corporate responsibility, or corporate 'social' responsibility, means three activities, in order of priority:

1. production and sale of quality goods or services at a reasonable profit -- ie., performance as an economic unit;
2. Maximising positive impact and minimising negative impact on the company's major constituencies: consumers, employees, shareholders, and communities in which the company operates -- ie., social performance as an economic unit;
3. As a major institution in society -- as a presumed holder of the public trust with

significant resources -- the responsibility to contribute to the solution of pressing social problems -- ie., performance as a social unit (1979, 3).

Carroll (1991, 40), similarly, claimed that four kinds of social responsibility (economic, legal, ethical, and philanthropic) constitute total CSR. "[T]here has been a change from 'not doing harm' to 'doing something positive' in terms of the expectations of society towards business" (Lindblom 1984 in Mathews 1993, 30). The scope of social responsibility should encompass not only the economic well-being but also the human (spiritual) aspect of life as well. This is a quite different type of social responsibility which refers to sociohuman obligation, in addition to socio-economic obligation, to others (Davis in Said 1991, 500).

Social responsibility assesses "the effects of personal and institutional decisions (and ensuing actions) on the entire social system" (Anderson 1977, 5). This requires feeling responsibility and, from managerial point of view, utilising the limited and scarce resources "for broad social ends and not simply the narrowly circumscribed interest of private persons and firms" (Frederick, 1960).

Corporate Response

Especially since the 1960s, corporations have become targets for public scepticism and denigration. They have gone under strict public scrutiny and criticisms. This is appreciated not only by governments but by both corporations and professional associations as well.

Governments have taken steps to regulate the activities of business corporations and to control their effects on society. They have created the Environmental Protection Agency (EPA), the Equal Employment Opportunity Commission (EEOC), the Occupational Safety and Health Administration (OSHA), and the Consumer Product Safety Commission (CPSC) (Carroll 1991, 39). They have passed consumer, employee and environmental protection and similar Acts in response to the movements of the 1960s and 1970s (Anderson 1977, 1). The USA, for instance, enacted more than 100 pieces of legislation during 1965-1980 (Heard and Bolce 1981, 248).

Nevertheless, a corporation, also, should pay special attention and consideration to the prevailing circumstances which influence its prosperity at any time. Ali-ibn-AbiTalib (P.B.U.H.) (pages 329-335) emphasised the interdependence of corporations and society. Corporate-society integrity is the bed-ruck of the ability to do business (Clausen, 1977). As noted by Brooks (1986, 1):

both corporations and members of society will benefit significantly from an improved understanding of corporate impact on the quality of life, and the development of management and reporting techniques designed to focus attention on social performance goals.

To display their organisational legitimacy, corporations "seek to establish congruence between the social value associated with or implicitly by their activities and the norms of acceptable behaviour in the large social system of which they are a part (Mathews 1993, 30). A closer look by managers of corporations to the '*social contract of business*' will keep the intelligent manager more aware of the ever-existing necessity for keeping abreast with the ever-changing concerns, attitudes, and wills in their environment. It is vital for the corporations that their managers realise that their corporation is considered a vehicle for achieving an effective allocation and use of resources in society rather than a purely private enterprise. Klonoski (1991, 9) argued for corporations as '*social institutions*' and concluded that:

given the social nature of business, corporations, their owners, managers, and directors are to be encouraged to leave behind the archaic and incomplete vision of the corporation as a narrowly economic, private institution, and to appropriate this new vision of incorporated business. Once this conceptual move is made, more extensive social responsibility for the betterment of all, including business will follow.

To keep abreast with the pace of social change, Mathews and Perera (1991, 269) provide a process of reasoning about the necessity of applying 'Professional Ethics' which is also applicable in the analysis of the corporate response to (changing) public expectations. It is inferred from the authors' argument that corporations "must carry out continual evaluation aiming to serve the ever-changing environment". On the basis of the acquired knowledge of the changing public attitudes and concerns, managers of corporations should take more responsibility toward social issues and toward exercising more control on the effects of their company's activities on society. The more a

corporation updates its studies about public attitudes and concerns, also the more it adjusts its activities to respond the prevailing expectations, the more its fit and survival is guaranteed.

Management's philosophical stand "is a key factor in determining a business' relationship with its community" (Freedman 1989, 502). Intelligent corporate managers must be aware of the strong probability of an inherent conflict where opposing expectations of different parties are to be met. A traditional management objective was mainly based on the traditional "theory of the firm" and subsumed maximisation of shareholders' profit. This perception and practice lent itself to a great deal of criticisms. As discussed before, the traditional "theory of the firm" and the "stockholders' theory" were taken over by "*the social theory of the firm*" and the "*stakeholders theory*", respectively. The intelligent manager tries to blend social and economic goals of the corporation, balance them and act in a more socially responsible manner" (Hariadi 1991, 510). This means he acts humanely, treats employees and customers with consideration, avoids ineptitudes and blunders, cultivates a sharp eye for the important little things and knows how to spend where the returns are high (including non-economic returns) (Said 1991, 501).

From Carroll's point of view:

the total corporate social responsibility of business entails the simultaneous fulfilment of the firm's economic, legal, ethical and philanthropic responsibilities. Started in more pragmatic and managerial terms, the CSR firm should strive to make a profit, obey the law, be ethical, and be a good corporate citizen (1991, 43).

To fulfil this responsibility, Carroll believed that, the stakeholder managers should answer these questions:

1. Who are our stakeholders?
2. What are their stakes?
3. What opportunities and challenges are presented by our stakeholders?
4. What corporate social responsibilities (economic, legal, ethical, and philanthropic) do we have to our stakeholders?
5. What strategies, actions, or decisions should we take to best deal with these responsibilities (1991, 43).

The traditionally recognised boundaries of corporations also have become blurred, and business entities are viewed as '*social institutions*' (Klonoski, 1991). Corporations have

already adopted to public wills and expectations and have accepted greater degrees of social responsibilities compared to the past decades. Brooks declared:

many corporations have shown themselves to be social institutions with the ability to adopt to control aspects of their environment. ... managing their relationship with society, and in consequence evolving new patterns of corporate social performance (1986, 7).

Still more social contributions from the corporations' part is needed, expected and demanded. According to Williams, The Chairman of the SEC in 1979,

the large corporation has ceased to be a private property -- even though theoretically still owned by its shareholders -- and has become, in essence, a quasi-public institution. ... corporations must be seen as ... more than purely private institutions, and corporate profits as not entirely an end in themselves, but also as one of the resources which corporations require in order to discharge their responsibility (p 100).

Accounting, as the most informational element of (managerial) decision-making, and accountants, as the trustees of wealth of nations, have a great part to play here. The increased public pressures and wills to account for social costs resulting from the activities of corporations highlighted a need for an accounting system capable of meeting these wants, and placed the accounting profession and accountants in a position to feel more responsibility in responding to the emerged needs. The need for a new corporate social accounting information system is referred to in the works of Estes (1978), Ramanathan (1976), Dierkes and Preston (1977), Preston (1979) and others. Hence, the need for CSRA emerged, and the accountants had to take action and to device new methods.

Accountants' Response: Should accountants involve in social responsibility issues?

The analysis of the last sections regards the involvement of business in the matters of social responsibility (SR) as inevitable, speaking in the words of Davis (1976, in Mathews 1993, 82). Accounting information (AI) is the most efficient element of (managerial) decision-making. Accounting, as the most significant information system and accountants, as custodians of the nation's resources (Said 1991, 495) and the significant constituents of organisations, can play an important role here. The western accounting system does not take into account the public costs; that is, the cost of pollution, for instance (Alam 1991, 558), neither takes it into account "aggregate social

welfare" (Mathews 1993, 45). "Conventional accounting has difficulty in measuring the social consequences of events because of a lack of credibility, quantifiability, and objectivity" (Hariadi 1991, 510).

This situation cannot continue for much longer (Mathews 1993, 2) and "there must be more to business than just the bottom line" (Cottell and Perlin 1991, 139). There is pressure for the accounts and reports of enterprises to disclose various aspects of the social impact of their operations (Gambling and Karim 1986, 43). The accounting discipline has to find a way of matching revenues with social costs (Robenstein 1989, 28). Accountants should not only join, but rather - because of the key role of their profession - effectively contribute to the opera. The accounting system must, further, "motivate managers to accept social responsibility as part of their normal work" (Anderson 1977, 6). Not only can accountants' contribution be of vital importance to the welfare of society and prosperity of corporations; their contribution is considered to be necessary, "if they are to remain or extend their influence" (Likierman and Greasey 1985, Mayston 1985 in Mathews 1993, 3).

Siegel and Lebensbaum (1977, 25) noted the special abilities of accountants which are needed if contemporary society is going to solve its ever growing problems. The accounting information they provide can and should include items and take a form which improves resource allocation, income distribution and decisions regarding the social responsibility fulfilment of corporations. Likewise, accountants' contribution can be of great importance in developing social performance criteria, which is thought to be essential for bringing the notion of social contract from the level of ideas to the realm of operationality (Ramanathan 1976, 322). Accounting provides information which forms the basis of decisions that result in economic and social actions. If the resulting activities disrupt the environment then accounting is, at least in part, accountable for the disruption (Beams and Fertig 1971, 22).

Improved social accounting is needed in order to operationalise the corporation's contribution to the betterment of our society, to the quality of life (Rockefeller, III

1972). The Study Group on the Objectives of Financial Statements proposed that one of the objectives of corporate reporting should be "to report on those activities of the enterprise affecting society which can be determined and described or measured and which are important to the role of the enterprise in its environment" (1973, 54).

Mathews and Perera (1991) as a concluding remark of their study state that accountants should understand the critical atmosphere (of being under constant public scrutiny) since they "must adjust their organisation and attitude to it if their worthwhile contribution to society is to be maintained and strengthened." In a similar expression Brooks discussed the necessity of accountants' response to social fulfilment of corporations and stated:

Accountants, in particular, should have a significant interest in deepening their understanding of corporate social performance because they are expected to provide information for corporate decision making and disclosure. ... many accountants now realise that existing measure of revenue, cost and profit are not precise or comprehensive (1986, 2).

There exists a need for companies to discharge their extended social responsibility through the production of social reports and a need for accountants to prepare themselves for their new role and potential involvement (Gray and Perks 1982, 102). Brooks perceived it necessary for corporations to keep a score-card which would provide at least two significant services:

1. ... a mechanism for measuring, monitoring and controlling the corporation's impact on society ... and
2. answer with facts to the criticisms of other special interest groups who may think that their particular concern is the only one of importance ... (1986, 1)

As the review of the literature reveals, the evolved public attitudes toward business corporations and the prevailing public concerns have brought about great social changes and placed corporations in new circumstances. The new circumstances have "led to demands for social information that would help to describe and monitor the social changes taking place and which ... would also provide a basis for the development and application of better methods of evaluating and controlling social change" (Spicer 1978, 333). That is, the new circumstances have highlighted a need for some kind of accounting for the effects of activities of corporations on societies (Anderson 1977, 7 and Parker 1986, 71) on the basis of which organisations can make the best possible

decisions (Anderson 1977, 5). According to Freedman (1989, 503) also a need for corporate social accounting has been noted by many people in the late 1960s and early 1970s.

The accounting profession has already acknowledged the noted need for social effects of corporate activities and has responded to the evolved demands. In 1977, Robert Anderson referred to the then recent awareness of corporations of the effects of their actions on society and said:

Fortunately in recent years corporations have become more aware of how their actions affect society. They have come to realise that accounting can no longer be restricted to simple financial facts and figures; it must also deal with the social consequences of their decision making (1977, 5).

As a concluding remark of his journal article Anderson, argued:

management would be wise to develop a concise statement of the corporation's social objectives (even if they are simply making a profit without breaking law), and then to annually measure and record the estimated progress toward those objectives. Thus the first step in SRA is for a corporation to set general objectives with the special consideration to social objectives (1977, 7).

Social Accounting (SA) as well as "the formation of the International Federation of Accountants" (Said 1991, 496) was the response of the accounting profession to the public expectations and to the demands of the age (Parker 1986, 71). Various types of reporting social responsibility accounting information have been developed and put into practice. Corporate social responsibility accounting (CSRA), one aspect of SA, now, serves as a fashionable area in the accounting discipline. Although significant progress has been achieved, the area still demands even more attention.

Social Accounting (SA)

Social accounting (SA) is a new development (Mathews and Perera 1991, 334). It has been much the child of the 1970s (Parker, -1986). "Although its origins can be traced to much earlier times" (Gambling 1984, 136), the main impetus for this kind of accounting can be particularly identified with the 1960s and 1970s (Gambling 1984, 136 and Parker *et al.* 1989, 170).

SA accounts for social responsibility of business corporations. Social responsibility of a

corporation, is represented by a series of obligation (Demers and Wayland, 1982) "to not only safeguard its own interest ... but to be accountable to society at large for its impact upon that society's well-being (local community, environment, national interests, etc.)" (Parker *et al.* 1989, 168). In the author's analysis, "[t]he business environment includes natural resources, the community in which it operates, the public it employs, its customers, competitors, and other firms and groups with which it deals." Therefore, [SA] involves

the publication by an organisation of information that will allow interested parties to evaluate its performance in terms of social impact (both positive and negative) (Gray and Perks 1982).

From the point of view of Parker *et al.* (1989, 169) 'social accounting' is:

the construction and maintenance of organisational social information systems designed to evaluate an organisation's social impact, assess the effectiveness of its social programs, and report upon the overall discharge of its social responsibilities.

And the ASCC defined social accounting as:

the reporting of those costs and benefits, which may or may not be quantifiable in money terms, arising from economic activities and substantially borne or received by the community at large or particular groups not holding a direct relationship with the reporting entity ... (ASCC, 1975, para. 6.46).

For Freedman (1989, 499) social accounting means "identifying, measuring, and reporting on the relationship between business and its environment." He argued that "(t)raditional accounting and economics models focus on the production and distribution of goods and services to society. Social accounting extends these models by incorporating the effects of the firm's activities on society. ... social accounting can be seen as a useful approach for measuring and reporting a firm's contribution to the community." It shows "the actions a company is taking or failing to take in the realm of social responsibility" (Cottell and Perlin 1991, 146).

The theoretical framework of accounting for social costs and benefits was developed by Ramanathan in 1976 on the basis of Pigou's analysis and the notion of '*social contract*'.

In Ramanathan's view,

the corporations possess an implied contract to provide net social benefit to society. Net benefits are the difference between a firm's contribution to society and the detriments it causes to society. ... social benefits should exceed social costs and corporations should therefore make a net contribution to society.

He believed that accountants should measure the historical net contribution (analogous to a balance sheet) and annual net contribution of an entity to society. (Freedman 1989, 505).

Classifying the Various Types of Social Accounting

The field of accounting-social responsibility is complicated by the use of variant terminology and concepts (Jensen 1976 in Tootley 1993a, 2). This has been, mainly, due to the popularity of the discourse during the 1960s and the 1970s, which attracted research interests, as well as the ample research works done since then. This, in turn, has made the classification of social accounting difficult.

However, Mathews (1993, 58) provided the following classification:

Social Responsibility Accounting (SRA): SRA refers to disclosure of financial and non-financial, quantitative and qualitative information about the activities of an enterprise. This area also includes employee reports (ER), human resource accounting (HRA), and accounting and industrial democracy issues. Alternative issues in common use are social responsibility disclosures and corporate social reporting. This is the most frequently occurring form of social disclosure but perhaps lacks the depth of philosophical concern which is present in [total impact accounting].

Total Impact Accounting (TIA): This term is used to refer to the aggregate effect of the organisation on the environment. To establish this effect it is necessary to measure both private and public costs (externalities). Because of the origins of this area it is often referred to as cost-benefit analysis (CBA) or social accounting (thereby confusing the use of that term) and sometimes as social audit. This area has now been expanded to include the subject matter of accounting for sustainable development.

Socio-Economic Accounting (SEA): Socio-economic accounting is the process of evaluating publicly funded activities, using both financial and non-financial measures ... with a view of making judgements about the value of the expenditure involved in relation to the outcomes achieved.

Social Indicators Accounting (SIA): The term SIA is used to describe the measurement of macro-social events, in terms of setting objectives and assessing the extent to which these are attained over the longer term. The outcome of this analysis should be of interest to national policy makers and other participants in national and regional political processes.

Societal Accounting: Societal accounting is the term used by some writers in this area to suggest a form of accounting that integrates all other forms into an overarching or meta-theory. The discussion of societal accounting is conceptual since implementation at this level is not envisaged or even possible to achieve.

Some other types of social accounting also are mentioned in the literature. Anderson (1977, 6) discussed *social audit* and defined it as "... testing (internally and externally) how well the social responsibility accounting is working".

For Parker *et al.*, the whole range of terms employed to describe the social impact of corporations include 'social accounting', 'social reporting', 'social responsibility accounting', 'Social Audit', and 'Social Responsibility Disclosure'. The most widely used since the early 1970s has been the phrase 'corporate social accounting' (Parker, *et al.* 1989, 168). Similar phrases have been referred to in the work of Anderson, 1977; Den Bergh, 1976; Dierkes and Preston, 1977; Filios, 1991; Parker, 1986; Preston, 1979, and Ramanathan, 1976.

Corporate Social Responsibility Accounting (CSRA)

As studied in the last section, social responsibility accounting (SRA) "refers to disclosure of financial and non-financial, quantitative and qualitative information about the activities of an enterprise" (Mathews 1993, 58). Different groups including individuals as citizens, workers, consumers; managers of organisations; social planners such as community authorities and politicians of the countries use information provided by corporate social responsibility accounting information systems (CSRAIS).

Building a truly comprehensive theory of corporate social responsibility requires the development of a theory for determining the appropriate reciprocal duties that exist among corporate stakeholders (Bowie 1991, 62). The following sections will analyse the corporate side of this reciprocal set of duties only since the topic is devoted to **corporate** responsibilities and not to the stakeholders'.

Objectives of Corporate Social Responsibility Accounting

The definition of the objectives of corporate social responsibility accounting (CSRA) has been attempted by Ramanathan. He summarised the objectives of SRA as:

- 1 to identify and measure the periodic net social contribution of an individual firm, which includes not only the costs and benefits internalised to the firm, but also those arising from externalities affecting different social segments.
- 2 to help determine whether an individual firm's strategies and practices that directly affect the relative sources and power status of individuals, communities, social segments and generations are consistent with widely shared social priorities, on the one hand, and individuals' legitimate aspirations on the other.

- 3 to make available in an optimal manner, to all social constituents, relevant information on a firm's goals, policies, programs, performance and contributions to social goals. Relevant information is that which provides for public accountability and also facilitates for public decision making regarding social choice and social resource allocation. Optimality implies a cost/benefit-effective reporting strategy which also optimally balances potential information conflicts among the various social constituents of a firm (1976, 323).

Anderson (1977, 7) viewed social responsibility accounting "as a management tool to assist in establishing social goals and objectives by ensuring more complete consideration of total business needs and public expectations." He further argued that SRA "should also encourage operating personnel to think through the total consequences of their actions. Finally, it should report more completely on the use of all corporate resources."

Accounting reports, therefore, should include the following areas:

employment practices, industrial democracy, pollution and environmental impact, product safety, energy usage, research and development, productivity, and community projects and relationships; economic growth and efficiency; education; employment and training; civil rights and equal opportunities; urban renewal and development; conservation and recreation; culture and the arts; medical care and government (Jackman 1982 and Mathews 1993, 11-80-82).

Gray *et al.* investigated the objectives of social reports and stated:

The objective of social report should be to inform society about the extent to which actions for which an organisation is held responsible have been fulfilled (Gray *et al.* 1987, 82-3, 85 in Mathews 1993, 76).

Dierkes formulated the objective of social responsibility reporting as follows:

To give social accounting information for its own management decision and to evaluate the extent to which the social actions and expenditures have achieved the social objectives (Dierkes 1979 in Hariadi 1991, 513).

"[T]o survey the environment, to provide information on social goals, to provide inputs to specific decisions, and to evaluate the overall effectiveness of the system " are stated as the primary functions of the social accounting information system (SAIS) by Mathews (1993, 68):

CSRA intends to transform ethical information into financial information, or at least information in financial terms (Cottell and Perlin 1991, 140). To accomplish this goal SRA should take into account not only private gains but also social benefits/welfare and not only private costs but also social costs or externalities, such as moral degradation, social disintegration and environmental pollution (Alam 1991, 552-558).

Why Corporate Social Responsibility Accounting Is Needed?

The question generally posed is that "Why do corporations (incur excessive costs to) provide non-traditional socially oriented information?" "What benefits are sought in exchange to the costs incurred?" Estes referred to the deficiencies—of the traditional accounting system and its three-dimensional hindrance of the progress toward steady-state equilibrium and proposed for an alternative. According to Estes (1978, 104):

A different accounting and evaluating system is needed to provide the information required for wise and equitable use of increasingly scarce resources. This system should remedy the defects of the present system by measuring the impact of the corporate activity on society instead of on the corporation, reflecting the value of production to society instead of the corporation, and accounting for all costs to society including those not internalised by corporation.

Such a system ... is based on the premise that the goal of steady equilibrium cannot be achieved ... without an appropriate information base. The base must provide information about the full impact of economic instruments, of which the corporation is the single most powerful and most important in industrialised nations, including all important non-internalised effects. It should also provide information about the distributional effects of corporate activity as a basis for allocation and regulatory decisions by different constituent groups and by different localities.

Mathews classified the arguments which justify the use of scarce resources in making further accounting disclosures into three broad (market related, socially related and radically related) groups. According to Mathews:

Market-related arguments ... seek to associate social responsibility disclosures with changes in earnings or share prices.

Socially related arguments are used where additional disclosures would be made to establish the moral nature of the corporation, to satisfy the implicit social contract between business and society and to legitimate the organisation in the eyes of the public. In this case, the groups for whom the information is intended include employees, customers, the general public and government agencies. Shareholders and creditors may also find this information of benefit.

Radically related arguments are those put forward by critical theorists who believe in an alternative model for society, including a different role for accounting (1993, 9).

Market related arguments focus on the information content of additional disclosures and try to find a positive correlation between the disclosure of socially oriented information and improved market behaviour as measured by share price or return on capital employed. The works of Bowman and Haire, 1975; Belkaoui, 1976; Jensen, 1977; Sturdivant and Ginter, 1977; Spicer, 1978; Ingram, 1978; Cherry, 1978; Flamholtz, 1978; Buzby and Falk, 1979; Anderson and Frankle, 1980; Shane and Spicer, 1983; Mahapatra, 1984; Teoh and Thong, 1984; Guthrie *et al.*, 1987; Booth *et al.*, 1987; Teoh

and Shiu, 1990; Mathews and Perera, 1991 and Mathews 1993 are examples of studies on this ground.

The expression by Shocker and Sethi about the notion of social contract represents the socially related arguments to justify social responsibility accounting disclosures:

Any social institution - and business is no exception - operates in society via a social contract, expressed or implied, whereby its survival and growth are based on:

- (i) the delivery of some socially desirable ends to society in general and ,
- (ii) the distribution of economic, social, or political benefits to groups from which it derives its power. ... an institution must constantly meet the twin tests of legitimacy and relevance by demonstrating that society requires its services and that the groups benefiting from rewards have society's approval (Shocker and Sethi 1974, 67 in Mathews 1993, 23).

As a management tool the CSA system "can be used to assess the degree to which social responsibilities are being met" (Den Bergh 1976, 52) and to what extent the social contract of business is being followed. Heard and Bolce (1981, 249) state some more uses of provided information concerning social impact of corporate activities.

It provides answers to questions of various special interest groups and leads to improvement in company's public image. Publication of social responsibility fulfilment information, also, helps to identify problems and opportunities that should be brought to the attention of staff and line managers, and gives all employees a better understanding of the company's mission in general and its social objectives in particular.

Corporate managers, therefore, must have more accurate and detailed information about both the external environment, and about their own activities to cope with that environment for two general reasons:

1. To make informed internal decisions about social performance and about the allocation of the resources to social priorities;
2. To be in a position to respond meaningfully to external demands for information about the company's social impact and social programs (Human Resource Network 1979, 25).

From the Network's point of view, which seems as being the most organised analysis of the usefulness and use of social responsibility accounting information in the literature, "the anticipatory company needs a comprehensive social measurement and reporting system for both internal and external reasons:

Internal

1. To provide management with information on social performance, both in terms of social impact of the business, and of the effectiveness of specific social programs;
2. To help integrate social performance with financial performance through the assignment of managerial accountability;

3. To lay the foundation for the integration of social planning with more traditional corporate planning; and
4. To provide feedback on the effectiveness of social policy planning (Which is the identification of priority social and political issues and the development of response to those issues).

External

1. To be able to respond to the expectations of various constituencies for information about the company's social performance -- ie., to manage disclosure;
2. to be in a better position to influence the public policy process;
3. To prepare for "social audits" by public interest organisations, government legislators; and,
4. To improve the company's overall public image.

Clearly, the internal and external reasons for social measurement and reporting are directly related. ..." (Human Resource Network 1979, 25).

Definition of Corporate Social Responsibility Accounting

To reach a generally accepted definition of CSRA is nearly impossible. It is because of the nature of social science, which is the matter of human feelings. Human feelings and observation differ from person to person. As a result, most phenomena are defined differently by different writers. This is especially true and common for the social science and humanities, as conceptualised by the most commonly-cited tale by Moulavi (the Persian most famous philosopher and poet) about some blind persons who went to visit an elephant for the first time. Each of them likened the elephant to something such as a "beam", a "pan", a "branch of a tree" as they had touched only one part of that huge animal - such as its leg, ear, trunk, etc.

Moulavi used the example of incomplete and imperfect perceptions of the blind persons of an elephant only to show how shallow/superficial and deficient peoples' understandings could be about a phenomenon. This could be due to their inconclusive/imperfect vision as well as their poor capabilities to acquire the thorough knowledge and understanding of the object or phenomenon which is to be defined. The same example could be applied in a situation when people try to define and/or describe social phenomena.

Therefore, a generally accepted definition of CSRA (Brownell 1977, 431) and a

"unifying paradigm for corporate social reporting (CSR)" (Gray *et al.*, 1989) are not given so far although "generally accepted social priorities (G.A.S.P.)" (Brownell 1977, 433), "generally accepted conceptual framework for social accounting" (Parker 1986, 89) and "Generally Accepted Social Responsibility Accounting Principles" GASRAP (similar to the Generally Accepted Accounting Principles, GAAP) (Anderson 1977, 11), have been argued for.

The variant terminology and concepts employed by the researchers is one reason for the dearth of a generally accepted definition of CSRA (Parker *et al.* 1989, 169). Hariadi (1991, 510) perceived the lack of the generally accepted standards of social reports as a result of the lack of a generally accepted theory of CSRA. And Hariadi conceived it as a probable effect of the absence of generally accepted theory about the role of business in society⁷.

Although these difficulties exist, CSR scholars have attempted some definitions. The followings are examples from the literature:

Ramanathan, a leading proponent of social responsibility accounting, defines CSR as 'the process of selecting firm-level social performance variables, measures, and measurement procedures; systematically developing information useful for evaluating the firm's social performance; and communicating such information to concerned social groups, both within and outside the firm' (Cottell and Perlin 1991, 140).

CSR is "the measurement and reporting , internal and external, of information concerning the impact of an entity and its activities on society" (Estes, 1976 in Hines 1991, 38).

Measurement

According to the American Accounting Association (1975), in the report of the Committee on Social Costs, three levels of measurement may be involved in the development of social accounting. These are:

Level I where the activity is identified and described. Examples might be the identification of polluting materials which are being discharged into the environment.

Level II where the activity is measured using non-monetary units. The polluting materials are measured in terms of rate of discharge, the timing of flows, and compliance with existing standards formulated in physical terms such as parts per million (ppm).

⁷ The last sections discussed the role of business in society. Chapters five and six also will discuss this issue.

Level III where attempts are made to value the effects of discharges. The measurements are converted to financial estimates of costs and benefits to all stakeholders, ranging from shareholders to the general public.

The Association stated that

A Level III measurement is made when we convert the effects of the discharge into financial terms by measuring the financial effects of damage to property and health.

The last type of measurement is the most difficult, because it involves valuation and the assignment of costs to events which are external to the organisation. Examples might be: damage to the paintwork of neighbouring housing areas; the destruction of parks and gardens; and the creation of health problems. These valuation problems may be difficult to overcome and the values assigned to the effects of pollution will be open to dispute. The discounting to present value of the cost of future events, such as repairs or replacements, or the payment of damages, is obviously problematic. These measurements are made, however, in calculating compensation for injury, loss of earnings or death from accidents. Even if the local pollution measurement and valuation issues can be resolved, difficulties will arise where the damage is remote from the source in terms of time and distance. To continue the sulphur dioxide example, the effects of low levels of atmospheric sulphur dioxide over long periods of time may be more damaging to health than is currently recognised. This development (because it is currently undermined) cannot be allowed for in our valuation. Similarly, if sulphur dioxide discharged in one country leads to acid rainfall in another, many miles away, this event cannot be measured and valued in any meaningful way at the present time. However, this position may change as the result of recent environmental problems ... (in Mathews 1993, 60).

Henderson and Pierson grouped the approaches to accounting for social responsibility activities by companies under four main headings as follows:

1. **Inventor Approach:** With this approach a company complies and discloses a comprehensive list of its socially responsible activities. There are, of course, drawbacks for this approach.
2. **Cost Approach:** With this approach, not only will a company list its socially responsible activities but it will also disclose separately the amount spent on each activity.
3. **Programme Management Approach:** With a programme management approach, a company not only discloses its socially responsible activities but also discloses the extent to which the objectives of its activities have been achieved. ... The company's annual report would include an explanation of the objectives of its social programmes, information on what the company is doing to meet the objectives and the results of the programmes. This approach would enable users to judge the success of the company's socially responsible activities against its revealed objectives.
4. **Cost Benefit Approach:** With a cost-benefit approach, a company discloses those activities which have a social impact and the cost and benefit of those activities. Calculating the cost of a socially responsible activity such as pollution abatement is generally straightforward. However, a major difficulty with this approach is that of defining and measuring the benefits. The benefits will be reflected by either a reduction in social costs or an increase in social benefits (Henderson and Pierson 1994, 872-876).

Abt Associates Inc., an American consultant firm, has implemented a full cost-benefit approach to reporting its social activities in the forms of social income statement and social balance sheet⁸.

⁸. For the statements see Henderson and Pierson, 1994.

Difficulties with Corporate Social Responsibility Accounting

Several major problems create difficulties with social responsibility measuring and accounting. These difficulties are also mentioned to be the main reasons for the slow progress in the area.

The first difficulty, according to Siegel and Ramanauskas-Marconi, emanates from the existence of some type of a value system. The authors argued:

How does the entity determine what is a contribution or a detriment to society? One person's nectar could be another person's poison. Some detriments such as pollution are universally disliked ... However the evaluation of other items may depend on the beliefs of management (Siegel and Ramanauskas-Marconi 1989, 505).

The second problem involved in the application of CSR is the measurement difficulty. The (adverse) effects of social costs and/or benefits on different social constituents are both direct and indirect. Moreover, not all the results of social benefits or detriments of corporations on society becomes evident in the short-run. As a result, all three steps of measurement; that is, determining social costs and social benefits, quantifying relevant items, valuing in monetary terms the total amount quantified; lend themselves to subjectivity and make the measurement and accounting difficult. "How can accounting record the full cost of consuming resources like air and water" (Robenstein 1989, 29), lung diseases and cancers resulting from pollutions or unsafe work area and lives lost due to the toxic gas leak from the Union Carbide plant in Bhopal, India?

For this reason, some scholars such as Benston (1982, 102) viewed the resolution of social responsibility issues outside the scope of accounting and concluded that "the social responsibility of accountants can be expressed best by their forbearing from social responsibility accounting", though their skill might prove useful to those who attempt to estimate the costs and benefits of externalities. Siegel and Ramanauskas-Marconi further state that:

the difficulty of measuring the true detriment or contribution of an activity often leads us to measure what is easy to quantify and to use that number as a substitute for the true cost or benefit. ... so decisions based upon it may be suboptimal (1989).

The authors conclude that for the advancement of corporate social accounting better measurement devices and techniques should be developed.

The poor contribution of market has been another factor in the slow progress of the discipline. Our market system penalises rather than encourages the socially responsible entities in favour of the irresponsible ones. As Hariadi stated:

Economic resources are generally allocated in favour of those companies and industries which are the most profitable in conventional accounting terms. However, some highly profitable companies and industries would show radically different results if social costs and social benefits were taken into account (1991, 510).

Culture-accounting interaction also is taken as a new perspective to analyse and justify the variant degrees of acceptance of social responsibility. Mathews stated:

Recent work on the effects of culture on accounting may explain why social accounting developments do not always gain the support which might be expected, and also why the level of support varies both over time and between geographical areas (1993, 37).

It is held that "national culture may influence professional perceptions of unethical business practices" (Chira 1979, Burger 1984; Guy and Sullivan 1988 in Karnes *et al.*).

Chapter Summary

This chapter intended to investigate the role which the accounting discipline can play in reducing the adverse effects of corporate activities on societies and in curing the resultant social ills. The premise of the analysis is the existence of a social contract between corporations and society on the basis of which corporations are allowed to utilise the resources of societies to produce goods and services and meanwhile gain economically. On the other hand, however, societies perceive corporations as their production agents and expect them to behave socially responsible and to provide reports which show the fulfilment of their responsibility through which their existence is legitimised.

The earlier sections reviewed the literature dealing with the increased unethical and immoral activities of corporations and the resultant social costs. The magnificence of the problems was highlighted by reference to examples of catastrophic consequences of corporate activities such as "a collapsed mine in West Virginia", "the very sad story of the toxic gas leakage in Bhopal, India from the Union Carbide plant"; "the explosion of a nuclear reactor in Chernobyl, then the Soviet Union"; "the spillage of fifty million crude

oil from an Exxon Valdez sheep after it strock a reef" and "the discovery of a 15-year-old chemical spill at a Cambridge, Ontario, Plant of Ciba Canada". These and the similar disasters which cause the very regretful non-material and material outcomes have, as a risk (Rubenstein 1990, 42), threatened human life (Rittenberg *et al.* 1992, 12) and have reduced social welfare. The main categories of social costs were also given. Reference was made to the increased public awareness and the negative attitudes toward corporations, as well as the strong need felt for the socially responsible behaviour of corporations.

The analysis then went on to review the responses of corporations to the emergent public expectations; their feeling more social responsibility and acting accordingly. The section presented social accounting (SA) as the response of accountants, as a major part of corporate response and introduced the various classes of SA.

Section five was devoted to the analysis of corporate social responsibility accounting (CSRA) as the most frequently occurring form of SA. The analysis continued by discussing the objectives, the reason CSRA is needed and by defining CSRA. After analysing the issues dealing with the measurement and reporting of the social consequences of corporate activities, the section detailed the difficulties and the problems involved in measuring and reporting.

The analysis revealed that all three steps of measurement; namely, determining social costs and social benefits, quantifying relevant items, valuing in monetary terms the total amount quantified, lend themselves to subjectivity and make the measurement and accounting difficult. Accounting cannot record the full cost of consuming resources like air and water. Neither can it value the lung diseases and cancers resulting from pollutions or unsafe work area nor the lives lost due to the toxic gas leak from the Union Carbide plant in Bhopal, India, or in the collapsed mines or due to the explosion of nuclear reactor in Chernobyl or due to the oil spillage by Exxon Valdez.

The involvement of 'value systems', the inherent difficulty of determining and measuring the parties influenced and the degree of influence the lack of credibility, quantifiability,

and objectivity" (Hariadi 1991, 510), the fact that market economy discourages socially responsible behaviours by directing resources to socially irresponsible entities and the intervention of culture are among the difficulties involved in the measurement and reporting aspect of CSRA. These factors have, therefore, caused the slow progress of the discipline.

CSA, as a result, does not encompass the whole areas of the results of corporate activities which are perceived as an actual or potential threat to public welfare. It is not efficient enough to solve the problems of exercising corporations and societies. Managers of corporations, politicians, (specially ethical) investors, employees and many other special interest groups still suffer from the dearth of effective and efficient corporate social responsibility accounting information systems. *'Designing corporate social responsibility accounting information systems'*, therefore, seems an urgent call which demands the attention and effort of researchers. Chapters five and six will provide a response to this call.

Hines (1991, 41) argued that "the future of CSR is closely linked to the way the environmental debate will develop into the 21st century" As Hall and Jones stated

[i]t will be interesting to see whether the present wave of enthusiasm for green issues and corporate responsibility will boost corporate social responsibility. If it does not, corporate espousal of social disclosure will be revealed as promises and platitudes - empty corporate propaganda (1991, 34).

The reemerged waves of enthusiasm for green issues and corporate responsibility, according to this analysis, are the results of the dominance of capitalistic ideology and market economic systems. Accounting for green issue, sustainability accounting, is the subject of the next chapter and the extent to which the dominance of capitalistic ideology and market economy contributes to social, economical, cultural, ecological and environmental issues is the subject of chapter four.

CHAPTER THREE

Sustainability Accounting

Introduction

The micro or local/regional level social and environmental ills of the 1960s and 1970s have been well and truly surpassed by such macro or global/universal level issues as the greenhouse effect, the global warming of the planet, thawing of ice in the Poles and the rise of sea level, ozone layer erosion, acid rains, soil degradation, deforestation and desertification, species annihilation and so forth. This chapter maintains that the accounting discipline: (a) has supported such behaviour, (b) is accountable to present and future generations and (c) can contribute significantly to the solution of the problems. Based on these beliefs this chapter investigates the question - what role can accounting play in what has come to be known as "sustainable development¹ (SD)". In other words, what is "**sustainability accounting (SA)**"?

Social Responsibility Accounting (SRA), a new field of study and research of the late 1960s and early 1970s and analysed in the last chapter, evolved as the contribution of the accounting discipline to solve socio-economic ills and problems of the time. Nevertheless, neither were the socio-economic ills cured, as hoped, nor was the accountability of the social responsibility accountants fulfilled. The problems have grown in significance and to their global dimensions affecting the environment and the ecosystem. The environment and the ecosystem are being abused and "seem destined to get worse" (Meer 1994, 2) and the pace is accelerating as time passes.

The examples of SRA issues, the subject of chapter two, are air, water and noise pollution, production and sale of unsafe and/or hazardous products, urban blights, minority discriminations, and so forth. The major characteristic of these social ills is that

¹. Following the literature, Bebbington *et al.* (1994, 2) *inter alia*, this thesis will use "Sustainability", "Sustainable Development", "Environmentally Sustainable Development" and "Ecologically Sustainable Development" interchangeably.

they are mainly the micro or local/regional level problems commonly known as Social Costs (SC) or (negative) externalities.

These social problems, still unsolved, have been well and truly surpassed by a set of "problems of increasing complexity and intensity" (Evan 1993, 25) which are of global dimensions. The main human problem, that is, **sustainability**, has been perceived to be questionable and threatened. The continuance of human and other life on the planet has, especially for succeeding generations, been jeopardised by the adverse effects of the present style of our economic lives. In this way, new fashionable and popularised phrases such as "*Sustainable Development (SD)*", "*Environmentalism*", "*Green Economy*" and the like have surpassed the prolonged discourse of social responsibility (SR). Unless corrective actions are taken, humans are approaching the threshold of "an inevitable slide to disaster" (Jacobs 1993, 3) with an accelerating pace.

This new field of SD aims to integrate ecology and environment to (the traditional concepts of) economics and economic development (Lothian 1992, 1); hence, it is sometimes called "Ecologically Sustainable Development (ESD)" or "Environmentally Sustainable Development (ESD)".

This chapter argues that the accounting discipline:

- has supported such behaviour of business corporations by its silence (Rubenstein 1990, 40) as well as by depicting an incomplete and distorted picture of the enormous effects of entities on the society and biosphere (Stone 1991, 14). Therefore, the accounting discipline:
- has no excuse or convincing answer to the consequences of such behaviour before present and future generations, and
- can contribute significantly to the solution of the problem (Stone 1991, 14).

Based on these beliefs this chapter investigates the question of what role accounting can play in defining and elucidating what has come to be known as "Sustainable Development": In other words, "What is **Sustainability Accounting?**"

The chapter is organised so that the next section will define the problem and justify the significance of the study. Section three links the discourse of corporate social responsibility (CSR) to the discourse of sustainability. This section will briefly review the definitions, concepts, interpretations, objectives and principles of SD. Moreover, the section will provide a comparative analysis of SD versus traditional economic development and will investigate the necessity for a change. Having acknowledged the necessity of SD, section four intends to answer the question "what should be done in practice?" The section introduces "**Sustainability Accounting (SA)**" as the appropriate answer to this question. It then goes on to analyse the theories of SA which covers the policies or strategies of the solution to the problem as well as the principles and tactics of SA. Section five takes a basic or comprehensive perspective to the problem. This section argues for the necessity of an infrastructural change in peoples' worldview, value system and attitudes so that they become ready to do with less goods and services than they desire in order to save the planet for the next generations, their grand children. The section will also highlight the need for the corollary changes in social and economic institutions. Section six is the last and the concluding section. It reviews the findings of the chapter and gives the final suggestions of the research.

Defining the Problem, Significance of the Study

Defining the Problem

Is the Earth capable of meeting humans' needs? Can the Earth provide the material humans need for their survival and endure the consequences of their actions? The answers fall into two-opposite categories:

1. Some argue that the Earth is rich enough to support human life without any difficulty in the belief that the "[e]cosystems are inherently self-sustaining" (Evan 1993, 7).

2. The second group (Maltuse and many others) believe, on the contrary, that the resources the Earth provides to human kind for free are limited and there is, of course, an end to them.

Baines *et al.* put the two sets of arguments together and stated:

... adherents to the human exemptionalism paradigm tend to see the world as infinite and humans as essentially omnipotent, while adherents to the ecological paradigm tend to see the world as finite and humans as inevitably constrained by that finiteness (1988, 2).

A third critical world view, however, reconciles the dichotomies and declares that the Earth is, certainly, rich enough to support human life without any difficulty **subject**, of course, to wise and reasonable human interaction with the planet.

This means feeling responsibility and behaving responsibly in all walks including correct utilisation of its endowments and an appropriate rate of population increase (Bebbington *et al.* 1994, 16). And the Earth is unable to meet human needs if they continue their extant style of abusing the planet and its bounties. Future generations will have to do without such significant key resources as petroleum (Meer 1994, 2). According to the US National Academy of Science and the Royal Society of London jointly:

... if current [UN] predictions of population growth [from 5.3 billion now to 8.5 billion in 2025] prove accurate, and patterns of human activity remain unchanged, science and technology may not be able to prevent irreversible degradation of the environment or continued poverty for much of the world (in Duthie 1993, 41).

Now, the next question is: How should human beings utilise the natural resources endowed to them so that a match and harmony between them and the environment which supports them is maintained?

Those who subscribe to the first world view believe that the ecosystem will produce the material needed by humans automatically, continuously and freely. There is no constraint and no need for conservation. The adherents to the second world view, on the contrary, believe in a need for conservation in the utilisation of natural resources, if the aim is to keep human life on Earth going and social and economic development sustained and sustainable.

The sustainability of human life on the Earth has been threatened by several environmental crises, which are dramatic indicators of unsustainability (Stone 1991, 1). People are worried about the outcomes of the depleted mines and exhausted natural resources as a result of the ever accelerating exploitation of them. There is an obvious competition within as well as between nations in exploiting natural resources. Moreover, the more the extraction and use of natural resources, the more the deteriorated appearance of nature, the more waste returned back to the environment as well as other adverse effects and unfavourable consequences. The consequences of waste on the survival and sustainability of human life is no less significant than the consequences of the depleted mines and the exploited resources.

The sustainability of human life on the planet is of course in jeopardy due to the macro global level issues such as thinning of the ozone layer, global warming, loss of biodiversity, species extinction, loss of wild life, habitat destruction, acid rain, desertification and tropical deforestation, soil erosion and degradation, air pollution, water pollution, land pollution, noise pollution, heat pollution, energy usage, resources scarcity, depletion of fishing stock; starvation, inequality, population, ethnic peoples, poverty and starvation, third world debt, waste disposal, litter and rubbish, decline in the planet's waste-sink-absorption capacity, water depletion, toxic chemicals, nuclear waste, radioactive waste, insecticides and fertilisers, oil spills and coastal degradation, drinking water quality and loss of green belt, an accelerating rate of increase in technological catastrophe and scientific ignorance, pressure on water resources, etc. etc (Gray *et al* 1993, 25, 29 and 286 and Gillis *et al.* 1992, 537). These phenomena result from human and business activities which are direct and indirect threats to human welfare. Direct threat can take the form of physical incapability of human beings to respond to the consequences of these changes. Increase in the instance of skin cancer as a result of "the ozone layer erosion" is one example. Increase in lung diseases as a result of increased carbon dioxide in the air is another. Appendix A provides further examples of phenomena which threaten human welfare and sustainability.

Indirectly, the resultant changes in the conditions of the ecosystem and the biosphere will cause some other secondary and, still, significant problems. Thawing of the ice in the Poles and the rise of sea level as a result of "the global warming of the planet" together with its own consequences is one example. The annihilation of the species (animals, birds and plants) directly by humans and indirectly due to the changes in the conditions of the ecosystem, is another example. To quote from the WCED, "Our Common Future" (1987, 13):

The diversity of the species is necessary for the normal functioning of ecosystem and the biosphere as a whole. The generic material in wild species contribute billions of dollars yearly to the world economy in the form of improved crop species, new drugs and medicines, and raw material for industry. But utility aside, there are also moral, ethical, cultural, aesthetic, and purely scientific reasons for conserving wild beings.

Acid rain² and other kinds of pollution in the air and water, as another example of indirect effects of ecological issues, poison the air we breath and the water we drink; damage the aqua-life, wild life and the rain forests; and cause deforestation, desertification and soil degradation; each of which is a huge source for many other adverse effects which reduce human welfare by limiting the material they need for their survival. Many other critical issues threaten our sustainability. The ecological and the "environmental crises" (Meer 1994, 3) are "hammering about our ears" (Jacobs 1993, 1).

Are human beings capable of coping with these phenomena? Is the Earth capable of assimilating waste of this magnitude? Will the ecosystem manage these problems and continue carrying its enemy, this two-footed selfish creature, automatically and continuously to infinity?

². Acid rain is produced when sulphur dioxide, nitrogen oxide or other pollutants are emitted from a power station or other sources, and later fall on land or buildings. It does not necessarily fall as rain - it can also fall as dry deposits or gas.

The results are varied. Some Scandinavian lakes have become so acidic that nothing can live in them - they are dead. The German government has calculated that 50 per cent of West German forests contain damaged trees. And historic monuments are being eaten away by the acid deposits.

Power stations are the main producers of sulphur dioxide. Cleaner power stations and reduced output are the best ways of halting the damage.

Companies can help by reducing the energy they use. Less energy means less output from power stations, which means less pollution (Sadgrove 1992, 83).

Although humans may afford, physically and financially, correcting the consequences of some adverse effects of their activities, many other problems still fall beyond their controlling capability. For example, they may afford such huge cleanups as the Exxon Valdez's fifty million litres oil spill³ on almost 1200 miles of unspoilt coastline in 1989 (Gray *et al.* 1993, 65) or Ciba's soil contamination in Cambridge, Ontario in 1991, which was a big threat to the safety of the drinking water of the city (Rich 1994, 24). However, humans can do nothing, for instance, about the unfavourable consequences of changes in the conditions of the ecosystem, the rise of sea levels and the extinction of species and so forth. Although they may take precautionary actions for such consequences as skin cancer and other safety hazards resulting from ozone layer erosion, lung diseases resulting from carbon dioxide and other poisonous gas dumped into the air, disease resulting from asbestos, their welfare is, still, threatened.

Human activity has already overshoot the Earth's ecological limits and unless corrective steps are taken immediately widespread hunger and economic dislocations as a result of population growth and resource depletion is more certain (Meadows and Meadows 1972 and 1992 in Batley and Tozer 1993, 38). Batley and Tozer believed that "the response to Meadows and Meadows' 1992 assertions is not derision and debate but worry and concern."

From SA point of view, the involved opportunity costs still is a further dimension to be add to the issue. The money, effort, time and other resources spent either for clean-up and rectifying the consequences of the ill-deeds or even for the research work, seminars, conferences, and administrative affairs related to environmental and ecological issues could have been spent on other developmental purposes and can be in the future.

Human beings are, therefore, weak to rectify the unfavourable outcomes of their business and non-business activities. Moreover, the planet has some maximum carrying capacity (Gray *et al.* 1993, 282). "[T]he Earth's resources are limited and its ability to absorb pollution [and waste] is therefore finite" (Meadows and Meadows, 1972) On the bases

³. These examples are already discussed in chapter two.

of these factors the only remaining solution, and the way which leads human kind to emancipation, is to exercise control over behaviour and activities and to prevent the occurrence of the adverse effects. And this is nothing but undergoing a substantial change and consenting to the principles of SD (Batley and Tozer 1993, 38).

Significance of the Study

Human sustainability on the planet, the ecosystem and "the environment [are] in a much more critical state than we are to admit" (Muller and Koechlin 1992, 33). The environmental danger facing the planet "is considered to be one of the most serious problems" (Kokubu *et al* 1994, 2); so serious that governments, pressure groups and individuals are not going to ignore it (Wheatley 1993, 42). "Protection and restoration of the environment have emerged as critical goals of this decade" (Rittenberg *et al.* 1992, 24). This encourages many writers to label the 1990s the Decade of the Environment (Bhat 1992, 54). "The maintenance and enhancement of the natural quality of the environment is a matter of national importance (RMA 1991, Sections 5, 6 and 7 in Meer 1994, 26). As an example, "following his party's win in the 1990 election Hawke identified the environment-development area as a priority area for his government to address" (Lothian 1992, 2).

Chadick *et al.* provided some useful statistics:

EPA [Environmental Production Act] has designated some 1200 locations as highest priority sites needing long-term cleanup. By the end of fiscal year 1990 these sites on the National Priority List (NPL) had consumed \$48 billion of the EPA's superfund program. The EPA estimates that another 1000 to 1200 sites will be added to the NPL by the year 2000. Estimates for total cleanup under the superfund are now placed at \$500 billion, with cleanup taking 40 to 50 years to complete. This does not include Department of Defence or Department of Energy sites.

In addition, companies are spending \$23 billion per year for ongoing disposal activities and cleanup of retired Resource Conservation and Recovery Act (RCRA) site. By the year 2000 this number will probably increase to \$34 billion per year.

The cost of cleaning up air emissions currently runs at \$25 billion per year. The 1990 Clean Air Act amendments will increase that number by an estimated \$12 billion per year by 1995 and an additional \$435 billion per year by the year 2005.

Meeting water quality standards set by the Clean Water Act costs about \$30 billion per year.

There are two other noteworthy costs: An estimated \$200 billion will be required to clean up asbestos across the country, and an additional \$28 billion will be required to clean up storage tank contamination.

The overall known environmental liability is currently estimated to be between two and five percent of the gross national product (GNP) (1993, 18).

Chadick *et al.* then highlights the significance of the problem as well as the significance of the need for accounting for these problems by stating: "[a] problem of this magnitude cannot simply remain under the 'future expense' rug. Some means of accounting for these liabilities must be found." Therefore, "[a]ssessing the environmental impacts of business has become an important issue for corporations" (Amano 1992, 32).

The ongoing analysis and the given examples highlight the significance of the discourse and the urgency of required actions. "The past two decades have seen a marked increase in the demand for corporate accountability" (Tozer and Mathews 1994, 1). "A need for urgent action" (Batley and Tozer 1993, 39, and others) is the response of almost everyone (scholars and/or lay people) to the crises threatening human welfare and life.

From Corporate Social Responsibility (CSR) to Sustainability

People did not take seriously and did not pay due attention to the micro or local/regional level social and environmental ills of the 1960s and 1970s which resulted from the unethical, immoral and anti-social activities of business corporations. Business did not take required corrective actions to remedy the corrupt and to change their behaviour. Further, the luxurious and wasteful consumption patterns of individuals have been added to the problem and made it worse.

As time passes, these adverse effects of business activities coupled with the adverse effects of increase in population and decrease in ethics have grown in size and magnitude. The emergent social ills of the 1980s and onwards, as analysed already, have been of great dimensions. These problems are, of course, different from the problems of pollution of air in a town or water in a river which the social responsibility accounting discipline of the 1960s and the 1970s attempted to remedy. The problems of the recent type affect almost everybody in the world and hence are propounded worldwide.

These problems have threatened human and other life-forms on the planet. The small scale social and environmental ills of the last few decades have grown in size and significance. That is, the problems falling in the CSR category have been surpassed by the much more significant problems of "sustainability" which affects everyone in the world - living in cities or rural areas, close to or far from the sources of ecological/environmental problems and living presently or one who belongs to a future generation. There has been an unwelcome move from the smaller scale negative externalities to a full size unsustainability, from regional social ills to global socio-ecologico-environmental ills; and as a result a subsequent shift from CSR issues to sustainability discourse, demanding urgent preventive and corrective actions, as well as a specific accounting system.

Governments and international organisations have acknowledged the significance of the problem and have felt the need to take actions and steps toward the solution of the problem. The World Commission on Environment and Development (WCED) was established in 1983 by the United Nations to develop 'a global agenda for change', including proposals for long-term environmental strategies for achieving sustainable development. "Our Common Future", commonly known as "the Brundtland Report", was presented as the final report of the Commission in the 1987. Similar organisations at national as well as international levels have been established aiming to rectify the corrupts and to prevent the environmental/ecological ills.

Definition, Objectives, Concepts, Interpretation and Principles of Sustainable Development (SD)

Various definitions of sustainability exist in the literature. There is still no general consensus on exactly what sustainability means (Gray *et al.* 1993, 281). Its meaning and application is still evolving (Bebbington *et al.* 1994, 11). The WCED (1987, 8-9) defined "Sustainable Development" (SD) as:

development that meets the need of the present without compromising the ability of future generations to meet their own needs.

...a process of change in which the exploitation of resources, the direction of investments, the orientation of technological development, and institutional change are made consistent with future as well as present needs.

This definition forms the substance of almost all other definitions. In the Australian context, SD has been interpreted as requiring the achieving of six objectives as follows: improving material and non-material well-being; intergenerational equity; intergenerational equity; maintaining biodiversity and ecological systems; dealing cautiously with risk and uncertainty; and recognising the global dimension. (ESD Working Group 1991, 1 in BIE 1992, 3). In his discussion about SD Lehman (1992, 12) identified the following "three major areas of concern in developing accountability:

1. greed versus altruism;
2. present versus future generation;
3. human species versus the rest of the life".

However, it is noteworthy that the core area of concern in SD is a balance between the need-fulfilment of present and future generations. The necessity of such a balance forms the corner stone of all arguments about sustainability. Sustainability, then, is the way of maintaining environmental quality for future generations (Evan 1993 and Pearce 1988, 36), or "as a policy goal for ... physical and natural resource management" (Batley and Tozer 1993, 41). For (the task force on sustainable development of) the CICA SD requires "conducting business in a way which meets the needs of the enterprise today, while protecting, sustaining and enhancing the human and natural resources needed tomorrow" (in Bebbington *et al.* 1994, 13)

The SD formulated by the WCED (1987, 8), for instance, aims "to ensure that it meets the needs of present, without compromising the ability of future generations to meet their own needs". In a similar way Stone wrote:

In the context I am using the term "sustainability", relating it to accounting, I am expressing a concern for the implication of present decisions and actions on future generations. This concern would certainly include the resource depletion and environmental crises that motivated Gray's "Greening of Accountancy" (1991, 1).

Diagram 3-1 (in Appendix B) is a graphic illustration of this balance. Line AB^4 is the budget line which represents the various sets of present/future consumption. Point A represents, theoretically, a point at which all resources are consumed at present while point B represents, again theoretically, the condition at which present consumption is zero and all which can be consumed is saved for future consumption. Point E_1 is the representation of a real world condition. At this point q_1 amount of resources are being consumed at present and q_2 amount is saved for future. This is an equilibrium condition at which the propensity of present generation to consume strikes a balance with its propensity to save resources for the consumption of future generations - of course with regard to the limitations imposed by the budget line AB.

Diagram 3-1, the analysis of present/future consumption by means of indifference curves, presented in Appendix B, comes here.

Any increase in present generation's consumption from q_1 to q'_1 either results in the reduction of q_2 to q'_2 or requires a shift of the budget line from AB to $A'B'$ in search of a new equilibrium at E_2 . However, the maximum service the Earth can provide in the form of resources⁵ or in the form of its assimilative capacity is limit. Graphically, AB cannot shift to $A'B'$. Therefore, any increase in q_1 leads, inevitably, to a commensurable reduction in q_2 . This is to say that the over-consumption of the present generation represented by the area of $q_1q'_1E_2E_1$ causes a reduction in the future generations' consumption equal to the area of $q_2q'_2FE_2$.

On the basis of the ongoing analysis, the basic accounting equation, $A=E+L$, holds in SA, too. That is, the assets (A) a generation, uses belongs partly to itself (E). Partly, however, belongs to others (L) - future generations, let say.

4. The equation of line AB is $P_xX+P_yY=I$. In this equation X denotes the basket of goods and services which can be consumed at present, Y denotes the basket of goods and services which can be consumed at future, P_x and P_y denote the prices of X and Y respectively, which for simplicity in this equation are assumed to be fixed. I denotes income, in our analysis the goods and services provided by the Planet.

5. Including the assimilative capacity of the Earth. In this thesis the assimilative capacity of the Earth also is considered as one of the Earth's resources.

To keep q_1 in control and to prevent any unnecessary increase; that is, any wasteful use of the limited resources which threaten sustainability, requires serious actions. So far governments have exerted such control policies as taxation, subsidies, licensing, penalties and the like.

However, the management literature, especially in the western capitalistic societies, reveals the fact that the exercise of "direct control" has proved to be unsuccessful (Preston⁶, 1993). Hence, most literature dealing with ecological, environmental protection activities and SD issues are ethically oriented and "most definitions [of Sustainability] derive from a common school of ethical principles regarding intergenerational and /or intergenerational fairness or justice" (Pezzy, 1989). ESD believes in the translation of ideals into reality (Lothian 1992, 1). Chapter six will analyse this issue more fully.

Two issues need to be discussed here with regard to the ethical control and sustainability:

1. Sustainable development is pervasive and all-inclusive, which "encompasses a broad range of issues including economic justice and political freedom, ..." (Stone 1991, 1). Similarly, ethics also is an encompassing discourse. All aspects of human behaviour and business performance can be interpreted ethically. Since it is not possible to analyse all aspects of sustainability or ethics here, the research will focus on the environmental aspect, which "encompasses ecological, sociological, and economic decisions" (Hundloe *et al.*, 1990 in Milne 1994, 2).
2. Acknowledging the need for moral and ethical control is not to defy the need for the direct controls. Rather, both direct or legal/authoritative and moral/ethical controls or self-control are alongside, not across, each other. To the extent self-control or ethical control works, there will be no need to exercise direct control instruments. Section four will delve relatively more deeply into the direct controls by introducing

⁶ Personal discussions with Professor Alistair Preston of the University of New Mexico, USA on his visit to the University of Wollongong in 1993.

"Sustainability Accounting". Section five will take the analysis to a point at which the significance of self-control is emphasised.

Chapters five and six also will emphasis the significance of the need for self-control.

Sustainable Development (SD) Vs. Traditional Economic Development: The Need for a Shift from the Traditional Concept of Economic Development to the New Concept - "The Sustainable Development"

The dominance of capitalistic ideology has encouraged materialistic hedonism. As a result, wrong notions of economic terms such as income, development, and welfare have dominated the underlying theories of the development models built and put into practice in western capitalistic societies. There have been unrecoverable damages to the ecosystem and unaffordable costs to human kind before humans realise, as recently as the 1980s, that:

- (1) these models are not internally consistent; that is, the outcome of the models do not match their assumptions,
- (2) the ecosystem is not able to provide the amount of resources they need and to assimilate whatever waste results from the exercise of the models, therefore, the models are not externally valid; hence, they are unsustainable,
- (3) new models must be developed and put into practice in order to make the development sustainable.

The development models which the enhanced capitalism prescribes have their own specific unfavourable consequences with regard to the environment and the ecosystem. Those models pay scant attention to the environment as a production factor. They are characterised by the emphasis placed by people and nations on more income, more wealth, more consumption, more economic and material welfare, more production, and more exploitation of natural resources, resulting in more waste and more damage to the ecosystems and the environment.

The models have taken the ecosystem and the environment - the resources they provide and their ability to absorb waste - for granted; namely, as "free goods" (Meer 1994, 26) available in limitless supply at zero price (Gillis *et al.* 1992, 523). They did not appreciate that "[l]ike economic systems, ecosystems depend on fixed stocks of material resources" (Evan 1993, 6). The environment has often been used without due regard to or accounting for the damaging effects that economic development has on ecosystem, habitats and other life-forms (Lehman 1992, 13). Our industrial world has already used much of the world's ecological capital" (McChesney 1991, 3) to the extent which it "has begun to exceed their sustainable rate of production" (Evan 1993, 7). "We have mismanaged environmental resources to an extent far beyond any mismanagement of resources such as labour or capital" (Gabel 1992, 2) and far beyond the extent that any of us really wish to live on the planet (Wheatley 1993, 25). In the present system "business income measurement is subject to serious and perhaps fatal distortions and omissions" (Stone 1991, 2). The consequences have been illusory gain in income and permanent losses in wealth (Repetto 1990, 40).

The traditional models of development have been based on the classical economic ideology and the well-known theory of self-interest and the invisible hand of Adam Smith⁷. This theory proved to be unsuccessful in that the prescribed self-interest resulted in unfettered competition in the exploitation of the limited natural resources and a deteriorated environment, amongst other adverse, unfavourable and welfare-threatening effects, the significant issues excluded from Adam Smith's calculus. As Rubenstein stated:

Adam Smith told us the invisible hand of self-interest would guide resources to their best use in the creation of wealth. With hindsight, we can point to the Industrial Revolution as the source of the gap between the ordered world of double-entry bookkeeping and the modern reality of large-scale pollution and its attendant costs. That period brought with it the first evidence of unplanned social costs; double-entry accounting could not handle

⁷. Adam Smith wrote: "Every individual endeavours to employ his capital so that its produce may be of greatest value. He generally neither intends to promote the public interest, nor knows how much he is promoting it. He intends only his own security, only his own gain. And he is in this led by an invisible hand to promote an end which was no part of his intention. By promoting his own interest he frequently promotes that of society more effectually than when he really intends to promote it" (in Gabel 1992, 2). Chapter five will analyse Adam Smith's theories in more detail.

pollution from tall smokestacks, the dislocation of human life and the consequences of child labor (1990, 42).

The environmental abuse is not actively discouraged. In turn, this situation has given rise to 'detrimental externalities' (Meer 1994, 5). "Economic ... is not generally regarded as a friend of the Earth. Economic progress destroys and modifies natural environments, and appears to make the quality of the environment a dispensable item in the pursuit of raising living standards" (Pearce 1988, 34). But this "cannot continue unabated" (Breach and Crawford, 1977 in Meer 1994, 1). "Market failure or missing markets" is one source to the environmental problems (BIE 1992, 1 and Peskin 1989, 1)⁸. As noted by Milne:

Only a very few of these notions of value [for environmental resources] are reflected in the prices of market transactions, however. Consequently, only a very few notions of value for environmental resources are currently included in business accounting information systems (1994, 2).

Similarly, GDP figures do not properly record the depletion or the degradation of natural capital. They fail to reflect adequately changes in natural capital stocks (such as mines and forest) through depletion or pollution. In fact they say little about economic efficiency or long-term sustainability (Duthie 1993, 41). Market forces [which behave on self-interest] cannot achieve SD. SD means achieving a particular level of environmental protection - maintaining the natural capital stock. (Jacobs, 1993, 16). "[E]xclusion of 'natural capital' was claimed to discourage the implementation of policies that result in Sustainable Development" (Lutz and Munasinghe 1991, 19).

In criticising the traditional models of economic development Repetto⁹ (1990, 40 and 1992, 64) referred to "a dangerous asymmetry in the way we think about natural resource versus other assets" and declared:

A country can cut down its forests, erode its soils, pollute its aquifers and hunt its wildlife and fisheries to extinction, but its measured income is not affected as these assets disappear. Impoverishment is taken for progress.

The difference in the treatment of natural resources and other tangible assets provide false signals to both economists and politicians. It reinforces a false dichotomy between the economy and the environment that leads human beings to ignore or destroy the latter in the name of development. It confuses the depletion of valuable assets with the generation of income, and it promotes and validates the idea that rapid economic growth can be achieved and sustained by exploiting the resource base.

⁸. Poverty, ignorance, and institutional failure, including market failure and government failure are claimed to be other causes of Environmental Degradation (Gillis et al. 1992, 539).

⁹. Repetto is chief economist at the World Resource Institute (WRI) (Duthie 1993, 39).

Gillis *et al.* similarly stated:

The system of national income accounts in use by virtually all countries suffer from several flaws that have serious implications for prospects for sensible environmental policies: the system (and the way it is normally used) greatly distorts the role of natural resources in economic processes. ... The SNA emphasises Gross Domestic Product (GDP), which is primarily a measure of market activity. The SNA framework is defective on a number of counts in its treatment ... of natural resources the SNA framework does not recognise natural resources as economic assets, not does it take into account the consumption of natural capital. Consequently, the protective service provided by these assets are not valued, whereas the additional expenditures forced on society by the loss of these services are valued. As a result, there is an asymmetry in the way we measure, and therefore the way we think about, the value of natural resources. This asymmetry gives rise to patently anomalous and uneconomic practices.

... under the SNA, a country could exhaust all its forest resources and, in the process, silt up its rivers and harbours, but measured national income would not be reduced as these resources vanished. But a country that year after year draws down its assets that happen to take the form of natural resources by mining, drilling, or logging may enjoy high rates of GNP growth for long periods, even in the absence of any new investment in sustaining the stock of these natural assets. Under prevailing system of natural income accounting, the economy's health would appear robust during the draw-down. ...

This defective system of information provides false signals to policy-makers that discouraged the implementation of policies that could lead to SD. Clearly then, a high premium should be placed on the incorporation of the concepts of environmental accounting in the national income accounting frameworks of all nations, developing or otherwise. ... (1992, 551)

Attention must be paid to the interface between economy and the environmental (supra) system, as the environmental economists do (Pearce 1988, 18). Attention must also be paid to the "impossibility of separating the environmental effects from the environmental causes" (Batley and Tozer 1993, 39). Thampapillai delineated the simplest economic system comprising the sectors of households, firms, government, financial and overseas sectors. He criticised the significant omission of the environment in all definitions of the economy, contrary to the services the environment provides to these sectors. He referred to the following environmental services:

The environment provides three basic functions in an economy as follows. Both households and firms derive raw materials such as air, water, minerals and other necessities from the environment. Households and firms also generate waste and pollution for which the environment acts as receptacle. The environment also provides amenities, such as facilities for recreation, beautiful scenery and unspoilt beaches. Hence the economic system needs to be redefined as one where the environment is included as an integral component of the system. Such a redefinition with respect to a simple economy is presented in Figure 1 (1992, 2).

Figure 1 here. It is put in Appendix C.

Sound environmental management and economic development are complementary goals: they are not in conflict (Pearce 1988, 34 and WCED 1987 in Raar 1994, 3). "The only way to get the environment onto the economic agenda is to demonstrate that the environment matters to the economy" (Pearce 1988, 39). True Sustainability demands a radically different economics which fully recognises the process and limits of the biosphere (Rees 1990, 18)). Unless humans appreciate the significant role of environment in economic development and include environment protection policies in the development theories, unless they "re-introduces equity and moral considerations into global economic development" (Rees 1990, 22); that is, unless they substitute SD to the traditional economic development, their sustainability is still in jeopardy.

What Should Be Done? Accounting for Sustainable Development, or Sustainability Accounting (SA)¹⁰ Vs Traditional Accounting; Accounting for Traditional Economic Development

Are societies eligible for, and entitled to, information about how their surrounding environment and the ecosystems which supports them deteriorate as a result of the activities of corporations and individuals? Do corporations feel responsibility in providing information about how they harm and damage the environment and threaten the ecosystem? To what extent do the dearth or incompleteness of environmentally related accounting information contribute to false decisions and eventually to unethical, immoral and anti-social behaviour? Do accounting and accountants have any responsibility in this regard? To what extent has accounting failed to fulfil its responsibility; that is, to what extent has accounting supported the ecological and environmental crises, and hence, threatened sustainability of humans and other sentient life-forms (Lehman 1992, 12)? What is the implication of the concept of SD for accountants, "[w]hat role can business, and ultimately accounting, play in this concept" and "how does the concept of SD affect accounting" (Batley and Tozer 1993; 38, 45 and

¹⁰. SA may be used as synonymous to Environmental Accounting (EA) or Natural Resource Accounting (NRA). This research holds that SA is much more comprehensive than the other two. They are aspects of SA. For simplicity, this thesis will use all three interchangeably.

47)? Are there accounting alternatives for these environment-destroying transactions (Rubenstein 1990, 40)? This section will answer these and the similar questions.

In his study entitled "Accounting and Sustainability", Stone argued:

As an academic accountant ... my motivating questions are:

1. Does accounting as we currently teach and practice it contribute to the current environmental crises and the broader issues of a non-sustainable economy and society?
2. How can accounting contribute in effective and positive ways to respond to the environmental crises and the broader problems of sustainability (1991, 1)?

According to the literature, societies have a right to information about the actions of entities which have significant effect on the welfare of individuals or elements of society (Gray 1990b, 22; Gray 1990c; Gray 1991, 34; Stone 1991, 21 and Hines 1989, 254). Corporations on the other hand, are responsible for providing this information to justify their legitimacy (Kokubu *et al* 1994, 14) and to show that they have fulfilled their accountability. Many corporations, unfortunately, provide a minimum amount of information to comply with the government requirements only. Governments, however, primarily set the minimum standards in societal issues (Rubenstein 1990, 44) and this may not be enough.

This research holds that corporations must provide this information even if not required by government regulations and/or not demanded by societies. This claim is based on the imperative statement made by Mohammd, the Prophet (P.B.U.H.) "Audit yourself before being audited¹¹". That is, fulfil your accountability before being required to do so. Accountants, therefore, "must become involved" (Power, 1992) in environmental issues and must "put the environmental matters in their agenda (Lehman 1992, 18). Their involvement is beyond their control and they cannot avoid becoming involved (Batley and Tozer 1993, 56). The conclusion will, then, be "the right to receive information and duty to supply it" (Gray 1990, 23).

The information accountants provide can serve as the basis for decision-making, help society to evaluate environmental utilisation (Lehman 1992, 16) and to judge "the degree

¹¹. *Hassiboo qabla an tohassaboo.*

to which companies are responding to environmental concerns" (Rubenstein 1990, 40); that is, to settle conflicts. Lehman stated:

The role accounting has to play is to provide an account of the corporation's activities so that arbitration between conflicting claims (such as the environment) is undertaken (1992, 15).

The question, therefore, is not whether accountants should be involved in environmental and ecological issues, because "a more substantial move toward a sustainable economic framework could not be achieved without a more substantial response from accounting and finance" (Gray *et al* 1993, 10). The question, rather, is "how should they be involved?" So far, the contribution of accounting to the preservation of the environment and the ecosystem has been poor. "[E]xcluded from the balance sheet is the biosphere, mother nature herself!". Stone (1991, 3), moreover, noticed that:

Both micro and macro economic/accounting models float free of any concept of any carrying capacity of the planet, in effect assuming an unlimited environment and/or infinite sustainability of resources (Stone 1991, 13).

Rubenstein, similarly, declared:

... the accounting profession, for all its experience, still lacks models for handling transactions with implied social costs.

Accounting models have not dealt with social costs, despite such costs having been associated with profit making. Environmental damage is only one kind of social cost. Early industrialisation depended, in part, on child labor; mining went hand-in-hand with catastrophic hazards and long-term illnesses like black-lung disease; and ventures like building railroads cost many lives. Now we see a single organisation - Exxon - assuming financial responsibility for a billion-dollar social cost. With companies now booking these kinds of costs, the accounting profession must analyse the adequacy of existing practices and consider models (1990, 42).

Humans are becoming more convinced that "... the environment requires preservation and for which an account must be made by corporations" (Lehman 1992, 9). "Accounting for the cost of ... environmental activities is becoming increasingly important" (Chadick *et al.* 1993, 18). As noted by Repetto:

...events of the past decade - such as coastal pollution, tropical deforestation, and the accumulation of greenhouse gases - demonstrate the importance of bringing natural-resource considerations into the main national income accounts as early as possible (1990, 44).

Accountants should, then, become aware of the effects of their published reports on the environment (Gray, 1990b). They should redefine the traditional accounting to include a

statement of resource noting the quantities of air, water and land a company had purchased, borrowed and consumed (Rubenstein 1990, 44).

Accounting information and accountants can be important catalysts in attempting to encourage corporate sensitivity to ecological damage (Gray 1990, Gray *et al.* 1993 and Macve and Carey 1992 in Burritt 1993, 3), and thereby can take on "a new and socially inspiring role of change agent" (Lehman 1992, 6). In other words, it "can play a role of social steering agent" (Power 1992, 497) and a role for sustainable future (Bebbington *et al.* 1994, 1). Accounting may be our best hope in the world (Power 1992, 494 in Robinson 1994, 14).

In response to the perceived need for environmental sustainability, and in order to help planners invest resources wisely (Repetto 1990, 42) "as part of a constructive response by corporations to the ecological crisis" (Lehman 1992, 2), and as an alternative to existing accounting methods, it is imperative that the traditional accounting system be revised to include environmental aspects.

The fact that the environment is a primary social good, a common access good, - a good that everyone needs for the satisfaction of their life-plan (Rawls 1971, 15, 62 and 1992, p90-95 and BIE 1992, 4) has not been included in the bases of the traditional accounting systems and traditional concepts of accountability. Alternative accounting models should be developed based on this belief. Traditional accounting systems do account for "the social costs and benefits of corporate activities" (Milne 1994, 1) and do not give an account of the corporate utilisation of the environment (Lehman 1992, 2). Neither do the prices in those systems cover the vast majority of the biosphere (air, water, common land, habitat, species, ozone layers, etc.) or necessarily reflect the natural environmental elements of a thing owned (eg building, land) (Gray, 1991).

Based on Gray, Stone concluded that:

Thus accounting virtually ignores the biosphere and, to the extent that accounting does influence decisions, conceptions of world and constructs social realities, etc. the biosphere can be no part of that. It therefore follows that environmental degradation must be an almost inevitable consequences of accounting activity (1991, 13).

Expenditures relating to environmental issues require a specific accounting treatment; "setting a major accounting precedent" (Rubenstein 1990, 40).

What is expected from accounting is to mirror the real picture of corporations and the consequences of their performance on the environment and the ecosystem by providing society with environmentally related information. Distorted or incomplete information gives an unreal picture of the reality, and results in incorrect evaluations of the effects of corporate activities on their environment and the ecosystem. It, eventually, results in inappropriate decisions, inefficient resource allocations and sub-optimisations and large opportunity costs- the phenomena unfavoured in the management arena. Lehman declared that:

A theory of justice encourages accountants to report on the sustainable use of resources for present generations, future generations and other life-forms. Environmental accounting provides corporations with a mechanism to satisfy accountability obligations between a corporation and its society (1992, 1).

"The accounting system is the major quantitative information system in almost every organisation" (Evan 1993, 25). It can play significant roles in many aspects. It should account for natural resource depletion and "should flash an unmistakable warning that a country is on an unsustainable course. A system that does not highlight dangers like these is a deficient tool for analysing resource-based economies" (Repetto 1990, 42). Contrary to this potential, as Lehman (1992, 6) stated "[t]raditional accounting logic does not take into account issues of fairness explicitly".

Accountants should take the argument concerning the biosphere seriously (Lehman 1992, 16) and "adopt an objective for financial reporting which includes an environmental dimension" (Batley and Tozer 1993, 57). Lehman (1992, 1) argued that corporations should "release environmental performance data in the accounts concerning environmental impacts to satisfy accountability relationships". Accountants should "redefine 'accounting concepts, rules, conventions and methodology' in order to permit accounting 'to internalise all external environmental costs'" (COM 1992 in Gray *et al* 1993, 305) "so as to ensure that the consumption and use of environmental resources are

accounted for as part of the full cost of production and are reflected in market prices" (Bebbington *et al.* 1994, 12). Accountants should start environmental or natural resource accounting; or as this research uses **Sustainability Accounting**.

Natural resource accounting is the means for describing the concept of sustainable development (Batley and Tozer 1993, 48). It "combines concepts of national income and product accounting with the analysis of natural resource and environmental issues" (Cabe and Johnson, 1989). Wright defined natural resource accounting or environmental accounting as:

The costs of natural resource depletion and environmental degradation are distorted in standard macroeconomic accounting. Attempts to remedy this are known as natural resource accounting and/or environmental accounting (1990, 34).

When corporations feel the responsibility to behave conservatively and to preserve the environment for them and their grand-children, they will need to devise an accounting system for this purpose. Lehman declared:

Concern about equity between generations establishes a duty to avoid damaging the environment. This duty requires the corporations to prepare an account concerning any environmental impacts (1992, 3).

Rubenstein noted an interesting and a very thin accounting issue in environmental damages. He highlighted:

After the spill¹², Exxon's accountants might have wondered whether they'd overlooked an unrecorded liability for all the years oil had shipped from Valdez, Alaska.

It is unlikely the "implicit" social contract between Exxon and the residents of Prince William Sound was based on the assumption that a major environmental accident was probable (1990, 42).

Lehman argued for environmental accounting. He stated:

Environmental accounting, establishes accountability relationships providing accountants with a duty to consider further the 'just' and sustainable utilisation of economic resources.

Environmental accounting becomes a concern for corporations in establishing that there exists an obligation to avoid damaging the environment having established that there exists a duty to report about environmental performance and utilisation (1992, 2 and 5).

Damaging the environment can take various forms. Incorrect use of natural resources, which accelerates their depletion, is one form. Wastes in enormous amounts and in

¹². Refer to chapter two for details.

various forms is another way of harming the environment. Repetto discussed the need for accounting for both kinds of damages. He claimed:

While third world countries need accounting systems that help them use natural resources wisely, industrialised nations are more immediately concerned with environmental degradation. These nations are faced with increasingly acute pollution, yet they follow an accounting framework that leads to bizarre anomalies (1990, 43).

A survey of the literature indicates a strong need "to reform the national accounting systems" (Repetto 1990, 42) and "to develop environmental accounts at various regional and national levels" (Thampapillai 1992, 15); to develop what this thesis calls **Sustainability Accounting**, and others use such phrases as "green accounting" (Cooper 1992 in Robinson 1994, 15 and Power 1992, 494 in Robinson 1994, 14), "greener accounting" (Gray *et al* 1993, 10), "soft eco-accounting" (Burrill 1993, 2 and UNCTC 1992, 113), "accounting for ecological holism" (Birlin 1994, 3 and Bronowski 1973, 34) and so forth.

But, "how the salient concepts of environmental accounting can be included in a macroeconomic framework" (Thampapillai 1992,1), is a discourse demanding extensive research endeavours. Extending the traditional accounting systems to cover the environmental issues will not be free of its problems. Rubenstein held that:

Current practices suffer from two fatal flaws when it comes to the problem of environmental accountability. First, we cannot account for the full costs of "consuming" essential natural resources such as air, water, and fertile land; often they have no assigned monetary costs. Our double-entry accounting efforts are geared to measure financial transactions rather than resource consumption. We cannot account for social costs and the related benefits.

Second, our accounting rules penalise, rather than encourage, the environmentally responsible enterprise. The more a company spends on prevention and clean-up, the less its earnings. We lack a vehicle for recording "green assets" and monitoring their use, for distinguishing between costs of renewable and non-renewable resources and for providing accounting insensitive to improve environmental protection. Let's look at how these flaws might contribute to the occurrence of another huge oil spill - how they might affect corporate decision making.

Companies engaged in environmentally sensitive transactions ... have to strike a balance between cutting costs and cutting margins of safety against pollution (1990, 42).

These issues will be analysed next. **Sustainability Accounting** is the answer.

Theories of Sustainability Accounting: Policies or Strategies

The last sections argued that most human (organisations and individuals) activities are of economic nature and have an impact on the environment. Societies, as principals, expect corporations to provide information regarding the impact of their activities on the environment. Corporation, on the other hand, must respond to this demand by accounting for the environment. They must undertake a SA. This section analyses the policy objectives and strategies of fulfilling this accountability.

In response to the environmental demands, organisations, managers, and accounting discipline must undergo significant changes. Organisations must appreciate that their activities affect the environment and their managers must put the required actions in their policy agenda. Company environmental policies should reflect recognition of the impact of all aspects of the companys' operations on the environment (Business-in-the-Environment 1991a, Annex 1 in Gray *et al.* 1993, 58). These impacts, as mentioned by Kahane, encompass:

a range of concerns, for the local (soil, water, air) and regional (specially acid precipitation, but also river and ocean pollution) to the global (ozone depletion and the enhanced greenhouse effect - so-called global warming) (1992, 39).

Organisations will have to perform as sustainable organisations; that is, "in such a way that present needs are satisfied without compromising the ability of future generations to meet their own needs" (Bebbington *et al.* 1994, 1). The environment and the ecosystem will demand a specific style of management (such as environmental management) (Billing and Willis 1992, 54 and Houldin, the Editorial Adviser of Gray *et al.* 1993) as well as specific style of accounting system if sustainability is to be put into practice. Gray *et al.* wrote:

Translating the most basic concept of sustainability to the level of the organisation we could say that a sustainable organisation is one which leaves the biosphere no worse off at the end of the accounting period than it was at the beginning (1993, 293).

Rees (1990, 22) argued that "we can 'account for' the environment through greater efficiency of resource use, improved technology, better pollution control and wider use of environmental assessment". As the best guideline of how this initiation can be

implemented, "Gray's (1990b) *The Greening of Accountancy: The Profession After Pearce* provides a most useful analysis of the potential of accounting in the environmental debate" (Lehman 1992, 14). Lehman further stated that:

Gray (1990b) 'has shown the process of greening accounting as performing the following roles (a) to keep organisational decision-makers informed about their use of economic resources; (b) to inform society about how organisations are utilising economic resources' (1992, 15).

In setting policy and strategy to SA "all aspects of accountancy including financial reporting, auditing, managerial accounting and taxation will have to change" (Lickiss 1991, 6 in Gray *et al* 1993, 9). As argued by Gray *et al.*:

... reporting for sustainability must consist of statements about the extent to which corporations are reducing (or increasing) the options available to future generations. This is a profoundly complex, if not impossible, task. However, there do appear to be three major ways in which any organisation could try to approximate this in a fairly practical and systematic way which would potentially lend itself to reporting. These are the '*inventory approach*' and the '*sustainable cost approach*' - which are both based around the categorisation of artificial and natural capital ... - and the '*resource flow-through/input-output approach*', which is more general. ... the first two are attempts about sustainability and the last an attempt to move toward reporting for sustainability (1993, 291).

One aspect of the change in accountancy requires to account for the abuse of traditionally 'free goods' in an entity's cost of production (Meer 1994, 26). Jacobs used the phrases 'sustainable yield' and 'critical load' to caution that the rate of harvest of renewable resources should not exceed their rate of regeneration and pollution discharged into the environment should not exceed its assimilation capacity. Jacobs (1993, 7) viewed these steps as "a way of making sustainability operational, ensuring that environmental quality does not decline over time". If natural stock is not to be depleted, the following guidelines, as expressed by Evan (1993) and Zarsky (1990) should be followed:

- Renewable resources such as forests and fisheries should be harvested at or below their natural or managed rates of regeneration.
- Exhaustible resources such as mineral for fossil fuels should be mined at an optimally efficient rate equal to the rate of technological and renewable substitution

BATNEEC (Best Available Technology Not Entailing Excessive Cost) has been generated in the UK "by the concept of integrated pollution control (IPC) embodied in the Environmental Protection Act 1990 (EPA). BATNEEC implies the need to balance,

if not sub-ordinate, specialised, Quasi-scientific bodies of knowledge within managerial disciplines such as cost accounting" (Power 1994, 5). The RMA of New Zealand, similarly, requires entities to adopt the Best Practicable Option (BPO) to prevent or minimise adverse effects of discharging into the environment (Tozer 1992, 16 in Meer 1994, 8).

Another aspect of the change in accountancy requires to modify the concept of capital maintenance and to recognise "the need, within all the definitions of sustainability, to maintain the natural capital for future generations" (Gray *et al* 1993, 293). Gray (1992, 417-418 in Robinson 1994, 7) divided capital into three categories:

- *Critical natural capital*: that part of the biosphere that must be immutable. This includes such things as the ozone layer, a critical mass of trees ...
- *Sustainable or substitutable (or "other") natural capital*: that part of the biosphere which is renewable (eg. water and air, timber, much land, the population of non-extinct creatures, agricultural products) ...
- *Man-made capital*: ... such things as machinery, technology and know-how, materials, housing, etc.

Accounting, within the SA framework, must view capital maintenance as encompassing all three categories, all of which require intergenerational equity (RAC 1992, 14). In order to exert equity between generations the stock of capital must either increase or, at least, remain intact. This requires a modification to the conventional economic accounts in order to establish an appropriate measure of sustainable income - consistent with the concept of income underlying most national income accounts. This modification includes an estimate of environmental and natural resource depreciation (Peskin 1989, ii) as well as prevention, abatement and remediation of damages and conservation of resources (CICA 1993, 9). In order to live sustainably, the current generation must learn to live on the interest rather than on the non-renewable capital of the ecosystem (Evan 1993, 9 and Schmidheiny 1992, 2 in RAC 1992, 13).

Change in the notion of "optimality in resource allocation" is another requirement. In the framework of "sustainability accounting" [f]or the optimal allocation of resources, marginal social benefits must equal marginal social costs" (Meer 1994, 7).

Changes in social and economic institution are still other requirements for the exercise of SA. That is, "the social institutions within society must be constructed in a manner so that the social bases of society recognise the effects environmental damages have on society" (Lehman 1992, 11). Gray *et al* (1993, 25) provided a list of twenty six issues in the changing institutional framework. The relationship between governments and organisations, a debate issue on ecological accounting (Burrirt 1993, 6), is one of the social/economical institutions. Human property rights is another (Burrirt 1993, 15). As mentioned by Meer (1994, 6) "ownership of traditionally 'free goods' need to be clearly defined, monitored and enforced. Freestone stated:

the concept of damage or harm is itself traditionally assessed in term of the protection of the human property rights in the environment. For example, marine pollution is assessed in terms of harm to fishing, tourism or other human interests. Only recently have the US courts begun to assess harm in terms of harm to the environmental systems themselves (1993, 5 in Burrirt 1993, 15).

These and similar steps "would promote accounting reports to satisfy the accountability relationships (Lehman 1992, 16). It will "make obscured and invisible environmental input and output visible" (Wright 1990, 30). In exercising SA companies spend large sums for the abatement of such social costs which "probably would not have been acknowledged 50 years ago" (Rubenstein 1990, 42). The next section will analyse some detailed steps in SA.

Principles of Sustainability Accounting: Tactics

Principles of sustainability accounting (SA) rest on the concept of carrying capacity of the Earth, the population that the planet can support. This means the goods and services it can provide as well as the waste and pollution it can assimilate¹³. Accounting literature, so far, lacks an established body of knowledge which provides a comprehensive list of principles of SA, because "the pursuit of accounting for sustainability is in its infancy"

¹³. For human society carrying capacity can be defined as the maximum rate of resource consumption and waste discharge that can be sustained indefinitely in a defined planning region without progressively impairing ecological productivity and integrity. The corresponding maximum human population is therefore a function of per capita rate of resource consumption and waste production (system capacity divided by per capita demand) (Rees 1990, 20).

(Bebbington *et al.* 1994, 15). With regard to the significance of the problem, as analysed in the early sections, to fill this void is an urgent call. This section is an attempt to establish a list of principles of SA.

The analysis of the ways in which humans interact with the environment serves as a basis for the establishment of principles of SA. Most of human activities are of economic nature, which are "the cause of nearly all forms of environmental degradation" (Jacobs 1993, 2). Economic activities are in the forms of production, distribution and consumption. The adverse effects of the unethical, immoral and anti-social activities of distribution¹⁴, however, fall in the realm of social responsibility accounting (SRA) rather than (SA). Chapter two analysed this issue. An input/output analysis of the human/environment interaction reveals that human activities at any stage of both production and consumption may have various impacts on the environment and the ecosystem. A thorough knowledge of these impacts facilitates the establishment of the principles of SA.

Production, chronologically, is before consumption. It starts by extracting minerals and utilising other resources of the environment. Therefore, the first step in setting principles of SA is to account for the initial use of (natural) resources. At the second stage of setting principles of SA, attention must be paid to the functions of managerial accounting and cost accounting in relation to the sustainability discourse. Managerial accounting and cost accounting should help managers in setting and pursuing their "green goals", in the words of Lave *et al.* (1994, 23A). That is, managerial accounting and cost accounting, by providing necessary information, help managers select the product mix as well as the production methods which result in the maximum utilisation of resources, minimum waste and minimum harm, damage and hazard to the environment. Providing environmentally related information to external users, an "increasing demands for corporate accountability and better performance evaluation system" (Epstein 1993, 22 in

¹⁴. "Distribution" here is used to refer to the distribution of income between production factors not the distribution of physical products themselves. The second falls, in this analysis, into one of the two categories of production or consumption.

Raar 1994, 15), is a third aspect of SA. Lastly, environmental audit, the fourth aspect of SA, assesses, and informs the interested bodies, the extent to which a company has fulfilled its responsibility in accounting for sustainability.

The consumption of ecological resources exceeds sustainable rate of biological production (Rees 1990, 20). The consumptive use of ecological resources, however, cannot be sustained indefinitely since it uses not only the annual production of the biosphere (the 'interest') but also cuts into the standing stock (the 'capital') (Rees 1990, 20). Sustained economic output depends, amongst other elements, on the maintenance of natural assets (Kahane 1992, 40). This necessitates urgent corrective actions of social managers and social engineers at national as well as international levels. The last section analysed this issue as well as the commensurate need for the accounting discipline to provide the relevant information.

Corporate managers, on the other hand, must acknowledge the flow of services environmental capital provides to both households and firms (Thampapillai 1992, 3-4) and take into account the ecological capital their organisation convert into economic capital, the draw down of one account (the biosphere) to add to another (material wealth) (Rees, 1990, 20). Traditional accounting systems, as criticised in the previous sections, took the natural resources (including the assimilative capacity of the earth) for granted, and perceived the environmental capital as free goods. Stone, for instance, claimed:

There is one ... significant implication of the multiple unrecognised or under-accounted capital contribution to firms. To the extent that we ignore socially and environmentally supplied capital, we understate the amount of capital employed by our accounting entities. The degree of understatement is substantial. ... this contributes to the substantial overstatement of reported return on investment figures and in turn the use of unrealistically high and unsustainable discount rates by corporate decision makers (1991, 14).

This requires that the accounting system calculates the cost of using resources and charge these costs against the income calculated by the traditional accounting systems (CICA 1993, 1). "The advocacy of full cost accounting implies that product cost would include the environmental costs associated with the extraction of raw material, the

remediation of environmental damage caused during consumer use, and the post-consumer environmental effects of the products" (Bebbington *et al.* 1994, 12). Robinson stated:

... this shadow accounting system would, probably, produce numbers which can be deducted from calculated accounting profit and be expended in the restoration of the biosphere. This will, thus, lead to a recognition that organisational income has been grossly overstated for some considerable time and that current generations have been benefiting at the cost of some future generation. *'The probability is that no Western company has made a "sustainable" profit for a very long time, if ever'* (Gray 1992, 419-420) (1994, 8).

The true definition of income, as noted by Repetto (1992, 66), "encompasses the notion of sustainability. ... This income concept encompasses not only current earnings but also changes in asset positions: capital gains are equivalent to an increase in income, and capital losses are a reduction in income". Following Alfred Marshall and John Hicks, Peskin (1989, 2) defined *income* "as the sum of current and *potential* future additions to wellbeing". The traditional accounting system as well as the SNA income and product accounts assume natural resources as "free gifts of nature" and do not include these assets in a nation's capital stock, therefore, do not assign economic values to changes in natural resource stock (Repetto 1992, 66). Chapters five and six will also argue for the ownership right of societies over these goods since "[i]n practice, it is difficult to think of any example of free goods and it is easy to see that clean air and water, the usual examples, are definitely not free goods" (BIE 1992, 5).

The elimination of the use of natural resources from accounting calculations "can affect the 'true and fair view' portrayed by the financial statements" (Allen 1993, 2) and can give false signals to policy makers, which eventually leads to the destruction of the environment in the name of economic growth. In other words, illusory gain in income and permanent losses in wealth are traded off against each other (Repetto 1992, 64). Profit is not gained by means of wealth, rather wealth itself is converted into, so called, profit and has been eaten up. "[W]e impoverish the natural world in our pursuit of accretions to man-made capital" (Pearce *et al.* 1989, 65). That is why:

[a]t the level of national income accounting, GNP and similar measures of economic health have been roundly criticised for their absolute insensitivity and disregard of

environmental variables and resulting implication in the formulation of environmentally insensitive and destructive economic policies

Thampapillai (1992) stated that in order to maintain the assimilative capacity of its environment society must deduct four types of costs from its NNP figure calculated by the traditional SNA. These costs are: *Cost involving production* (e_p), *Costs involving current consumption* (e_c), *Costs involving future consumption* (e_u) and *Costs of restoring damaged environment* (e_r). Therefore: $NNP - (e_p + e_c + e_u + e_r)$. In this way the traditional NNP is adjusted to the goals of SD, that is, it is calculated within the SA framework. Sustainable Net National Product (SNNP) is a very fitting phrase to refer to this socio-economico-ecological index figure.

Regarding the second stage of the sustainability considerations in establishing principles of SA, attention must be paid to finding ways and devising techniques of managerial accounting and cost accounting which will produce information needed in moving toward sustainability. Waste management, recycling, reuse, refillable containers, green(er) products, green designing and environmentally friendly products are amongst the terms and phrases used to refer to the managerial actions devised to use less resources for more services as well as to reduce waste. "The concept of assimilative capacity is central to the principles of environmental accounting" (Thampapillai 1992, 4). Raar (1994, 8), for instance, referred to an innovative approach in redesigning cars which is being undertaken in order to build models that have recyclable parts, and so the car itself will be recyclable, or returnable, in Wheatley's (1993, 38) words. Lave *et al.* referred to this issue by stating:

Manufacturers must address green design issues ... Green design, manufacturing, use, and product retirement involve a radically different way of thinking about products and services (1994, 23A).

"Life cycle analysis" is another eco-management technique used to assess the impact of an enterprise's processes, products and packages on the ecology (Charter 1992, 88 in Burritt 1993, 16). This technique of analysis can provide a strong base for establishing principles of SA.

Another principle of SA is to consider the costs and benefits of alternative transportation strategies" (Rubenstein 1990, 43), as well as the cost and benefit of each project. Because, as Chadick *et al.* (1993, 20) note: "In some instances, remediation of contamination costs more than the property itself". A comparative analysis of private marginal costs (PMC) and social marginal cost (SMC) as well as private marginal benefits (PMB) and social marginal benefits (SMB) is still another technique which the BIE (1992, 6) employed to analyse the impacts of activities of corporations on the environment. Whether prevention and clean-up costs must be expensed or capitalised, or be spread backward or forward, is among the issues to be solved by SA. SA must also "account for restoration costs, which may extend well into the future" (Rubenstein 1990, 45).

These are, of course further, techniques employed by the corporation in assessing the environmental impacts of their activities aiming to attain favourable "biophysical thresholds' or "environmental bottom-lines" (Milne 1994, 3). "Environmental Assessment is seen as the best way of incorporating the environment into the decision-making process, rather than appraisal" (Sheate 1992). These are parts of activities of what Raar (1994, 15) calls environmentally responsible management information system.

Government, on the other hand, take actions to save the planet by controlling the adverse effects of the corporations' activities. Meer (1994, 9) referred to the OCED's (1989) forms of economic instruments that can be used to encourage environmental protection. The forms include Charges, Subsidies, Deposit-refund systems and Market creation, which includes tradeable rights and liabilities insurances. Charges to the utilisation of natural resources or damaging the environment is putting a price on the precious goods and services which traditionally were perceived to be free. This will prevent their over-use (Evan 1993, 16). Environmental tax, as one item of charges, is levied on what is perceived as environmentally undesirable behaviour, such as the pollution and the depletion of non-renewable resources pursuing both economic and social objectives (Meister, 1991; Von Weizsacker and Jesinghaus, 1992; Meer 1994, 10). The OECD's

polluter-pay-principle, for instance, requires the payment of such taxes as energy tax. Lave *et al.* (1994, 23A) referred to 'green taxes', which reflect the environmental damage from discharging a material to the environment. Certain environmental problems are controlled by means of tradeable permits. "Ownership of [tradeable] permits allows firms to pollute up to a certain limit. ... Essentially permits operate as a pollution quota" (BIE 1992, 9). Tradeable permits are commodities traded in the artificial market in pollutants and are presented as the most efficient control mechanism (BIE 1992, 1). Economic or market-based incentives, property rights and direct regulations are the ways in which governments can be involved in attempting to internalise negative externalities (BIE 1992, 7). As a result of direct regulations and the high costs of compliance, "sophisticated investors in the United States routinely perform environmental due diligence reviews in order to quantify, identify and manage environmental risks implicit in their investments" (Wilmer *et al.* 1992 in Gibson and O'Donovan 1994, 4).

One other principle of SA is "[d]isclosing of the company's policies for assessing the impact of environmental issues" (Chadick *et al.* 1993, 22) as well as the actions the company has taken in practice. Viewing society/corporation relations within the agency framework (Arrow 1985, 36, Kokubu *et al.* 1994, 15 and Power 1991, 33 in Allen 1993, 9) justifies the necessity of reporting environmentally related accounting information to information stakeholder external to the corporation. An organisations' annual reports may include environmental policy statement; capitalisation of environmental expenditures; identification of contingent liabilities; disclosure of current period expenditure on environmental protection; disclosure of anticipated environmental expenditure in excess of contingent liabilities; and disclosure of organisational activity and performance (CICA 1993, 100 and Gray 1990, 116-120 in Tozer and Mathews 1994, 3). Gibson and O'Donovan (1994, 6) provide examples of the some of the costs incurred by Australian companies under environmental legislation, which require separate identification within the relevant financial reports. Imitating Raar (1994, 15),

"environmentally responsible accounting information system (ERAIS)" is the best title to refer to or to describe this discipline. Kokubu *et al* (1994, 2) call it "green reporting".

Environmental audit is one more item to be analysed together with the principles of SA. It is a technique to monitor the impact of organisations on the environment and assist organisations to comply with environmental protection legislation (Tozer and Mathews 1994, 1). Environmental audit is "a systematic, documented, periodic and objective evaluation of the environmental performance of an organisation ... There is relatively less emphasis than in ... other forms of audit ... on overall reporting and correspondingly more on evaluating detailed controls" (ICAEW 1992, 113-114 in Allen 1993, 3). Billing and Willis (1992a, 52) gave four headings under which the accounting profession can provide environmental auditing services. These areas are: environmental consulting services, site assessment, operational compliance assessment and environmental management system assessment. Wheatley (1993, 143) mentioned an "audit checklist" in discussing about business and the biosphere. The ICC has drawn attention to parallels between financial and environmental audits. These parallels are:

The financial audit is statutory, annual, verificatory, external, based on GAAP and focused upon financial accounting whereas environmental audits are voluntary, of variable frequency, managerially oriented, internal, relative to varied standards of performance and focused on environmental issues (1991, 4 in Power 1994, 13).

According to the ICAEW, end users of environmental audit might ideally like assurance that no unacceptable environmental consequences have resulted or are likely to result from the company's operations (Allen 1993, 12). In New Zealand "the RMA 1991 provides justifications for environmental auditing via the powers of enforcement and penalty provisions in the Act. Under the RMA 1991 every person (human and legal) has a duty to "avoid, remedy or mitigate adverse effects on the environment resulting from activities by or on behalf of that person" (S17) (Tozer and Mathews 1994, 8).

Lastly, it is noteworthy that the difficulties involved in accounting for the environment are the major cause for its slow progress. According to Duthie (1993, 42):

The first hurdle is persuading government to prepare physical accounts which record the changing state of environmental resources inventories of natural resources

The second difficulty is finding consistent valuation techniques to transform physical accounts, in physical units, into financial accounts that can be integrated into an SNA.

In summary, SA must ensure that the intangible rights [of society] are measured, recorded, secured and protected from loss or unauthorised use (Batley and Tozer, 1993, 56). A proper accounting of natural resource depletion would flash an unmistakable warning to countries on an unsustainable course (Repetto 1990, 42). The Exxon Valdez spill¹⁵ indicates that the time for the accounting profession to respond to the demands of internal and external environmental information stakeholders is now (Rubenstein 1990, 45). The next section will take these discussions and conclusions to the realm of "Social Responsibility" and will demonstrate how the problems of SA can be solved through consent to the old "social responsibility discourse" and "social responsibility accounting (SRA)".

From Sustainability Back to Social Responsibility (SR): The Underlying Worldview - The Returning Point

... knowledge of how to be more sustainable is not a problem rather the infrastructure around which business operates is a problem ...

Bebbington *et al.* (1994, 18)

Formal principles of SA, as already analysed, are rooted in direct control and complying with regulations. Direct control, however, has proved to be more costly and less successful. Moral reasoning, ethical responsibility and self-control, on the other hand, have proved to be more successful. These properties, though non-material and of a totally different nature, must be perceived as an extremely precious infrastructure assets/capital which can contribute to a great extent to human welfare and prosperity by directing resource allocation as well as other human activities in a way compatible with the "green goals" of sustainability. This section supports this argument.

Efforts to reduce environmental damages through regulation, [command-and-control], has proved to be inefficient and ineffective (Meister 1991, Baumol and Blinder 1988 in Meer 1994, 9), hence unsuccessful. As Reidenbach and Robin stated:

Environmental protection through regulation is ... criticised as being 'reactive' rather than 'proactive' in nature. That is, it only encourages an organisation to respond and follow the legal requirements, but it provides no real incentive to take a proactive stance, in which an entity will actively seek to reduce environmental abuse (1991 in Meer 1994, 8).

¹⁵. Please refer to chapter two for information about the *Exxon Valdez* spill

The analysis of the last sections showed that sustainability goes hand in hand with morals and ethics. Whatever discipline which serves sustainable development need also be rooted in conscience and morality. However, the discourse of sustainable development (SD) as well as the relevant disciplines, although wide and all-inclusive, are but parts of the wider moral discourse of *Social Responsibility* (SR). This wider issue targets all moral and ethical areas such as product safety, consumer satisfaction, employee-employer relations, business-society relations, business-environment relations, minority rights, community involvements and so forth. Whereas, SD focuses more on business-environment and/or business-ecosystem relations than other aspects of SR. At any rate, SD as well as its related disciplines are subsets of the SR discourse. Lehman (1992, 9), for instance, noted that "environmental accounting is part of a wider moral system".

This chapter has focused on accounting-sustainability interrelations, as the chapter is titled **Sustainability Accounting**. The analysis leads to the conclusion that SA, also, is a part of the wider issue of *Social Responsibility Accounting (SRA)*. This is to say that the substance for the discourse of sustainability is also SR, a different way of thinking which links accounting to the ecosystem (Birlin 1994, 2).

If the wider issue of social responsibility is fully attempted, the discourse of sustainability is attempted, too. Had the SR teachings and arguments of the 1960s and the 1970s borne the expected fruits, human beings would not have encountered a socio-ecologico-environmental crisis which threatens humans sustainability on the planet and which has led to the evolution of such disciplines as SD and its related disciplines. There would be no need to think for a relatively narrower, though apparently more significant, discipline of SA, and let it surpass the much more comprehensive discipline of SRA.

Scholars who are involved with the accounting-sustainability dilemma express ideas totally compatible with ideas presented in the SRA literature. The following quotation are but examples:

There is also an unwritten expectation that business will react in a responsible manner toward the environment as contained in the notion of a social contract (Batley and Tozer 1993, 46)

Or,

...when a company wants to determine its level of investment in environmental protection, it also requires some method of accounting for social costs (Rubenstein 1990, 43).

SRA literature abounds in these kinds of ideas. The analysis of this chapter reveals that the concept of social accounting is re-emerging (Gray *et al* 1987 and Stone 1991, 14).

A confusion is quite possible here. For it seems that SD and SA address more significant issues and problems than those covered by SR and/or SRA. This claim is based on a corollary from Daly and Cobb (1989, 37) and Stone (1991, 8). It can be inferred from their writings that perceived externalities within the discipline of SD are more vital than those perceived in the SR discipline. Daly and Cobb held that:

... when vital issues (eg the capacity of the earth to support life) have to be classed as externalities, it is time to restructure basic concepts and start with a different set of abstractions that can embrace what was previously external (1989, 37)

The fact, however, is that sustainability and the pertaining arguments are rooted in SR. As mentioned before, had individuals and corporations performed their duties and fulfilled their social responsibilities, societies would not have been exposed to the present social crises. Even after the societies encounter, the only cure for the crisis is feeling and exercising SR. Therefore, the conclusion will be a return to SR. There exists no way for human beings to survive unless they consent to their major duty; which is feeling SR, but this time - after bitter experiences - a true consent, faith and loyalty from the core and bottom of their heart is needed.

Imitating Neimark (1994, 9) this analysis contends that people must understand how the environment deteriorates, "must understand that it is a social product, not a fact of nature, and must believe that it can be changed. Enabling such comprehension is our task, as scholars and as activists". This matches the Qur'anic concept of human responsibility on the Earth, to change the world toward betterment and perfection¹⁶. Gray *et al* (1993, 280) highlighted responsibility required for sustainability by stating: "Treating the world as if we intend to stay." This statement matches to a statement by

¹⁶. The Holy Qur'an: 11:61. References to the Holy Qur'an will be in this form. The first figure gives the number of *Soora** and the second the number of *Aya**.

Ali-ibn-AbiTalib ^(P.B.U.H.), the successor of the holy Prophet Mohammad ^(P.B.U.H.) who said: "Be for your world so as if you want live for ever and be for the Day of resurrection, [the day of accounting], so as if you will die tomorrow" (Al-Nahj-al-Balaghat).

A genuine belief in the necessity of sustainability and principles of SA will end the over-exploitation of common access goods (such as fishing grounds) as well as traditionally so-called free goods (such as air and water), even before becoming regulated by government. This needs sacrifice. But Grayson *et al.* (n.d., p 2 in Raar 1994, 4) argued that "there is little evidence that ordinary people are willing to suffer a fall in living standards in the cause of environment, however 'green' their opinions". This, of course, is a demanding job. Education, as chapters five and six will discuss, has the potential of directing people in such a way that they put their green opinions into practice eagerly.

Considering the significance of the sustainability-threatening problems people must prepare "a definite timetable for change [and realise that they] should not lose the opportunity now at hand to make changes that are already long overdue" (Repetto 1992, 70). Muller and Koechlin (1992, 57) stated:

Environmentally sound management means acting now. Our children will judge us by what we did and not by what we intended to do. Abstract schemes are a thing of the past. It is action that is needed.

What actions are required? What is the best point to start with? To begin with, "a rapid change in thinking" (Duthie 1993, 41); a sound worldview capable of providing "a profound shift in societal values and attitudes, and a significant restructuring of national and global economies" (Rees 1990, 23) is the most urgent need. According to Rees:

The emerging ecological crisis reveals fatal flaws in the prevailing worldview. Our mechanical perception of the biosphere is dangerously superficial and our continuing belief in the possibility of sustainable development based on the growth oriented assumptions of neo-classical economics is illusory (1990, 18).

A systems approach to the analysis of human-ecosystem relationships is imperative, at any time. "[R]esources must be viewed as part of systems cycles, not as separate items", and sustainability as a dynamic concept (Batley and Tozer 1993, 42). This necessitates compromised or friendly relationships and a dynamic equilibrium in humans-ecosystem

interaction at any time. What dominates the western capitalistic societies, however, is an opposite philosophy. As Chapra stated:

The scientific worldview at present dominating Western perceptions of reality sees the world and the universe as a vast machine which can be disassembled into discrete parts, each of which can be considered in isolation from the other (1982 in Evan 1993, 5).

Western economic models are rooted in this philosophy. The outcome of the exercise of these economic models, the focal point of the criticisms of this and the last chapter, indicates the incompleteness of the worldview as well as the models based on that. Allen argued for the need for a sound worldview. According to Allen:

There is the green worldview, an urgent call for greater responsibility and accountability on the part of those who affect the environment. This new 'green' accountability will not be satisfied within the constraints of technical/professional structure. Making small adjustments to present technocentric systems will not be enough to successfully meet the challenges of pressing environmental crises (1993, 16).

"No amount of ethical axiology, or legal, policy and technological engineering is going to solve problems that are misunderstood" (Drengson, 1989 in Rees 1990, 18). Referring to Drengson's statement Rees made the following corollary:

It follows that significant changes in sociocultural beliefs, attitudes, and behaviour will be required before sustainable development acquires substantive meaning.

Changes in human-environment interaction patterns will follow the changes in worldview. Hutchinson (1992, 9) quoted Perez de Quellar, former Secretary General of the United Nations, who said: 'Industrialised countries will need significantly to change their modes of consumption and production as part of the strategy of the environment.' Meer (1994, 2) cautioned that "the present consumption patterns for ... [natural resources]¹⁷ ... will result in future generations having to make without it." If we are using more energy and more resources than we need, and producing more waste, we are almost certainly bearing costs that are higher than necessary. "We deplete natural capital ... and don't regard this as a problem" (Jacobs 1993, 5 and 2). It is noteworthy that this undervaluing is worse than the depleting itself, because, to quote again from Ali-ibn-Abi Talib (P.B.U.H.), "The worst of sins is the one undervalued by the doer" (Al-Nahj-al-

¹⁷. Petroleum, in his own words.

Balaghat). Rich (1994, 26) advised organisations to ensure themselves that they are not contaminating the environment.

One significant action towards responsibility for sustainability is an extensive and unprecedented cooperation "between business and governments" (Bebbington *et al.* 1994, 21) as well as between the nations (Kahane 1992, 40, Hutchinson 1992, 9) since "[g]lobal problems require an overview and accountability at a global level" (Burritt 1993, 9). Individuals also must, within the principal/agent framework, undertake a dual responsibility with regard to responsibility for sustainability because, as noted by Kokubu *et al.*:

... with regard to social problems, particularly to natural capital, everyone has both aspects of principal and agent. Everybody in the world is using, in other words consuming, natural capital as an agent, and at the same time is entrusting the others with the usage of the natural capital and is suffering the environmental damages as a principal (1994, 15).

Chapter six will delve into the responsibility-sustainability issue deeply. The conclusion so far is that feeling responsibility is the infrastructure around which business operates. Feeling responsibility is the significant problem of sustainability (Bebbington *et al.* 1994, 18). Humans (corporations and individuals) must feel themselves accountable to the consequences of their activities on their sustainability on the planet.

Summary and Extension

This chapter is about sustainability accounting (SA). It argued that the micro or local/regional level social and environmental ills of the 1960s and 1970s have been well and truly surpassed by some macro or global/universal level issues. The examples of these issues are the greenhouse effect, the global warming of the planet, thawing of ice in the Poles and the rise of sea level, ozone layer erosion, acid rains, soil erosion and degradation, deforestation and tropical desertification, species annihilation, loss of wild life and biodiversity, habitat destruction, air pollution, water pollution, land pollution, noise pollution, heat pollution. Energy usage, resources scarcity, depletion of fishing stock, inequality, population, ethnic peoples, poverty and starvation, third world debt, waste disposal, litter and rubbish, decline in the planet's waste-sink-absorption capacity,

water depletion, toxic chemicals, nuclear waste, radioactive waste, insecticides and fertilisers, oil spills and coastal degradation, drinking water quality and loss of green belt, an accelerating rate of increase in technological catastrophe and scientific ignorance, pressure on water resources are further examples of sustainability issues.

The chapter held that the sustainability of humans is in jeopardy, and unless serious corrective actions are taken a slide into disaster is inevitable (Jacobs 1993, 3) The chapter also argued that the accounting discipline: (a) has supported such behaviour either by its silence or by depicting incomplete and distorted picture of the economic effects of entities on society and the biosphere, (b) is accountable to present and future generations and (c) can contribute significantly to the solution of the problems.

After defining the problem and discussing the significance of the study, the chapter linked the discourse of social responsibility (SR) to the discourse of sustainability. The chapter showed that the reason for the emergence of environmental and ecological ills and crises was that people did not take the socio-economic ills of the 1960s and 1970s seriously and did not account for it. The section then highlighted the significance of the need for the sustainable development (SD) vis-a-vis the traditional economic development. Section four of the chapter was a thorough analysis of the way in which the accounting discipline can contribute to saving the planet through serving the SD. The section discussed the theories or the policies and strategies as well as the principles and tactics of SA.

This analysis perceived accounting discipline as a direct control mechanism. The fact that direct control is more costly and less successful requires that SA contain an important element of control above and beyond the power and potential of direct control. Section five based on this belief and argued for the integration of elements of ethics and moral as the most significant components of SA. The section further argued for the necessity of some infrastructural changes in people's worldview, value system and attitudes so that they become ready to do with less goods and services than they desire in order to save the planet to the next generations, to their grandchildren. Only then can

the accounting discipline develop an accounting system, that is, an SA, capable of translating the consequences of the environmentally related activities of corporations and individuals into accounting language (and/or figures). The prerequisite to bringing about changes in peoples' worldview and philosophy, however, is their purification and education. Education, rather than direct command-and-control, the chapter concluded, will be a significant component of an SA.

This conclusion is like paraphrasing the criticisms of capitalistic ideology raised at the outset of this chapter as well as in the last chapter. That is, the chapter concludes that the dominance of the capitalistic ideology which induces people to seek more consumption, more economic welfare and more material enjoyment has been the underlying reason for more production, more exploitation of natural resources, more waste, more harm and damage to the ecosystems and the environment. Capitalist ideology, this chapter concludes, is the major cause of the macro or global/universal-level crises. The analysis of this chapter reveals that unless basic changes, especially in people's worldview, are made and the capitalistic ideology is substituted with an alternative totally compatible with SD the unsustainability of mankind on the planet becomes more certain. The next three chapters will analyse the adverse effects of capitalism on sustainability as well as the proposed alternative worldview.

CHAPTER FOUR

Capitalism, Social Responsibility Accounting (SRA) and Sustainability Accounting (SA)

Introduction:

The last two chapters analysed the results of the activities of corporations and individuals on human welfare. While the scope of analysis of chapter two was micro-regional/local-level effects, chapter three focused on the macro-global/universal-level analysis of these effects. Review of the results of analysis of these two chapters depict an unfavourable picture of almost all (especially industrialised) countries with materialistic economic systems.

This, of course, is one side of the coin. On the other side of the coin, such phenomena as tension between enhanced material affluence and social risk, dramatically negative social developments, increased unemployment and distributive injustice, inhumane standards of living, the exploitation of limited economic resources through military expenditure, as well as extensive damage to mankind's natural living conditions (Steinkuhler 1991, 283) and the like provide still more bitter facts about the deteriorated socio-politico-economic picture of societies. On the non-material side of the discourse lack of inner contentment in the life of individuals, as evidenced by such anomies as a rising level of stress, tension and strife in human affairs, accompanied by an increase in all the symptoms of anomie, such as frustration, crime, alcoholism, drug addiction, divorce, child battering, mental illness and suicide (Chapra 1992, 2), all depict an unfavourable picture of human life in western capitalist societies. The trend analysis shows still more worrying horizons for human welfare and the continuity of human life on the planet.

This chapter will pose the question "why?" The chapter will then answer the question and will provide solutions to the problems affecting and threatening human welfare by focussing on the origins and bases of the reasons for the phenomena. The chapter will analyse the extent to which the economic system exercised by industrialised societies has contributed to this deterioration and to the jeopardy of human prosperity. Western

capitalism and its revised versions under various nomenclatures have, traditionally, been the dominant economic system for most countries, hence the major cause for the disasters under analysis. To be brief, the study will focus on the effects of capitalism and the way in which it causes the problems. Therefore, features of capitalism and the consequences of the exercise of capitalistic economic systems on human and societies welfare will be critically analysed. The analysis will aim to provide answers to such questions as:

- Why do these adverse effects occur? What is the reason for socio-economic ills? What caused societies to change toward more worry and discomfort?
- Why did social and environmental issues, issues relating to social responsibility accounting (SRA) and sustainability accounting (SA), first appeared in Western capitalistic countries?
- How can these problems be resolved, or even more importantly be prevented from happening?
- What alternatives can solve the problem and how?

The required features of a better alternative, or "sound economics" in Motahhari's (1991, 21) words, will be investigated. The structure of the analysis will be in the following order. The next section defines capitalism and explains what is meant by "western capitalism" in this thesis. The section also analyses the principle tenets of capitalism as well as the theoretical (ideal) perspective of the capitalistic economic system. Problems with the implementation of "pure" capitalism and the consequences of the exercise of a capitalistic economic system, as they relate to Social Responsibility Accounting (SRA) and Sustainability Accounting (SA), is the substance of the analysis of section three. Section four will investigate the suggested solutions along the history of economic thought. Section five will serve as the summary section and will knit the results of the analysis of the chapter to chapters two and three as well as to the body of the thesis.

Capitalism "Defined"

The discipline of sociology arose to understand and explain the emergence and nature of modern capitalist societies. Nevertheless, no complete formal consensus exists on a specific definition of capitalism (Mooney 1992, 162). Some concepts and interpretations of the term "capitalism", or *market society* in economists' usage and the *free enterprise system* in business and government spokesmen's language (Heilbroner 1988, 347), will be quoted from the literature. Capitalism has been defined as:

- "A system in which productive assets are owned privately (ie., not by the state). The owners are free to use these assets as they wish, subject to certain constraints imposed, for example, to protect citizens from danger. The goods and services produced by these assets are usually allocated by means of the price mechanism" (Livesey 1993, 29).
- "A political and economic system where private ownership of productive resources is permitted and market forces are allowed to determine the allocation of resources" (Sendhuwani 1991, 42).
- "Wealth used to gain profit in commerce" (Weber 1976, 48 in Mooney 1992, 162).
- "An economic system in which the factors of production, labour and capital are predominantly privately owned and utilised" (Noble 1991, 35)
- "A political, social and economic system in which property, including capital assets, are owned and controlled for the most part by private persons. ..." (Pearce 1983, 55).
- "An economic system characterised by private ownership of the means of production and all other kinds of property and considerable individual freedom and profit motive are basic to capitalism. Implicit in capitalism is the use of capital, or wealth to earn income to its owner, the capitalist. In all capitalist systems, the government plays some economic role, restricting enterprise when it threatens public well-being and engaging in those enterprises that are necessary but not lucrative enough to attract private investment (national defence, public postal service, etc.)" (Ammer. and Ammer 1984, 65).

Mooney (1992, 162) argued that "[t]he term *capitalism* is sometimes used to refer to the entire social structure of a capitalist society. ... a form of economy to which multiple social institutions are effectively bound in relatively compatible ways".

The most widely acknowledged achievement of capitalist societies is their capacity to amass wealth on an unprecedented scale. Wealth under capitalism is typically accumulated as *commodities*, objects produced for sale rather than for direct use or enjoyment by their owners ... Marx described the accumulation of wealth under capitalism as a circuit in which money capital (M) was exchanged for commodities (C), to be sold for a larger money sum (M'), in a never-ending metamorphosis of M-C-M'.(Heilbroner 1988, 347). Motahhari (1991, 113) described the principle characteristic

of capitalism as the capitalist's purchase of labour, not for his own needs, but rather for resale (after transformation). Marx (in Mooney 1992, 162) believed that the essence of capitalism is the creation of a market for human labour.

This thesis uses "capitalism" and/or "western capitalism" as the set of philosophical assumptions and the world view which dictates specific economic behaviour to individuals and lays the basis for specific economic systems for societies. The economic behaviour of the capitalist individual and the features of capitalistic economic systems will be analysed in this chapter. Suffice to mention here that capitalist individual and/or capitalist societies seek to maximise material and pecuniary welfare, subject only to constraints set by themselves. Therefore, if the capitalist in pursuing his (maximum) self-interest is committing harms to environment, the ecosystem, society or its members, he is perceived to be staying in the lines of democracy only due to the dearth of prohibiting laws and regulations. The United States, Japan, Western Europe, Australia, and New Zealand are examples of capitalistic market economies (Schnitzer 1991, 65).

Principle Tenets of Capitalism

Research and text books discussing the principle tenets of capitalism abound. This analysis will focus on the tenets which, when applied in administering economic affairs, have a bearing on the issue under investigation in this thesis in one way or another. These are tenets most favoured and defended by the proponents of capitalism, and conversely criticised strongly by the opponents of the system. Both views will be presented then contrasted in this chapter.

Schnitzer summarised the characteristics of capitalism as follows:

The centrepiece of capitalism is a freely competitive market ... The price mechanism determines resource allocation, and freedom of enterprise and private property ownership provide incentives to save and produce. Individualism is also at the core of the capitalist or free market ideology. It was assumed by Adam Smith and others that people were rational and would try at all times to promote their own personal welfare. The individual, in promoting his or her self-interest, works in the interest of society.

Competition is an indispensable part of a free enterprise system. ... The role of government is minimal in capitalist economy (1991, 20).

In a similar outline Chapra viewed capitalism as having the following features:

(a) it considers accelerated wealth expansion and maximum production and 'want' satisfaction in accordance with individual preferences to be of primary importance in human well-being; (b) it deems unhindered individual freedom to pursue pecuniary self-interest and to own and manage private property to be necessary for individual initiative; (c) it assumes individual initiative along with decentralised decision-making in freely operating competitive markets to be sufficient conditions for realising optimum efficiency in the allocation of resources; (d) it does not recognise the necessity of a significant role of government or collective value judgments in either allocative efficiency or distributive equity; and (e) it claims that serving of self-interest by all individuals will also automatically serve the collective social interest (1992, 18).

Democracy and specialisation (Peterson 1991, 7 and 80), free and unlimited ownership (Taliqani 1982, 211), decentralised decision making (Gregory and Stuart 1992, 17), low level of government expenditure (Gianaris 1993, 10), reliance on markets and prices to allocate resources and distribute income (Bornstein 1989, 47), capacity of the individual to know what is good for himself (Siddiqi 1982, 165) and consumer sovereignty have, further, been cited as features of capitalism in the literature.

Beliefs and assumptions of capitalism, like any other school of thought, are put into practice through some institutional arrangements. "These arrangements reflect a set of basic beliefs that define how a society should be organised, how goods and services should be produced, and how income should be distributed" (Schnitzer 1991, 4).

Schnitzer further claimed that:

In the United States these beliefs are incorporated into the industrial arrangements that typify a capitalist system - private property, the profit motive, the price system, freedom of enterprise, competition, individualism, consumer sovereignty, the work ethic, and limited government (1991, 4).

From the literature the principle tenets of capitalism, as they relate to our analysis, can be summarised and clustered as:

- "freedom of unlimited ownership",
- "material and pecuniary incentives as the motivator of human economic activities",
- "reliance on market and price system as well as supply and demand forces to allocate resources and to distribute incomes",

- "*homo-economicus* individual or economic man as the sole actor of the economic scene who seeks his self-interest and who has the capacity of knowing and acquiring his self-interest and better than anyone else",
- "consumer sovereignty",
- "less government intervention and decentralised decision-making by independent individual(s)" and
- "free competition"

Table 3.1 presents these characteristics. Each will be analysed next.

Table 3.1 Characteristics of capitalistic economic system**A: Ownership**

- 1 - Freedom of unlimited ownership (of private property),
- 2 - Freedom of exploitation and utilisation of privately owned property,
- 3 - Freedom of consumption,
- 4- Freedom of enterprise and personal initiation

B: Incentives, motivator of economic activities

- 1 - Material and pecuniary profits
 - Producers try to maximise their profit,
 - Consumers try to maximise their utility
2. Protestant work ethics (reward in this life not in the hereafter)

C: Allocation and Income Distribution Mechanisms

- 1 - Freely operating Competitive Market and Price system, and
- 2 - Market and Price System through the forces of Supply and Demand play as the means by which:
Resources are allocated in the most efficient way; and
Incomes are distributed equitably
- 3 - Without any need for government or any external intervention

D: Individual

- 1 - The sole actor and decision-maker of the economic scene;
- 2 - Individualism, individual freedom, individual initiatives, Independence, Self-responsibility, Self-reliance;
- 3 - *Homo-economicus*, Self-interest (which leads to collective social interest), individual preferences and want-satisfaction, personal welfare (prerequisite and guarantor of public welfare);
- 4 - Individual preferred over the state
- 5 - Individual is rational and has the capacity of knowing and acquiring his best interest and better than any body else,

E. Sovereignty

- 1 - Consumer Sovereignty, Free to choose, the King,
- 2 - Preferred over producer

F: Government

- 1 - *Laissez-faire*, Limited State Role, Less government intervention, Less government expenditures;
- 2 - Decentralised Decision Making by Owners of Factors of Production;

G: Competition

- 1 - Competition, as a powerful institution which guarantees efficiency,
- 2 - Social Darwinism.

A. *Ownership:*

Ownership is generally the first characteristic by which economic systems are contrasted with each other. The ownership system is related to the style of exploitation and utilisation of properties, consumption and individual initiation (of private enterprises). Capitalism, as Sadr described it, is "based on three pillars, which form the specific shape of the capitalism and makes it distinguished from other systems". According to Sadr these three pillars are as follows:

1. Capitalism respects unlimited personal ownership. The general personal ownership principle encompasses all various wealth. This principle cannot be violated unless exceptional cases for nationalisations arise. ...

...capitalism believes in the freedom of ownership and allows all of the production factors such as land, machinery, mineral and etc. be owned privately. Rules, even in a capitalistic society, back and support private ownership and let the private owner defend his property.

2. Capitalism lets individuals exploit their properties and the facilities therein. It also lets the owner increase his wealth by means of whatever instruments and methods he can employ. For example, the owner of a lot of agricultural land can exploit the land in whatever form he desires, in the form of renting to others (by imposing the conditions important for him) or making it idle.

By legitimising freedom of ownership capitalism aims to recognise individual as the "sole actor" in the economic scene; in the belief that no one except him is aware of his real benefits and more able to apuire it. Unless he has such a freedom to exploit his property and unless external (government or whoever) interventions free him for innovations, he cannot earn his maximum benefits. In this way only individuals get the opportunity to capture the method of exploiting their wealth, selecting the occupation they like, and employing the methods necessary for earning maximum wealth.

3. Capitalism guarantees the freedom of consumption the same way it guarantees the freedom of exploitation. Therefore, everybody is free to spend in whatever way they desire to fulfil their needs. They are the only person who decides what commodities they want to consume. Governments, often, ban the consumption of some goods, like narcotics, in consideration of public interests.

In summary, capitalism believes in the freedom of ownership, exploitation and consumption (1981, 274).

"The system of private property is the most important guarantee of freedom" (Hayek 1944, 78. in Marginson 1992, 15) and, as noted above, is related to freedom of enterprise and personal initiative as well. In capitalism, contrary to communism, people have the freedom of initiating their own private enterprise. This freedom is absolute and based on the assumption that the self-interest of individuals will not conflict and harm each other. As Schnitzer stated:

Freedom of enterprise is another basic institution of capitalism. ... However there are limits placed on the choice of an activity. People cannot engage in activities that are deemed socially immoral ... or that may harm others ... (1991, 7).

As a common example "[m]odern American capitalism is often described as a free-enterprise, competitive market economy" (Peterson 1991, 130). Capitalist economists contend "that this form of economic organisation is both highly productive and particularly desirable" (Copeland 1965, 1). As noted by Peterson (1991, 133) since most persons receive money income based on the value of their labour services and/or the amount and type of property they own "there is an incentive in modern American capitalism to try to acquire property resources, either physical or human, or both".

B. Incentive and Motivation System:

The thermodynamic of economic activities in the capitalistic economic system is material and pecuniary self-interest. Capitalism is characterised by the "use of material incentives to motivate economic behaviour" (Gregory and Stuart 1992, 56). Sanctity is given to "[t]he desire of producers to maximise profits and the desire of consumers to maximise their own welfare (utility) subject to the constraint of limited income" (Gregory and Stuart 1992, 76). In pursuing their material profit, producer try to produce the goods and services the consumers desire and would pay for. Consumers, on the other hand, seek to maximise their own (material) utility by purchasing freely the goods and services they want¹. Both profitability and resource allocations are functions of the wills and wants of consumers. Schnitzer (1991, 5) described "profitability as the test of production merit of goods and services".

The primacy of self-interest or supremacy of material progress as the motivating mechanisms is a shared belief between all materialist schools. Siddiqi (1982, 165) stated that conservative (Friedmanian) and liberal (Samuelsonian) traditions on the one hand and the Radical and Marxist economics on the other "do not disagree on such basic

¹. Distinction is made between the "needs" and "wants". This will be discussed in the following chapters.

assumptions as the primacy of self-interest or supremacy of material progress, or the capacity of man to *know* what is good for himself."

C. Resource Allocation and Income Distribution Mechanism:

The basis of resource allocation and income distribution differs significantly among different economic systems. Decisions to allocate resources are, in the capitalistic economic system, made in a decentralised way by independent individuals (owners of factors of production) motivated by their own self interests. How are their endeavours rewarded and the production and the created incomes distributed? "Income distribution in a market economy is based on institutional arrangements, such as the pricing mechanism, associated with this type of system" (Schnitzer 1991, 11). Based on their own material preferences, sovereign individuals, as consumers, associate a price with any of the goods and services which fulfil their needs and wants. By offering a higher price for goods and services which they desire and demand (vis a vis the lower prices for less desirable goods and services) consumers, through the test of profitability, vote (Schnitzer 1991, 9) and decide the mix of production and thereby the allocation of resources and also employ producers (who seek to maximise their profit) as their (production) agents. In this way consumers not only decide on the allocation of resources, but on the distribution of income and wealth as well.

Capitalist economists associate advantages with the market system of resource allocation and income distribution. The market system, through the institutions of self-interest and competition, leads to social welfare. Neuberger stated:

The "invisible hand," as the coordinating mechanism in the market, consists of three major elements: every individual is motivated by self-interest; he obtains the commodities and services he requires through exchange with others; and by his pursuing his self-interest, in competition with others, the welfare of society is maximised (1989, 24).

Adam Smith, as the leading economist of this system, stated:

It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages (Adam Smith 1910, 13. in Neuberger 1989, 24).

A pure market economy, therefore, determines the composition of output, the allocation of resources, and the distribution of income by supply and demand forces affecting prices in a set of related markets for goods, services and assets (Frey 1989 49). The market system of resource allocation and income distribution through the price mechanism and competition leaves no room for undesirable and unfavourable products. Prices, in a free market economy, are influenced by the market mechanism of supply and demand. The price mechanism in a market economy gives individuals no opportunity to bid against the production and sale of commodities and services that are regarded as undesirable (Schnitzer 1991, 40). Frey argued for the advantages and strengths of using the price system as follows:

The selfish and competitive behaviour of individuals leads (under specific circumstances) to the best outcome for all. There is no need to set any incentives for the "right" behaviour by any outside authority.

Everyone is free to choose according to his or her own preferences; behaviour is not directly regulated (1989, 51).

Capitalist economists are not, of course, unaware of the shortcomings of price mechanisms. But they believe that "[i]nstitutional arrangements that serve to intensify competition can overcome some of the shortcomings of the price mechanism" (Frey 1989, 52).

D. Individualism:

Capitalism, as noted before, acknowledges the "individual" as the sole actor in the economic scene and assumes that he is aware of his real benefits and is more able to acquire it. "[T]he neo-classical idea of human nature was *homo economicus* (economic man), a calculating individual his only concern was to maximise his own selfish economic utility" (Marginson 1992, 8). "[I]ndividual responsibility and freedom of enterprise gave rise to extreme individualism and to the *laissez-faire* ideology, which were considered to be the two main poles of capitalistic development (Gianaris 1993, 14).

The proponents of capitalism relate "individualism", "limited government intervention" and "*laissez-faire*" to some other tenets, like "freedom of ownership", "freedom of

choice", "freedom of enterprise", "decentralised decision-making", "individual initiative" and the like. Schnitze stated:

The doctrine of laissez-faire fit in with the development of capitalism. It carried with it a sense of independence, personal initiative, and self-responsibility. If individual initiative is respected, it gives free play to entrepreneurs to create products for those who want and will pay for them. A necessary requisite for individualism is a limited state role. The individual should have preference over the state, for the latter is, again, only a fictitious body composed of individual people who are considered to be its members. The idea of individualism and laissez-faire were therefore regarded by Adam Smith and others as a safeguard against the tyranny of the stater (1991, 16).

Capitalist economists relate individualism, self-interest, free market and the price system to public-interest and public-welfare. They lean on the "invisible hand" theory proposed by Adam Smith and hold that the pursuit of self-interest by individuals will, by means of the invisible hand, promote social interest, though it was not intended (Adam Smith 1937, 423 in Marginson 1992, 9). Schnitzer (1991, 23), similarly, claimed that if all people are motivated to work at full capacity the net supply of goods and services available for consumption by all will be maximised.

The capitalistic economic system believes that individualism and the social-welfare it brings about are conversely related to the degree of government intervention. To quote from Schnitzer (1991, 75): "Smith insisted that social well-being is the outcome of individual activity and that individual activity becomes greater the less it is hampered by government interference. ... The philosopher John Locke held that individuals have a ready-made body of rights that are the responsibility of government to preserve."

E. Sovereignty:

Capitalism believes in consumer sovereignty and perceives it as an important institution. Consumer sovereignty is also one of the demarcation criteria between different economic systems. Gianaris stated:

A significant difference between the two major systems, capitalism and communism, is the customers' sovereignty versus the planners' preference. In the first case, production takes place in order to satisfy the consumers, who know best about their interest and ohelimity or utility. The sovereignty of consumers is the basis of economic and political freedom, ... (1993, 1).

The institution of consumer sovereignty was claimed by Adam Smith, the founder of the classical economic school, two hundred years ago. He claimed: "[c]onsumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to only as far as it is necessary for promoting that of the consumer" (Adam Smith 1981, 660, in Schnitzer 1991, 9). Schnitzer (1991, 9 and 78) also referred to consumption as the basic rationale of economic activities in a market economy. He noted that:

In competing for consumers' dollars, producers will produce more of those products that are in demand, for the price will be higher, and less of those products that are not in demand, for the price will be lower. ... Producers that effectively satisfy the wants of consumers are encouraged by large monetary returns, which enable them in turn to purchase the goods and services required for their operations. On the other hand producers who do not respond to the wants of consumers will not remain in business very long. Supply and demand will shift in response to the way in which consumers spend their money.

In this way, and with regard to the fact that the market economy is inherently competitive, consumers gain sovereignty and can rule the producer, the production mix and can direct resource allocation decisions and even income distribution, as analysed previously². The consumer is king because production ultimately is oriented toward meeting the wants of consumers. Freedom of choice is consistent with a *laissez-faire* economy (Schnitzer 1991, 9).

F. Government:

There is, of course, a relationship and consistency between institutions and the tenets of capitalism. The domain of government activities is defined in relation to other institutions like "freedom of ownership", "individualism", "consumer sovereignty" and others. Milton Friedman (1980, 28-29) wrote "it is not easy to improve on the answer Adam Smith gave to this question two hundred years ago". Government, from Adam Smith's point of view, is expected to accept only "three duties of great importance ...: first, the duty of protecting the society from the violence and invasion of other

². Refer to "Resource Allocation and Income Distribution" section.

independent societies; secondly, the duty of protecting, as far as possible, every member of the society from the injustice or the oppression of every other member of it, or the duty of establishing an exact administration of justice; and thirdly, the duty of erecting and maintaining certain public works and certain public institutions, which it can never be for the interest of any individual, or small number of individuals, to erect and maintain ..." (Smith 1937, 651 in Marginson 1992, 9). Government intervention in economic activities in capitalism, it is assumed, should be kept to a minimum. The government is expected to guard internal and external peace (Gendarme government) and to undertake only those affairs which are not within the ability or interest of the private sector. Friedman (1962, 191-192, 1980, 32 119-124, in Marginson 1992, 61) limited the extent of government intervention in economic activities:

to preserve law and order, to enforce private contracts, to foster competitive markets; ... to protect members of the community who cannot be regarded as 'responsible' individuals.

Instead, individuals are given complete freedom to engage in all economic activities, except those deemed harmful. This complete individual freedom is commonly known as the principle of *laissez-faire*, which is one of the most famous and important tenets of capitalism and classical economics.

In regard to the domain of government intervention in economic activities Schmitzer stated:

... government in the capitalist system ... should follow a policy of *laissez-faire* with respect to economic activity. That is activities of government should be limited to the performance of a few general functions for the good of all citizens, and government should not attempt to control or interfere with the economic activities of private individuals. *Laissez-faire* assumes that individuals are rational and better judges of their own interest than any government could possibly be. The interests of individuals are closely identified with those of society as a whole. It is only necessary for government to provide a setting or environment in which individuals can operate freely. ... provide for national defence, maintain law and order, carry on diplomatic relations with other countries, and construct roads, schools and public works (1991, 10).

The institution of *laissez-faire* relates to the institutions of private ownership and individualism. Together they lead to "decentralised decision-making" versus the alternative systems of planned and controlled economies. Decentralised and unregulated market activities, it is claimed, result in economic progress and social improvement (Marginson 1992, 9).

G. Competition

The driving force of capitalism, according to Marx (in Glyn 1988, 639), is competition. Competition in capitalism, as Schnitzer (1991, 10) stated, is "regarded as a virtue rather than a vice". In a free market economy competition is perceived to be a powerful institution which guarantees efficiency. Gregory and Stuart stated:

The more competitive the economy, the more efficient the economy. The producer's desire to maximise profit and the consumer's desire to maximise utility lead to a maximal output from available resources under conditions of perfect competition. Imperfect competition and external effects reduce this efficiency (1992, 90).

Some have extended the attributed advantages of competition to all social activities. Marginson (1992, 24), quoting from Hayek, said that competition was ... "the principle of social organisation". Greater importance has been placed on competition in the capitalist system by almost all capitalist economists. Schnitzer stated:

Given the institution of private property and freedom of enterprise and given the scarcity of resources and the reliance on a market to allocate them, the attempts of individuals to further their self-interest results in competition. Competition is an indispensable part of a free enterprise system. In economic life, a self-reliant individual must struggle and compete for economic rewards - good jobs, high pay, promotions, desirable goods and services, and security in old age. There is the element of social Darwinism in competition. Life is a competitive struggle in which only the fittest, in terms of resources, get to the top.

Certainly, *competition* is one of the "good" words in the American vocabulary. From a very early age, school children are told that the distinguishing characteristics of the historically successful US. economic system is competition and that other economic systems have inefficiencies because, in some degree, they lack that magic ingredient in the particular and unique context in which it exists in our economy. It is, therefore, not surprising that by statute and common law our legal system has been actively concerned with the maintenance of a competitive system (1991, 7).

Maximised efficiency in the use of capital and other resources, initiation and product innovation, production of quality goods and services long-run waste, cost and price reduction, equitable distribution of real income, wide variety of an alternative source of supply of consumer goods and prevention of the development of an excessively powerful economic unit (CBHU 1993, 147 and Schnitzer 1991, 8 and 27) are cited as the benefits of competition.

Schnitzer perceived competition as the cornerstone of a free market economy. He deemed government intervention in the market place appropriate only "when the results of competition appears undesirable to society" (Schnitzer 1991, 38).

The Theoretical (ideal) Perspective

Capitalist economists believe capitalism is an internally consistent and externally valid economic system capable of solving all the economic problems of societies and ensuring public welfare. The analysis of this section highlights the major theoretical (ideal) perspectives of several capitalist economists.

It is claimed that "pure" capitalism does not exist, rather its institutional arrangements do (Schnitzer 1991, 135). All capitalist economies have experienced different degrees of departure from pure capitalism. Gregory and Stuart stated:

There is no single theoretical model of capitalism, and no two capitalist economies are exactly alike. Controversy exists over the role of the state, the role of market imperfections (externalities, monopoly, public goods) and the inherent cyclical instability of capitalism (1992, 75).

As mentioned before, the United States economy has commonly been referred to as a symbolic example of a capitalistic economy. But Schnitzer (1991, 4) noted that "[t]he economy of the United States today by no means represents a pure *laissez-faire* capitalistic system. It is rather, a mixed economic system. There are public enterprises, considerable government regulation and control, and various other elements that hinder the unrestrained functioning of market forces."

Pure capitalism, the one championed by Friedman was an idealistic/utopian (Marginson 1992, 6 and Hayek in Marginson 1992, 13) theory of an economic system. Its applicability has proved to be questionable. All of its principle tenets have undergone unsuccessful tests of experience. And the market economy, as stated by Chapra (1992, 2), has "failed to realise the desired material goals". Khurshid Ahamd argued:

Both [capitalism and socialism] have been unable to meet in their own realms the basic economic, social, political and moral challenges of our time and the real needs of a humane society and a just economy (1982, 218).

Unstable economics (Keynes, in Gregory and Stuart 1992, 90), "macro economic imbalances, reflected in frequent economic fluctuations, high rates of inflation and unemployment, excessive budgetary and balance of payments deficits, and volatility in the foreign exchange, commodity and stock markets" (Chapra 1992, 2) and "extreme

inequality in the distribution of income and wealth" (Schnitzer 1991, 72) are only a few examples of cited drawbacks of capitalism. Gregory and Stuart (1992, 76) claimed that "Adam Smith's description of market was incomplete ...". Motahhari (1991, 114) criticised capitalism and claimed that it exploits labour. Gianaris (1993, 37) also wrote:

Karl Marx criticised capitalism as based on labour exploitation, capital accumulation, through the "surplus value," and ever-increasing periodic crises.

Pure capitalism has proved to have drawbacks and shortcomings. The exercise of the capitalistic economic system has, experimentally, resulted in numerous costly problems, huge reductions in human welfare and the eventual threatening of the continuity of human life on the planet. Due to these difficulties some countries like Japan, western European countries and the United States follow "mixed economic systems" rather than pure capitalism (Gianaris 1993, 17 and Schnitzer 1991, 136). Some of these problems will be analysed in the next section.

Problems in Implementation of "pure" Capitalism

The underlying reason for the wide-spread exercise of the capitalistic economic system is the fact that it corresponds to the spirit of lasciviousness in humans. People, in seeking comfort and material welfare, tend to free themselves from responsibilities and turn their eyes from "*musts*" and "*must nots*", though they are the bases of sustainable welfare of the human race. Critics of capitalism argue that capitalism is not externally valid (Sadr 1981, 277), and as a result cannot be accepted as a theory capable of ensuring human welfare and prosperity. It is not viable. In spite of its dominance and prevalence, not only has it proved to be incapable of solving the economic problems of societies, it has caused many economic, social, political and cultural problems as well. This section will, to the extent relevant to the core subject of this study, articulate the problems of the implementation of "pure" capitalism and the exercise of the capitalistic economic system. The analysis will delineate the way through which the implementation of pure capitalism and the exercise of principle tenets of the capitalistic economic system result in various

socio-economic ills as well as environmental and ecological problems, as analysed in the chapters relating to SRA and SA and at the beginning of this chapter.

Capitalist economists have tried to give sanctity to the principle tenets of capitalism. The exercise of capitalism, on the other hand, reveals contradictory results. Inequalities in the distribution of income, wealth, and material welfare, economic fluctuations, high rates of unemployment, inflation and national debts, abuse and exploitation of natural resources, increased wastes and emissions dumped into the environment and the ecosystem are only material aspects of the consequence of the exercise of the capitalistic economic system. Non-material, social, psychological and cultural aspects of the market activity are no less significant than the material ones. Chapra stated:

There is a rising level of stress, tension and strife in human affairs, accompanied by an increase in all the symptoms of anomie, such as frustration, crime, alcoholism, drug addiction, divorce, child battering, mental illness and suicide, all indicating lack of inner contentment in the life of individuals (1992, 2).

These non-material issues will not be included in this analysis. The adverse material/economic results of the performance of capitalism, as they relate to our analysis, are as follows.

A. The Results of Exercise of Private Ownership:

Absolute freedom of ownership and its corollary institutions like "individualism" and "*laissez faire*" centres decision-making regarding production, distribution and consumption in the hands of independent individuals. As a result, to decide "what, how and to whom to produce" as well as the destiny of nations is put in the hands of individuals and is made a function of their personal wills. Wills of individuals and the good of societies become mutually exclusive under the acceptance of absolute private ownership. Harm to society, environment, natural resources, waste and extravagance and unequal distribution of income and wealth are among the negative effects of "unfettered" private ownership. To overcome some of these shortcomings of absolute ownership government intervention has proved to be indispensable. Gregory and Stuart stated:

In so far as human and physical capital and natural ability are not likely to be evenly distributed ... private ownership of these factors of production raises the likelihood of an uneven distribution of income and wealth among the members of capitalist societies. Exactly how unevenly income and wealth are distributed will depend on the distribution of human and physical capital and also on the redistributive role of the state (1992, 90).

"Freedom of enterprise", "freedom of saving, investing, consumption and exploitation" and many other kinds of freedom - the corollary principles of the institution of absolute private ownership - are also not free of their adverse effects. Establishing enterprises and investing according to personal will, in pursuing self-interest which is closely tied to private ownership, will direct the limited resources to the production of goods and services which will guarantee the best for individuals rather than the society. Freedom of spending, exploitation and extravagant consumption, likewise result, in addition to the above-mentioned outcomes, in demand-push scarcity and inflation as well as the deprivation of others.

The possibility that under the absence of logical control devices, private owners may get together and become a force of political control, can be another unfavourable consequence of the recognition of absolute freedom in private ownership (Schnitzer 1991, 4).

B. The Results of Exercise of Material Incentive

The recognition of material and pecuniary incentives and self-interest in capitalism, together with submission to the forces of the market system to allocate resources and to distribute incomes have lead the capitalist societies to very unfavourable outcomes. The concept of self-interest ended in greed and turned out to be totally different from the concept of the institution in the minds of the capitalist theoreticians and became mutually exclusive from social welfare.

Self-interest and greed have at least such adverse effects in practice as violating social rights and rules and encroaching on the rights of others. Polarisation of the capitalist societies to the poor and the rich, the widening gap in between and double standards of living is one example. Under the principle of material incentives producers seek to

maximise their profits and consumers seek to maximise their utility. Under this condition and in the absence of a superior controlling device:

Capitalist production is guided by profit, not social need, or to put it more abstractly, by exchange value rather than use value. ... Society's capacity to produce will be reduced below what is feasible, as well as actual production being reduced below capacity (Glyn 1988, 640).

The production and sale of low quality products, as noted by Frey (1989, 64), greedy exploitation of labour (Motahhari 1981, 113) and natural resources, production and sale of harmful products like cigarettes, alcohol, heroin and other similar narcotics and selling them in an unfair way by addicting people and disintegrating families can be cited as other examples. Unethical business practices like dumping, making monopolies, monopsonies, trusts, holding companies and cartels in a destructive competition are examples of the adverse effects of self-interest and submission to material incentives. Production and sale of luxurious and unnecessary products (Okun 1975 and Schnitzer 1991, 78), or the way in which the unnecessary products are advertised and the way in which the consumers are informed (indeed misled) are further examples of the exercise of pure material incentives.

Though it is a very thin point, it is, still an unpleasant fact that, as a result of material incentive, production and advertising of many unnecessary products (besides using-up scarce resources and using the money and opportunities of consumers) surpasses the fulfilment of basic human needs. This causes tensions and imbalances, which, in turn, results in many psychological and social ills and imbalances.

Various forms of harm to the environment and the ecosystem, as discussed in chapters two and three, are still other examples of the unfavourable outcomes of material incentives. Managers, like owners, are motivated by material incentives since their success is assessed on the basis of their ability to earn the highest income for the company. Their income and promotion is a function of their income-generating capability, irrespective of the oppressions they commit and the social costs and externalities they cause in the process. Material incentives for both owners and

managers, therefore, motivate them to enter into competition to exploit natural resources and to dump wastes and various kinds of pollution into their environment and the ecosystem. Schnitzer stated:

It is alleged by the socialists that production for profit under a capitalistic system leads to social waste and unemployment. In addition, certain wants, such as public health and education, are difficult to express in the marketplace; as a result, they are not adequately fulfilled under capitalism. Since profit is the basic entrepreneurial motive in a free enterprise system, social costs - polluted streams, polluted air, and wasted natural resources - are not considered (1991, 140).

Capitalism believed in and based its principles on material and pecuniary incentives. Considering this fact on the one hand, and Maslow's³ theory of motivation and categorisation of human needs on the other, leads to the conclusion that capitalism is subject to criticism; in that it had an incomplete concept and definition of the human being. Focusing only on material and safety needs and turning eyes away from the superior needs of human beings not only gives a wrong and incomplete picture of humans, but it also insults them.

C. The Results of Exercise of Market and Price System for Allocation and Distribution

It has been argued in the literature that "the market is more efficient in satisfying most needs than non market systems are" (Logue 1991, 315). Nevertheless, the exercise of the market and price system for allocation of resources and distribution of incomes has resulted in very unfavourable outcomes and has been a subject of serious criticisms. Market "does not provide within itself any defensible income distribution" (Arrow 1974, 22, in Siddiqi 1982, 164). Extreme inequality in the distribution of income has been one result of the market mechanism (Schnitzer 1991, 35)⁴.

Inequality in distribution of economic, social, and political power (Hurst 1982, 138 in Peterson 1991, 1) has been another drawback of the private market. This, in turn, has a

³. Maslow puts human needs into five different categories: Physiological, safety, security, self-preservation and social or affiliation needs.

⁴. Examples of unequitable distribution of income and wealth is given in the Appendix D.

secondary adverse consequences of sub optimality in the need for satisfaction. Logue (1991, 316) stated: "The greater the degree of economic inequality, the more sub optimal the results in satisfying needs". Okun argued that markets "award prizes that allow the big winners to feed their pets better than the losers can feed their children" (Okun 1975, 11 in Chapra 1992, 37). And the more deviation in the objectives, the more unsuccessful the economic system. Contrary to these facts, priority in capitalism has been given to the persuasion of profit and material self-interest than to the satisfaction of human needs.

Logue stated:

In the economic theory of capitalism, the satisfaction of human needs was a by product of the entrepreneur's pursuit of a profit. He manufactured goods in order to turn a profit selling them, not to satisfy needs. That later results was fortuitous but felicitous. But if the capitalist could make a larger profit without production, the logic of the economic system dictated that he should (1991, 320).

Market and price system will result in the allocation of "scarce economic resources into the production of goods and services that people who have money to spend are willing to purchase for their own personal enjoyment" (Peterson 1991, 130) rather than for meeting the basic needs of all members of society. Further,

the price mechanism will provide goods and services that people are willing to pay for, no matter how frivolous or undesirable they are. There may be many people who would be happier if they could prevent the production of, for instance, alcoholic beverages or the emission of noxious fumes from a chemical plant, and would gladly pay the price if given the opportunity to do so (Schnitzer 1991, 40).

It is proclaimed in capitalism that the market and price system through the force of supply and demand will serve the most efficient allocation of resources and the most equitable distribution of income. Experimentally, most often than not, the two goals conflict. Efficient allocation of resources and equitable distribution of income seem mutually exclusive. Capitalism cannot make definitive judgements about equity and efficiency since this involves value judgements (Gregory and Stuart 1992, 90). Whereas some like Rawls give priority to equality, the proponents of "pure" capitalism, Friedman for instance, give priority to efficiency (Okun 1975, 92). Haywood (in Logue 1991, 318) aptly stated "For every dollar a man has that he didn't work for, another man worked for a dollar he didn't get". It can similarly be concluded that for every dollar

distributed and spent unjustly, a just need remains unfulfilled. This, in turn, is a source and cause of many other unfavourable consequences.

After citing numerous shortcomings of the market mechanism, Frey (1989, 51 and 52) concluded that "[t]here are two kinds of *weaknesses* of the price system: either it does not function well, or it cannot be applied."

D. The Results of Exercise of Individualism

The concept of "individualism" and the way in which the individual pursues his self-interest were, in the minds of capitalist economists, too optimistic. The institution of individualism rests on the famous "invisible hand" theory of classical economists stated by Adam Smith. The theory, as seen before, states that "if everyone pursued his self-interest, the 'invisible hand' of market forces would, through the restraint imposed by competition, promote the interest of the whole society, thus bringing about a harmony between private interest and public goods (Adam Smith 1977, 20, in Chapra 1992, 29). This has proved to be very idealistic and far from reality. "The pursuit of individual self-interest is socially beneficial only when the environment is appropriate; the cultural heritage of many societies do not contain the necessary requisites for the development of a useful market system" (Schnitzer 1991, 23). Chapra criticised the proclaimed symmetry between public and private interests and stated:

It is assumed that individuals, in their capacity as sovereign consumers, act rationally and maximise their utility ... [and] in their capacity as producers, also act rationally and ... maximise their profits. ... [These market clearing prices] ... serve as an impartial, value-neutral filter mechanism and lead to the production of the configuration of goods and services which is in maximum harmony with consumer preferences. ...

... Questions about whether this configuration satisfies basic human needs and whether the distribution is equitable are improper because such questions cannot be answered without collective value judgements ...

... the terms 'efficiency' and 'equity', as defined within this framework, do not have a direct relationship within the objectives of removing poverty, fulfilling needs, and reducing inequalities of income and wealth. ...

But history and experience belie the claimed symmetry between private and social interest. The system has failed to realise equity (1992, 18).

Both Chapra and Samuelson criticised Adam Smith's "invisible hand" theory. Samuelson (1980, 591, in Chapra) claimed:

Adam Smith ... had no right to assert that an Invisible Hand successfully channels individuals who selfishly seek their own interest into promoting the 'public interest' ... Smith has proved nothing of this kind nor has any economist since 1776 (1992, 38).

Following Samuelson Chapra argued:

Adam Smith's great contribution to economic thought was thus the sanctity he accorded to self-interest, turning thereby the eyes away from the moral intentions and social obligations of individuals to the 'unintended' consequences or the final social outcome of their actions.

... No room was left in the account for a person's values, objectives in life, social obligations and other non-pecuniary motivations. Since these factors could not be quantified, they did not fit into the epistemology of capitalism and classical economics (1992, 29).

Chapra challenged the assumption of capitalism that "the sovereign consumer confines his claims on scarce resources to only need-satisfaction, such that there is no conflict between the preferences of 'rational' consumers and social priorities in the use of resources". Whereas, "... in an individualistic society, where most operators in the market are 'economic men' whose only motivating force is self-interest, whose time horizon is short, and whose social perspective is generally narrowed and limited, long-term costs as well as social costs and benefits tend to be disregarded by them in their accounting, even though these costs and benefits are extremely important from the point of view of continued social welfare. The claimed self-correcting tendencies of the price system which tend to reduce the divergence between private and social interests usually take such an extremely long time that faith in this self-correcting tendency is not meaningful" (Chapra 1992, 37). The question "whether individuals always *know* what to prefer" (Siddiqi 1982, 164) has also had a negative answer throughout history.

Another drawback of the "individualism" institution of capitalism stems from the various interpretations of it. Schnitzer linked individualism to a set of related institutional values of capitalism, including competition and social Darwinism. Schnitzer as well as other capitalist economists held that life is a competitive struggle where the fit survive and those who are unfit do not (1991, 8).

Still another interpretation of "individualism" can have tremendous adverse effects on societies. According to Schnitzer (1991, 36) "[t]he concept of individualism carried with it self-responsibility. A person was responsible for his or her own actions". To be indifferent to the bad and unlawful deeds of others results in the elimination of responsibility to each other and mutual control in society. This, in turn, causes people to not be shy or feel ashamed of committing unlawful actions or harming and violating the rights of society or its members. People feel free and obtain courage to act based on their own personal wills and wants, disregarding the interests and personality of others. This is what the western societies faced - various kinds of social ills, environmental and ecological problems. This is one appearance of so-called freedom, or as capitalism uses the phrase "*laissez-faire*".

Interpreted any way, individualism causes tremendous amounts of unfavourable consequences from the stand point of SRA and SA.

E. The Results of Exercise of Consumer Sovereignty

Literally "sovereignty" means "supreme power or dominion". Sovereign, an adjective of sovereignty, means "royal; supreme in power; possessing supreme dominion; effectual; a king, emperor, or queen"⁵. What was meant by according these terms to consumer and consumerism in capitalism is not different from the literal meanings of the terms. "A pure market economy assumes that consumers are knowledgeable about products and can make rational choices (Schnitzer 1991, 41). But, in practice, it did not work as it was meant. Consumer's sovereignty has experienced at least three kinds of distortions. Being misled by unfair marketing and advertising efforts and being influenced by the proliferation of (unnecessary and/or low quality) consumer products are examples of distortion of consumer sovereignty. To quote from Frey:

The price system is often criticised because it is taken to disregard the preference of consumers. Three kinds of criticisms may be distinguished:

⁵. The Oxford English Dictionary. Vol. XVI. 1989. Clarendon Press. Oxford.

1. Consumption *per se* is criticised by the New Left and some environmentalists because it is believed to make people unhappy.
2. Consumers are manipulated by producers. According to Galbraith, this results in a disequilibrium between private and public consumption owing to firms' advertising.
3. Particular goods are of insufficient quality. The consumers cannot take advantage of the choice possibilities because they are badly informed and not adequately protected against deception. This view is advanced, for example, by the American "consumption" movement (1989, 64).

Frey (1989, 64) pointed to the weak position of consumers in the price system relative to the stronger position of producer as well as to the fact that the market does not function properly to meet the wishes of the demanders, for which it initially was designed.

From a similar perspective Schnitzer attributed the following criticisms to the proclaimed consumer sovereignty:

First, producers take the initiative to increase the volume and variety of consumer goods⁶. Second, producers use sophisticated marketing methods, including advertising, that influence the consumer's choice of goods. ... advertising is to entice consumers into buying products that, for the most part, they do not need or that could even prove injurious to their health. ... Third, the market and price mechanism never ask consumers to specify for which commodities and services they would like the scarce resources of society used (1991, 78).

It can be then concluded that consumers' benefit, like many other social and private benefits, have, in practice, been subordinate rather than sovereign to the self-interest and material benefits of producers and their tyranny.

F. The Results of Submission to the Limited Role of Government

Laissez-faire, the basic principle of capitalism which recognised complete freedom of individuals in economic activities and rejected governmental or any external intervention, was the dominant theory of economics until the 1930s. After the great depression of 1930 and the failure of market forces to bring back equilibrium to the market and growth to the economy, government intervention seemed necessary. The theories of Keynes and others not only rationalised and justified the intervention of government in economic

⁶. Are consumers better off with a proliferation of breakfast cereals or is it a waste of scarce resources? Do sugar-laden cereals and other breakfast foods with exotic names really contribute to consumer welfare?

affairs, rather they argued for the significant necessity of the intervention. Schnitzer gave the following reasons for increased government intervention:

One reason is the failure of the market mechanism to allocate resources properly. A breakdown in competitive market forces allow monopoly, oligopoly, and otherwise imperfectly competitive market structures to cause inefficient resource allocation. A second reason is unemployment. ... Third, an unequal distribution of income and wealth created social frictions that threatened to undermine the social and political structure of many capitalist countries. A final reason for government intervention is economic insecurity that results from the operation of a market system (1991, 23).

The economy of the United States of America, a symbolic example of a capitalistic economy, again serves as a good example of the extent of government intervention in the economic activities of the society⁷. As Peterson stated:

In the political economy of modern American capitalism, government is significantly involved in the process of economic decision making. Its involvement affects the choices made in the allocation of resources, the production of output, the distribution of income, the consumption of goods and services, and the productivity and ownership of property. While yielding to the allocation-production-distribution-consumption process, government involvement in the economic system interferes with the functioning of a competitive market (1991, 139).

Post-*laissez-faire* government, then, "in pursuit of its various objectives, intervenes with many instruments of economic policy to alter the outcomes that market forces would generate" (Frey 1989, 49). Unfortunately, in most of the cases, government intervention in capitalist societies has been in the form of a catalyst to the fulfilment of the wills of individuals, regardless of how ethical or unethical they are. Especially with the decline of business ethics, the fall of "public good" into disfavour (Marginson 1992, 1) and increased interest and greed in material and pecuniary gains on the one hand, and with increased adverse effects of business on society, environment and the ecosystem on the other hand, government intervention at present is felt to be more necessary than ever before.

⁷. Government purchase of goods and services now amounts to around 20 percent of the gross national product. It is clear that government intervention in the economy has become large enough to justify the classification of the United States as a mixed rather than strictly market system (Schnitzer 1991, 105). Schnitzer 1991, 87), then, concluded that the American economic system is characterised by "big business, big labor, and big government". Government in America is the single largest employer, owner, and provider of credit (1991, 97).

G. The Results of Exercise of Free Competition

At least three kinds of criticisms can be made of the institution of free competition in capitalism. Either the condition for perfect competition is not normally met or it results in the waste of assets, exploitation of people and natural resources and damage to the environment and the ecosystem. Moreover, it eliminates competition.

Friedman used the phrase "competitive capitalism" (1962, 13 in Marginson 1992, 40) to highlight the importance of competition to capitalism. Capitalistic assumptions that the market operates under conditions of perfect competition, conversely, are not satisfied anywhere (Chapra 1992, 37). Even when the conditions of competition are met, still more unfavourable outcomes are expected.

The number of people who are left worse off by competition are, considerably, larger than the number of people who benefit from competition and are left better off. Samuelson has pointed out that "*Laissez-faire* perfect competition could lead to starving cripples; to malnourished children who grow up to produce malnourished children; to perpetuation of Lorenz curves of great inequality of income and wealth for generations or for ever" (Chapra 1992, 38).

It can also be argued that producers, competing with each other for higher profits, rarely consider the adverse effect of their performance on the exploitation of the stock of (natural) resources. One reason, as Harris (1983, 134) claimed, is the fact that competition continually presses capitalists to reorganise and relocate production. And the unduly wasteful consequences of this reorganising and relocating is unquestionable. Nor will competing producers consider the adverse effects of their activities on the environment, the ecosystem and the welfare of societies. Schnitzer (1991, 41) discussed the relatedness of externalities and competition and stated: "Competitive markets provide no solution to ... externalities; a competitive firm will generate as much, or more, smoke than a non-competitive one does."

One more criticism of the institution of free and perfect competition alleged by capitalism is the fact that competition has resulted in the elimination of competition. That is, in competing for higher profit shares, producers have given specific features to their products. This has made each product items almost unique and incompatible. Gianaris (1993, 17) noted that:

Mixed economies, such as that of the United States, the European Community, and Japan, are more and more departing from the model of perfect competition and moving toward a monopolistic market structure, primarily under the model of monopolistic competition.

Still another breakthrough in the competition of the capitalistic economic system is the entry of government into the market as a big professional. Capitalism, then, is no longer competitive. The market has broken down, and the federal government has assumed many of the tasks previously accomplished by market forces (Peterson 1991, 88).

The criticisms of the principle tenets of capitalism, as already analysed, reveal that without exception, all institutions of the capitalistic economic system have proved to be problematic and questionable. For example, competition may be weak, prices do not capture externalities, the income distribution may not be fair, and full employment and price stability are not assured by the market system (Frey 1989, 49). "Economic fluctuations or business cycles, associated with unemployment and inflation" (Gianaris 1993, 39) are some other drawbacks of capitalism.

Moreover, the interactions among key institutional arrangements are usually also neglected. For instance, capitalism is proposed as the epitome of a market economy in which the typical firm is a one-owner, one-product, one-plant enterprise (Peterson 1991, 1).

The exercise of these principles has had a tremendously destructive effect on the economic, social, psychological and cultural foundations of societies. This has caused capitalism to be known as "economic dictatorship" (Motahhari 1991, 222) or "a religion of money ... dictatorship" (Mannan 1986, 310). Efforts to search for solutions have resulted in many alternative economic systems. The next section is devoted to the investigation of these alternatives and the extent to which they have been successful in solving the economic problems of societies.

The Suggested Solutions to the Drawbacks of Capitalism^{8,9}

After analysing the drawbacks of the principle tenets of capitalism, it is now appropriate to analyse the proposed solutions to the problems arising from the exercise of the capitalistic economic system. The proposed alternatives to "pure" capitalism and the extent to which each proposed alternative was successful in solving economic problems of societies will also be analysed in this section.

The failure of capitalism in its important test during the Great Depression of 1930 was the major reason for the crash of its institutions, mainly *laissez-faire* and the denial of government intervention in economic activities (Frey 1989, 50 and Fearon 1993, 128) and the sanctity given to individualism.

As Schnitzer noted, due to the wrong interpretation of individualism, before 1930 it was held that unemployment had been regarded as almost solely the responsibility of the individual, who was to look out for himself within the market mechanism. Unemployment was the *bete noire* of capitalism and the Depression of the 1930s led most of the Western countries to assume national responsibility for human tragedy and economic waste of involuntary unemployment (Schnitzer 1991, 67). By departure from the free market idea that an individual's income is determined by the impersonal forces of supply and demand operating in the marketplace, governments accepted responsibility for providing a minimum income if a family is to take care of itself (Schnitzer 1991, 37 and 72).

Increased government intervention and the shift in the role of government from passive to active after the Great Depression of 1930 saved capitalism from collapse and prevented its demise, as predicted by Marx (Schnitzer 1991, 28). Due to the increased role and power of governments, allocation and distribution decisions became politico-economical in nature, rather than merely economical, as it was before.

⁸. This section benefits mostly from Schnitzer (1991).

⁹. The economy of the United States of America has been frequently referred to in this section as an example of a capitalistic economic system.

Based on different expectations from government, numerous alternatives were proposed to pure capitalism in reaction to its deficiencies. "State-guided" capitalism; "modern welfare state" and "welfare statism" (Schnitzer 1991, 35 and 142); "modified economy", "socialist market economy", - developed by Oskar Lange and the only real world example of which was Yugoslavia - (Borndtein 1989, 173) and "mixed economic system" (Schnitzer 1991, 18) are some of the alternatives to "pure" capitalism.

In the "welfare state" governments intervene to achieve certain economic and social objectives. Two goals are emphasised: an equitable distribution of income and wealth and security of living standards against such vagaries of life as unemployment, ill health, and old age (Schnitzer 1991, 142).

In a mixed economy, like France, Japan, and the United Kingdom, which combines some of the basic features of capitalism along with considerable government intervention in the economy (Schnitzer 1991, 136), the role of government and the scope of policies were expanded (Marginson 1992, 1). Taxes, transfer payments, and subsidies protecting "various special interest groups against such things as discrimination and foreign competition" (Schnitzer 1991, 87); management of economy through fiscal and monetary policies; "job programs as a means of narrowing the disparities in living standards ... and of eliminating the economic deprivation that violates the principles of democracy" (Okun 1975, ix:); and "policies directed toward a high level of employment" (Schnitzer 1991, 35) were among the various kinds of government intervention. Various regulations and enactments were indications and evidence of government intervention in economic activities¹⁰. Examples of government regulations are given by Schnitzer.

¹⁰. In The United States of America, as a symbolic example of capitalism, these regulations included: "the Sherman Act (1890), prohibiting activities that restrain trade and monopolise the market; the Clayton Act (1914), forbidding price discrimination and elimination of competition between corporations through interlocking directorates and other devices; the Robinson-Pitman Act (1936), making it illegal to try to eliminate smaller rivals by charging unreasonably low prices and using other supply discrimination techniques; the Celler-Kefauver Antimerger Act (1950), prohibiting acquisition of real assets if it substantially lessens competition; and other laws and regulations that were enacted to achieve these goals, that is, to restrict monopoly and maintain competition. Similar antitrust laws prevail in the EC countries and aim at the protection of the consumers from unfair trade practices." These Acts aimed

antitrust laws to protect the public against anti competitive business practices by limiting monopoly power (p 28), social regulations such as occupational health and safety, employment opportunities for women and minorities, consumer product safety, and environmental protection, government regulation requiring air and water standards imposed on society (p 39), a variety of government regulations adopted to achieve various social goals, such as a cleaner environment and the employment of minorities, the social security programs to reduce economic insecurity (1991, 105).

According to Schnitzer (1991, 147):

It is assumed that, through government direction and participation, a mixed economic system can ameliorate or eliminate some of the major flaws of a purely capitalistic system - namely, unemployment and economic insecurity - as well as accomplish a high rate of economic growth.

Capitalist countries have experienced still further alternatives to "pure" capitalism with regard to the degree of their government's role, power, and extent of intervention in the economic activities. "Political economy", "creeping socialism", "moving to the left", "collectivism", "socialism" and "communism", "mercantilism" and "fascism" are some of them (Peterson 1991, p89, 95, 125 and 129). Socialism was evidenced by social welfare programs (Hart 1940, 307, in Peterson 1991, 117). "Political economy ... describes the degree of connection between State and market" (Peterson 1991, 15)¹¹.

"Capitalism does not stand still. Dialectically, it contains within itself the capability of becoming successively transformed into something different than it is (Peterson 1991, 106). Changes in the role of government, concept of individuals, free competition, etc. were some of the modifications of "pure" capitalism.

There have been other modifications as well. Criticisms of the owner-employer/employee relationship resulted in such alternatives to "pure" capitalism as "participatory economy", Employee Stock Ownership Plans (ESOPs)¹², "self-governing enterprises" - so called by Robert Dahl -, "workers' self-management of enterprises ...

to discourage monopolisation of market and to protect the consumers from adulteration, pollution, resource depletion, and misrepresentation of quality and prices (Gianaris 1993, 55).

¹¹. Phelps defined political economy as "the study of the effects of various mechanisms, and systems of mechanisms, used ... by societies to operate their social economy" (Phelps 1985, 27, in Peterson 1991, 14).

¹². "About 10,000 companies with more than 10 million workers or more than half of the labor unions are under Employee Stock Ownership Plans (ESOPs) in the United States. Tax reductions and other benefits are offered by the government to encourage such plans and to avoid bankruptcies and monopolisations through takeovers." (Gianaris 1993, 52).

labour-managed firms" (Shackleton 1989, 201), "workplace committee of workers and employees" and "employee ownership" (Gianaris 1993, 39 and 52). While "participatory economy" is characterised by "worker management, income sharing, power for the use of society's capital, free markets, and freedom of employment" (Vanek 1989, 191), "self-governing enterprises are owned and run by the men and women who work in them" (Logue 1991, 314). These plans are becoming rapidly spread all over the United States¹³ (Gianaris 1993, 58) and labour unions and government support and encourage these plans (Gianaris 1993, 59)¹⁴. Economic equality, market efficiency, maintaining and explaining political democracy, and distributive justice are claimed to be the strong reasons "why American business ought to be owned and run by the people who work in them" (Logue 1991, 314).

The "convergence hypothesis" raised by Professor Jan Tinbergen in 1961 is still another alternative to "pure" capitalism. It suggested that capitalism and socialism may be travelling down separate paths toward something similar and compatible (Tinbergen 1961, 122 in Peterson 1991, 122). This indicates the failure of these systems in solving the socio-economic problems of societies. Each system consents to its weakness and wants to be something other than what it is.

Conclusion - insurmountable difficulties

Based on the analysis so far, answers to the questions posed at the outset of this chapter become obvious. It becomes clear, then, that capitalistic ideology and the exercise of capitalistic economic systems have been a major source and cause for all social ills, environmental problems and ecological crisis, as analysed in chapters dealing with SRA

¹³. "Employee Stock ownership Plans (ESOPs) have spread rapidly all over the United States. Some 9,800 plans with about 10 million workers, compared to about half a million in 1976, are under such plans, according to the National Center of Employee Ownership" (Gianaris 1993, 52 and 58).

¹⁴. Today, the employee-owned companies represent as much as 8 percent of the U.S. workforce and in some 15 years are expected to increase to 18 percent, equal to the present number of labor unions. Tax deductions, up to 25 percent of the annual payroll of the company's contribution to ESOPs, and other incentives are offered by the federal government to encourage employee ownership. Also, lenders to ESOPs in the United States do not have to pay income taxes on half of the interest they collect. Such tax breaks are estimated to be \$2 to \$3 billion each year (Gianaris 1993, 59).

and SA. Moreover, the analysis so far introduced several alternatives to the capitalistic ideology and solutions suggested to cure the adverse effects and results of the exercise of capitalistic economic systems.

Did the suggested solutions (including socialism) work the problems out and solve the socio-economical ills of societies? Based on this analysis so far the answer is "no." Why? Because, the proposed solutions did not delve into the roots of the problems. The solutions scratched the surface only. They treated the fever of the sickness, for instance, rather than attempting to cure it. Fever is a result and a symptom of the sickness, not the cause and source of it. The source of illness must be discovered and removed. They did not attempt to investigate the underlying reasons of the phenomena - social and socio-economical ills and environmental and ecological problems. Neither did they investigate the shortcomings and inconsistencies of the underlying supporting theories of the misperformance of humans and corporations in western capitalistic societies nor the underlying philosophical assumption of the supporting theories. All of the suggested solutions serve as the revised versions of "pure" capitalism and do not involve basic changes or deviations from the root. As a result, western capitalist societies are still struggling with their **insurmountable** difficulties. Not only is there little hope of betterment of their conditions, they even get further and further from welfare and prosperity with an accelerating pace. Urgent corrective actions are called for.

Especially since the 1980s, the very idea of the "public good" has fallen into disfavour; instead the idea of "greed is good" and has become favourable (Marginson 1992, 1). While "equal justice" and "equal political rights" for all citizens serve as the slogan of capitalist societies, yet the exercise of capitalistic economic systems and dependence on market has left these societies with very inhumane experiences. Sadr (1981, 284) appraised capitalism as the "law of the jungle" which can work only under its tenets. He viewed such capitalist theories as "The Iron Law of Wages" to be very inhumane in that its implicit good news to labourers is:

wait and pray till some of you die from hunger and diseases, because of the freedom you have been given. Then the supply of labour decreases. Only then you can hope for a minimum living prospects (Sadr 1981, 291).

Okun (1975, 1 and vii) encapsulated the ultimate result of the exercise of capitalism as "find a job or go hungry"; that is, "succeed or suffer", a degree of deprivation that conflicts with the democratic value of human dignity and mutual respect as well as with the so called democracy slogan of capitalism. Such is the double standard of capitalist democracy. And how then does capitalism survive in democracy? As Mooney (1992, 167) states "the tremendous inequality of wealth generated by modern capitalism impedes the possibility of political equality and makes the relationship between contemporary capitalism and democracy problematic".

Masked in such an illusive objectives as greater and growing GNP and other similar indices, substantial disparities in living standards and material welfare among citizens of capitalistic societies is one indication of "tensions between the political principles of democracy and the economic principles of capitalism" (Okun 1975, vii). While some big winners of market rewards feed their pets better than the loser can feed their children (Okun 1975, 1) and still struggle to acquire more of the rights that are supposed to be fairly distributed, and the so-called losers of the market undergo very inhumane standards of living, the welfare of both is in jeopardy. Social, environmental and ecological catastrophes, according to the analysis in the chapters dealing with SRA and SA, not only reduce the micro-level welfare of people, they also threaten the continuity of human life on the planet. Their welfare is threatened by such problems as worsened economic conditions, as evidenced by the "underground" economy (Dallago 1989, 447), and economic instability, as evidenced by increased rates of unemployment and inflation (Gianaris 1993, 39 and Keynes in Gregory and Stuart 1992, 90) and increased national debts. During the 1980s, the United States of America, the flag-leader and pioneer of the capitalistic economy, became the leader debtor nation (Schnitzer 1991, 107).

It has been claimed that capitalism is unable to take society forward beyond a certain stage (Glyn 1988, 638). Some like Schumpeter (1967), Prestowitz (1988), Mancur

Olsen (1983) and Mooney (1992) believe in the "creative destruction" of capitalism and look forward to see in the end of it. Prestowitz (1988, 4-5 in Schnitzer 1991, 107) held that "the United States in particular and the West in general are in a process of decline" and Schumpeter predicted the end of capitalist civilisation. "[D]eveloped countries are moving out of anything that could be called 'capitalism'" (Drucker 1993, 4). Mooney (1992, 163) argued that:

... capitalism, like all previous socio-economic orders, will eventually be destroyed by the internal contradictions it generates. Reference to the current stage of capitalism as "late capitalism" (eg., Mandel 1978), for instance, reveal a belief in the inevitability of capitalism's demise.

In a similar statement Drucker (1993, 7) claimed: "[t]he same forces which destroyed Marxism as an ideology and Communism as a social system are, however, also making capitalism obsolescent."

To avoid a possible confusion one point must be made clear here. Although this chapter focused on the analysis of the adverse effects of capitalism on the SRA and SA issues, this does not imply that communist countries are free of the kinds of social ills and environmental and ecological problems analysed in chapters two and three. Both clusters of countries are in the same boat and suffer the same welfare reducing and sustainability threatening problems.

Therefore, searching for a better solution to the problems and for a sound alternative to western capitalism is still a continuous effort. The socialist market economy has its own inefficiencies (Mises 1989, 175) and "a post-capitalist society would surely not be a Marxist one. ... [A] Marxist society is the one thing the next society is not going to be" (Drucker 1993, 4). "Both [capitalism and Marxism] are rapidly being superseded by a new and very different society" (Drucker 1993, 7). The question then is whether there is an alternative viable system that reduces or eliminates some of the disadvantages of both extreme economic systems (Gianaris 1993, 39).

What alternative economic system can, then, solve the socio-economic problems of mankind? What will a post-capitalist economic system be like? "What will emerge next"

(Drucker 1993, 13). "[A] broader approach to economic problems is called for" (Siddiqi 1982, 164). What are the characteristics of a sound economic system?

A better solution to the problem must be devoid of the pitfalls which caused the failure of capitalism and also be backed by theories consistent with human nature. As stated by Chapra:

The reason behind capitalism's failure to actualise the socially-desired goals is the conflict between the goals of society and the world view and strategy of capitalism. The goals were humanitarian based on a moral foundation: the world view and strategy were social Darwinist. The claimed harmony between private and public interest was based on certain assumptions about background conditions which were false and so unrealistic that they could never have become true. Since these background conditions are not generally spelled out clearly in economic literature, it is not normally realised how their absence is bound to frustrate the realisation of both 'efficiency' and 'equity' in the allocation of scarce resources, defined in relation to the humanitarian goals of society and not social Darwinism (1992, 33).

The sound alternative to western capitalism must, then, be devoid of these imperfections. It must provide conditions in which, if perfectly applied, neither of the unfavourable consequences of capitalistic (or any other) economic system would appear. It should aim to create an atmosphere in which there would be no opportunity for social ills to develop. Neither shall it permit any opportunity for exploitation of natural resources or any damages or unfavourable consequences to the environment and ecosystem. The system must educate and train people to abstain from causing the phenomena which fall into the domain of SRA and SA. The system must be equipped with stronger built-in control devices.

What will this alternative be? Will it be a new religion, as argued by Drucker (1993, 13)? The market will surely remain the effective integrator of *economic* activity (Drucker 1993, 4). The next chapter is devoted to the analysis of this alternative.

CHAPTER FIVE

Islamic Economics, Social Responsibility Accounting (SRA) and Sustainability Accounting (SA)

Introduction

The analysis in chapter four revealed that the socio-economic ills, which reduce human welfare, as well as the environmental and ecological problems, which threaten the continuity of human life on the Earth, are a consequence of capitalism. The analysis also concluded that the suggested solutions and the proposed alternatives did not solve the problems; as a result capitalism still remains with its insurmountable difficulties. The chapter, furthermore, argued that the failure of capitalism and/or its alternatives have been due to the fact that capitalist economists focussed on the material dimension of humans life and pecuniary aspect of their welfare only. This is an incomplete understanding of human and the purpose of life. As a result, the prescriptions which capitalist economists make do not serve as a root solution to the human problems. All suggested alternatives to capitalistic religion were perceived as revised versions of the same ideology in that they all shared almost the same philosophical assumptions. All aimed at the material aspects of human life and targeted their pecuniary short-term welfare, ignoring other dimensions of human nature. It was concluded in the summary section of chapter four that a sound alternative capable of rescuing humans from the crisis they face must, on the one hand, be devoid of imperfections and the pitfalls which caused the failure of capitalism and, on the other hand, be backed by theories consistent with human nature.

The present chapter is devoted to introducing an alternative. This analysis holds, aside from any kind of biasness, that the Islamic Economic System (IES) is a system which (potentially) can guarantee sustained human welfare and prosperity. This claim is based on the Islamic assumptions. According to the Islamic beliefs the creator of humans, God, knows better and more minutely (than anyone else) the various dimensions of man

and his interests and mischiefs¹. For these reasons, the systems and the laws He sets, in economics and other fields, are the most complete ones (CBHU 1984, 82). But why Islamic Economics among other religions? Because Islam is the seal of the religions. The seal of religions, logically, combines the instructions of all of the previous religions and comprehends whatever instructions God gives to humans for all the times to come.

It is not very difficult to introduce capitalistic or even socialist economic systems. However, there are some difficulties involved in introducing Islamic Economics (IE), to audiences without prior familiarity with Islam. The difficulty stems from the inseparability of Islamic economics from other aspects of Islam.

Islam is a complete code of life (Mannan 1989, 301 among others) which provides the most comprehensive account of the Muslim code of conduct for every aspect, including the economic aspect, of human life. "The wisdom and the philosophy as a goal behind all Islamic commandments is not totally attainable unless all of the Islamic commandments be put into practice in life" (Sadr 1968, 15 and CBHU 1993, 173). A balanced life, it is believed, necessitates proper allocation of human efforts and resources among all the important aspects of life (Kahf 1978, 15). As a result it must be seen and studied in its totality (Naqvi 1992, 154). Sources of (the study of) Islam are the Qur'an and *Sunna** (the tradition of Prophet Mohammad (P. B. U. H), which are the primary sources and *Imama**, which is a secondary source. Any single *Aya**² (verse) or *soora**³ of the Qur'an also must be considered in relation to other *Sowar* (plural of *Soora*) or *Ayaat* (plural of *Aya**). Perhaps this is one reason why the Qur'an is not organized on the basis of subjects.

¹. 50:16. Quotations indicated like this are from the holy Qur'an; the first digit indicating the number of *Sura** and the second the number of *Aya**.

². *Aya* may be translated into verse. It literally means symptom (of God's power). For this consideration *Aya* seems richer than verse, hence is preferred. The whole Qur'an consists almost 6666 *Ayaat* (plural of *Aya*).

³. Some have used "chapter" as the equivalent of "*Soora*". But they are different in that a chapter normally has a theme. But *Soora* normally is not in this way. Even the holy Quran is not organised on the bases of subjects. The whole Qur'an consists of 114 lengthy, intermediate and short *Sowar* (plural of *Soora*).

Therefore, by tackling one aspect in isolation, the economic aspect for instance, turns out to be difficult for both the teacher and the audience(s). This is to say that a thorough understanding of IE requires thorough understanding of Islam itself. This huge job is beyond the scope and ability of this research. Nevertheless, with regard to the time and space limitations of the theses the study will confine itself to only the basic beliefs which have a bearing to SRA and/or SA.

It is assumed in this and the next chapters that the reader does not have prior knowledge of Islam and IE. Therefore, the analysis will be very simple and the use of non-familiar terms will be kept to a minimum. A glossary will also be included at the end of the thesis.

The chapter is organised so that the next section will analyse the basic beliefs which serve as the foundation of Islam and Islamic economics to the extent relevant to SRA and SA. The analysis of this section will include such issues as the purpose of creation, the nature of world, life and individual, the purpose of human life on Earth as well as their duties and accountability according to Islam. Section three will define Islamic Economics (IE). The objectives of Islamic Economic System (IES) will be analysed in section four. Section five is devoted to analysing features of IES. The analyses of the chapter will be summarised in section six.

Basic Beliefs: Foundations of Islamic Beliefs and Islamic Economics

Islam is based on its principles, in the same way a tree stands on its roots. The first and the major principle of Islam is *Tawhid*⁴. *Tawhid* literally means "oneness" and/or "unity". In Islamic *fiqh* (jurisprudence) it implies God's uniqueness and sovereignty. It means that there is only one God⁵, who has created everything⁶, including man⁷. Theoretically *Tawhid* means to penetrate into the oneness and uniqueness of God and to vision the

⁴. 112:1-4

⁵. 112:1 and many other *Ayaat*

⁶. 2:29, 25:59, 29:44, 29:61, 30:8, 32:4, 42:29

⁷. 55:3

perfection. When applied, *Tawhid* means to march forth to get to the perfection and to worship God. While the first is to see, the second is to act (Motahhari 1990, 86-92). Man's humanity is pledged to his knowing God⁸. Every thing belongs to God⁹. The existence of every thing stems from God¹⁰. Every thing is from God and returns back to Him¹¹. He is *Al-Razzaq* (the sustainer, the nourisher)¹². He is *Rabb-il-Aalameen* (the Lord of worlds)¹³. Some scholars refer to this as the principle of *Roboobiyya**. *Roboobiyya** means divine arrangements for nourishment, sustenance and directing things towards their perfection. (Arif 1982, p 83).

He has chosen man as his *Khalifa** (Vicegerent) on the earth¹⁴. Man is the axis of creation¹⁵. Man has been entrusted the *Amana** (trusted)¹⁶. There exists a Principal/agent relationship between God and man. Man is expected to act as God's agent, trustee, or delegatee; that is, according to His guidance - as delegation in the fields of law and management dictates¹⁷.

Man's being the *Khalifa** (vicegerent) of God involves: Man becomes **responsible** to perform some **duties** and to fulfil some **obligations as guided** by God through His **messengers**, and by having **freedom** to use the needed resources. His performance will be **assessed** and **judged** and he remains **accountable** for his deeds¹⁸. His freedom, again important to note, is **conditional, limited and not absolute**.

The purpose of creation (of man and world) is to test¹⁹. Man, as His vicegerent, is to be tested in the theatre of the world to see how pious he is in the realisation of the divine

⁸. 35:11

⁹. 2:255, 3:189, 4:126, 5:17, 18, 120, 7:128, 9:116

¹⁰. 2:156

¹¹. 2:156

¹². 51:58, 17:30

¹³. 1:1

¹⁴. 2:30, 17:70, 24:55

¹⁵. 2:29, 11:61, 31:20

¹⁶. 5:17, 18, 40, 120, 2:30, 284, 6:12, 13, 3:129, 189, 9:116, 7:73, 10:55, 65, 34:1, 16:52, 53, 22:64, 48:14, 53:31, 85:8, 9, 24:33, 57:7 and quoted from Imam Jaa'far Sadiq in Tafseer-Almizan (Allama* Tabataba'i, Vol. 8, p 93).

¹⁷. Please refer to Appendix E.

¹⁸. 83:1-6 and 30:39

¹⁹. 67:2

*amana** (trust). In His own words addressed to people in the holy Qur'an, to test "which of you is the best doer"²⁰. Considered another way - in the most common way of our present time, - the purpose of creation is competition. The rule of the game is to perform the assigned duties and to fulfil the determined responsibilities as guided by God (through His messengers). That is, to actualise the inherent potentialities, to transform the world into a "garden" of achievement (Proceeding of TECRCMSAUSC 1968, xi), or to extract every product of usefulness from the entire universe (Sadr 1968, 573 in Kahf 1978, 29), while to try to be the most pious, to get the most closer to God, without (or with the least) violation of the regulations set by God and with full obedience to Him.

The performance of individuals will be assessed and judged to see to what extent each individual tried to perform the contract, acted at his highest capacity and broke rules the least.

The **individual**, hence, has the following characteristics²¹:

- God has created man from Earthenware/crockery²² and has breathed into him from His soul²³. Of the two principle elements which form man, the first is of the most inferior quality and the last is of the most superior quality. As a result, man has two dimensions, the worldly material dimension and the spiritual dimension. He has two categories of needs, desires, wants, aspirations and motivation systems. He, on the one hand, gets motivated by his material needs²⁴, which emanate from his instinct only. On the other hand, he is given non-material/spiritual needs and a motivation system. While material needs and the motivation system man shares with other non-humans living creatures, non-material/spiritual needs and the motivation system is

²⁰. 57:25, 67:2

²¹. In social science research, the concept of "self" must be defined (Sadr 1968, 349). Because, without knowing the characteristics and features of "self", it is impossible either to analyse one's problems or to provide any solution to those. A reason for the decadence and decline of the present societies is their negligence to know "self" (CBHU 1984, 16). According to Ali ibn-AbiTalib (P.B.U.H.) "[t]he best knowledge of human being is knowing one's self and the greatest ignorance of human being is ignoring it."

²². 32:7, 55:14

²³. 15:29, 38:72

²⁴. 76:3, 4

specific for human and distinguishes man from animals (CBHU 1984, 17 and 1991, 107-112). He, at any time, is exposed to the juncture of good and evil²⁵.

- His good dimension and desires include such elements as desire for good deeds, self and others interest and thinking and acting in an atmosphere of brotherhood²⁶, common good, motivation under the influence of non-material and material needs - ego and esteem needs and the inferior needs²⁷ - as instrumental needs to reach high-level attainment, belief in cooperation and constructive competition in good deeds for the welfare of society.
- His bad dimension includes such elements as evil, selfish interest only, motivation under the influence of inferior material needs only, believes in the distractive competition to succeed, belief in greed and the pig principle²⁸, carelessness to the consequences of his activities to others, and so forth,
- He has determination power, hence the potential of attaining both the most superior as well as the most inferior positions,
- From the economic point of view, man, on the one hand, can stand on his worldly material dimension, act on his instinct and follow and get motivation by his self-interest only. Conversely, through spiritual education, he can direct his performance and actions toward the satisfaction of God. Therefore, he gets motivation by, not only his material self-interest, but rather by some superior sacred motivators as well.
- Is honoured by being the best of God's creature²⁹, hence eligible to be chosen by God as:
 - His *khalifa** (Vicegerent) on the Earth³⁰

²⁵. 90:10, 91:8. Also Majlessi (Behaar ul-Anwaar, vol. 5, p 196).

²⁶. 4:1, 49:10.

²⁷. Please refer to categories of human needs in Maslow (1970, 53-54).

²⁸. Pig principle has been discussed in chapter four.

²⁹. for creation of whom God congratulated Himself (and man) (23:14).

³⁰. 17:70

- Allah's *Amin* (trustee)³¹. The trust is duties and responsibilities (Motahhari 1989, 37)
- the axis of creation³²
- As Allah's *khalifa**, man is responsible to:
 - make habitable the Earth and utilise its potentialities (CBHU 1984, 268)
 - establish justice³³
 - develop himself and others
- As the axis of creation, for the sake of whom every thing in the universe has been created³⁴, and he has been created for nothing but to pray God³⁵.
- Has been given the determination power as evidenced in his sovereignty over:
 - his instincts
 - *Shaitan* (Satan)
 - his fate³⁶
 - other (inherited or environmental) factors
- Has been given abilities and requirements needed for the fulfilment of his responsibilities³⁷.
- As His trustee and *khalifa** man:
 - is to fulfil his duties, to inhabit the Earth³⁸, and his final objective is to evolution and perfection (CBHU 1984, 15-25)
 - is responsible not only to himself but to others, too

³¹. 24:33, 33:72

³². 2:29, 31:20, 11:61

³³. 57:25

³⁴. 2:29, 30, 16:5, 7, 8, 10, 11, 13, 14, 55:10, 31:20, 45:12, 14:32, 33

³⁵. 51:56

³⁶. 8:53, 13:11

³⁷. 76: 3 - 4 and jurisdiction to instinct, Devil, fate and other factors (CBHU 1984, 32-37)

³⁸. 11:61

- will be tested³⁹
- is accountable
- Man must perform according to Allah's will in all personal, social, economical and political aspects of his life,
- Has freedom to decide, to earn, to own, to consume, to spend, to save, to invest, to engage in transactions, and to enjoy the world; but his freedom is not absolute⁴⁰, rather it is limited and conditional,
- From the point of view of control, the individual is before God at any time⁴¹. God is closer to him than his life-vein⁴². God is the best⁴³ and the quickest to take account⁴⁴ and man will meet Him⁴⁵.
- His ultimate objective is his perfection, to become a real human. He becomes a real human if he performs in the way prescribed by God. Or else, he is a potential human (CBHU 1984, 17). His perfection, contrary to other creatures, is facultative/optional (CBHU 1984, 31).

Life consists of two parts, the worldly and the eternal which is the one hereafter. The first is an introduction to the second, just as childhood is an introduction to old age. Worldly life resembles a plantation and life hereafter harvesting (Motahhari 1990, 74). Death is not the end of life. Death is not annihilation because according to Qur'an, death has been created⁴⁶. A creature cannot be non-existent. The relationship of the eternal life to the worldly life is like the relationship of the worldly life to the life before birth. Worldly life "consists of mercy, love, help, and a mutual responsibility between Muslims in particular, and between all human beings in general" (Qutb 1982, 126). Worldly life

³⁹. 67:2, 76:3

⁴⁰. 57:7.

⁴¹. 2:115

⁴². 6:103, 50:6

⁴³. 4:6, 4:86, 33:39, 65:33

⁴⁴. 4:6, 4:86, 6:63, 33:37, 33:39

⁴⁵. 18:110

⁴⁶. 67:2

consists of a broad system of social relations of which economics is only one part, it cannot be reduced to economic life (Hayek 1978b, 183-186 in Marginson 1992, 12).

World and whatever in it stems from God. World is a cradle for man's evolution and perfection (Motahhari 1990, 73). It becomes a theatre, provides whatever man needs in his performance. Every thing goes back to God⁴⁷. There is an end for each beginning. The beginning and the end is God. Every thing has only instrumental value, being a means to man's fulfilment of the trust (Proceeding of TECRCMSAUSC 1968, xi). There will, therefore, be *Ma'ad* (a day of Judgement, Resurrection)⁴⁸, and accounts will be rendered to God. There will be reward for the good deeds and punishment for the bad deeds⁴⁹.

Adala* (Justice): God is just. His justice is, as it relates to our analysis and the principal - agent discourse, is evidenced in the following considerations:

- Whatever man will need in performing his test in the world God has created (in scale)⁵⁰
- The creation system is the most complete one (Motahhari 1990, 73)

Risala* (Prophethood): God did not leave man on his own to develop his way to welfare and prosperity. Rather He Has devised a system of guidance by means of *Risala** (prophethood) and *Imama** (religious leaders)

- The guidance and regulations are devised as comprehensive, flexible and capable enough to resolve all the problems of all generations at all times. They are comprehensive because they include commandments to all dimensions and angles of humans' individual, social, economic and political life at personal, family, community, national and international level, and provide solutions to all of their problems. They are made flexible by means of categorising commandments into primary and secondary. Primary commandments are explicitly stated in Qur'an and the *sunna* (the

⁴⁷. 2:156, 223, 7:179, 84:6,

⁴⁸. 11:103, 3:179, 64:9, 3:30, 18:49, 66:7, 99:6-8

⁴⁹. 99:7-8

⁵⁰. 54:49

tradition of Prophet Mohammad (P.B.U.H.). *Imama**, also, is devised for the issuance of secondary commandments. *Imam* (religious leader) has been given the authority to issue a command in each new case for which there is not an explicit commandment either in Qur'an or in *sunna*⁵¹. Therefore, it is very difficult to obtain the required qualities of being an *Imam*.

- The responsibility and accountability expected from man is within his abilities. Nothing is expected from him above and beyond his abilities⁵².
- Man has been given the discriminative faculty, and the ability to choose. He has been given jurisdiction over instinct, Devil, fate and other factors (CBHU 1984, 32-37)
- It would be unjust and oppressive, if there had not been arranged assessment devices and rewards (for good deeds) and punishment (for bad deeds).

Summary: *Tawhid, Adala, Risala, Imama, and Ma'ad*, as reviewed very briefly and only from the stand point of their control mechanism over man's behaviour in his worldly life, form the principles of Islam, or the roots of the tree, according to the example given at the beginning. The tree of religion has, also, branches, which are the manifestation of the roots. Branches comprise religious worships like *Sala** (daily prayer), *Soam* (fasting), *Khoms* (tax on wealth), *Zaka** (purifying dues), *Hajj* (Pilgrim), *Jihad* (fighting in the way of God against oppression), *Amr bil Ma'roof* (ordering others to good deeds) and *Nahy An-il Munkar* (preventing others from bad deeds), *Tawwalla* (to love whoever loves God), and *Tabbarra* (to keep away from whoever dislikes God). These and many other performances prepare and purify the soul as well as the body of man to perform the contract with God, earn and help others earn an enjoyable life. These are God-man relations⁵³ and the bases for man-man (or social) relations⁵⁴ (Khorshid Ahmad 1982, 218).

⁵¹. This issue will be analysed further in the next chapters.

⁵². 2:223, 2:286, 6:152, 7:42

⁵³. *Haqq-Allah*, or the rights of God or the obligations of man to God.

⁵⁴. *Haqq-ul-Nas*, or the rights of people to each other, which dictate the obligation and duties of people to each other.

These performances require many introductions and preliminary preparations, without which they will be in vain. For instance, if one withholds the unfulfilled right of others, his worship and religious actions will be in vain. These are devised to prepare man to perform the "trust" in the right way. That is, these institutions lead to well-established, well-organised and well administered societies with efficient socio-economic relations between their members, which guarantee the sustained welfare of all.

The control mechanism for the good operation of the system is that a Muslim perceives himself before God⁵⁵, God being closer to him than his life-vein.⁵⁶ He should remember Allah at all times. "... remembering God much ... implies living a morally responsible life in accordance with the norms of Islam, earning only by the right methods and abandoning all the wrong ones, and is considering wealth as a stewardship for which account is to be rendered by God"⁵⁷.

These philosophic foundations characterise the behaviour of a *Muslim*⁵⁸, the representative agent in an Islamic society (Arif 1985).

This is the setting of the scene. The actor is man, but this time as a *Homo-Islamicus* rather than *Homo-Economicus*, as a Vicegerent of God and as defined and characterised already. All individual, social, economical and political rights and regulations need to be arranged and organised within this setting.

It now becomes clear that the analysis of IE would be difficult before introducing the basic beliefs and setting the scene.

⁵⁵. 2:115.

⁵⁶. 50:16; 50:50

⁵⁷. 57:7

⁵⁸. A *Muslim* is one who believes in Islam. The word *Muslim* means one who submits (to Allah). A *Muslim* is defined as one from whose hand (that is, his deeds) and from whose tongue (that is, his words) other *Muslims* have safety.

Definition of Islamic Economics (IE)

Iqtisad is the Islamic term for economics. It is derived from the root word of *Qasd*, which means to be moderate and not to infringe the easy way (BiAzaar Shirazi, 1978). *Iqtisad*, then, means temperance and moderation. Moderation in all aspects of behaviour (including economics) is an explicit Islamic commandment⁵⁹. The holy Qur'an describes Muslims as a median/moderate nation⁶⁰. Contrary to the pig principle which governs the behaviour of the "economic man" of capitalism, in many places in the holy Qur'an and the Tradition, Muslims are strongly recommended to be moderate in their life, including their economic life, and to refrain from extremism.

In Islamic literature, the root word *Qasd* (moderation) is closely related to *Adl* (justice) and *Qist* (justice/equity). Both *Adl* and *Qist* means moderation. *Qist* is moderation in economic life, the antonym of which is oppression (*Dholm*)⁶¹. *Adl* means moderation in social relations, the antonym of which is injustice (*Jowr*) (Banna Razavi 1988, 52).

In the early stages of Islam, *Taqdir-al-Maeesha** (measuring life) was used to refer to that field of study which is known as economics at present (Imam Jaa'far Sadiq (P.B.U.H.) in Ayatollah Khomeini 1390 AH⁶²).

What is meant by "Islamic economics" is an economic system which delineates the way Islam has for organising the economic life (Sadr 1969, 12). Choudhury (1986, 4) defined IE as "the sum total of the historical, empirical, and theoretical studies that analyse the human and societal needs in the light of an integrated Islamic value system".

Value system, morality and ethics are issues of important concern in Islam and IE. As noted by Mannan (1982, 295 and 309):

... ethical and moral imperatives are the overriding concerns in Islamic economics. The integrated economics, social, and political needs are subordinated to imperatives of faith and morality.

⁵⁹. 31:19

⁶⁰. 2:143

⁶¹. 35:32

⁶². AH is the date in Islamic world and stands for After Hijra*. Hijra* means migration. AH is the beginning of Islamic dates which started from the holy prophet's migration from Makka* to Madina*.

Islamic economics is founded on the principles of right and justice (Taliqani 1982, 215). The ethical system of Islam casts light on all of its other systems which are purposeful, interrelated and coordinated; and makes their objectives as instruments to the attainment of the ultimate perfection and the eternal welfare. Objectives of IES, in the light of the objective of the whole system, counts as a tool to realise this perfection. ... comfort and well-being in life is desirable as far as it supports the attainment of the eternal prosperity and is a way to reach the ultimate perfection (CBHU 1984, 45).

Verses about the nature of world in Qur'an can be put in three categories. Some verses⁶³ describe the world as ugly, ill favoured, indecent, reprobate and obscene. Some others, apparently contradictory, verses⁶⁴ describe the world as desirable, lovely, and so on. The third category of verses, however, remove this initial contradiction between the two categories. They indicate that the worldly life is desirable if it is oriented to and serves as an introduction to the eternal world; and it is blameworthy and reprobate if it is viewed as genuine and its instrumental value is neglected⁶⁵ (CBHU 1984, 45).

One more point worth mentioning here is the interrelation of Islam with economics. As noted by Motahhari (1991, 16) Islam is linked to economics in two ways. Directly, Islam has a set of injunctions about ownership, dealings, taxes, inheritance, charities, financial punishments, punishment in the field of wealth and so forth. Indirectly, Islam is linked to economics through ethics and morality; as evident in some injunctions and recommendations such as trust, ..., justice, charity, ... as well as some prohibitions such as theft, mischief, bribery. Islam has an important chapter about "prohibited occupations"⁶⁶. The "Islamic economic system has a base of thought ... composed of Islamic ethical thoughts" (Sadr 1969, 12), which consists of educational and training, rather than economical, factors (Banna Razavi 1988, 51).

⁶³. 3:185, 4:77, 6:32, 9:38, 16:117, 29:64, 47:36, 57:20

⁶⁴. 2:180, 251, 272, 4:30, 7:130, 9:28, 50, 11:9, 16:16, 17:100, 18:72, 24:24, 70:70, 100:6

⁶⁵. 10:7-8, for instance

⁶⁶. *Makasib il Moharrama**

Objectives of Islamic Economic System (IES)

Administration of society on the basis of a sound and solid system, as well as the utilisation of God's bounties in a suitable way, is bound to proper economics.

The sustained welfare of human beings requires a comprehensive and multi dimensional plan which delineates the direction of all aspects and dimensions of life. The plan should compile the various subsystems in a harmonious and directed whole and impel them toward a unique goal. The objective of any subsystem, in such a system, will serve as an instrument in the fulfilment of the objective of the whole system - which is the ultimate objective of human beings.

The Holy religion of Islam possesses harmonious, interrelated and purposeful systems. The moral and ethical system casts light on these systems and makes their objectives instruments to the attainment of ultimate perfection and the eternal welfare of human beings.

The objective of IES is surrounded by the objectives of the Islamic moral system. That is, material and worldly welfare is desirable to the extent it is for the attainment of eternal prosperity and a way to reach ultimate perfection (CBHU 1984, 43-44).

Economics in Islam, as analysed previously, is inseparable from the other aspects of a Muslim's life. The objectives of the Islamic economic system (IES), therefore, are part of the objectives of Islam, which is the ultimate perfection and the eternal prosperity of humanity (CBHU 1984, 45). Islamic economics aims to fulfil the basic needs of Muslims, providing welfare at its highest level and also aims to establish social justice⁶⁷ (CBHU 1984, 48). "The welfare state in Islam aims at achieving the total welfare of mankind, of which economic welfare is merely a part" (Mannan 1986, 353). Economics and material welfare is not considered to be a final objective and an end in itself, rather a means to these superior ends; to the persuasion of spiritual prosperity and to seek God's satisfaction, to transform the world into a "garden" of achievement (Proceeding of

⁶⁷. 7:32

TECRCMSAUSC 1968 , xi). Meanwhile, the fulfilment of material needs are basic for the attainment of spiritual ends. As Chapra (1992, 6) argued:

Islam envisages an economic system fundamentally different from the prevailing systems. It has its roots in the *Shari'ah* (Islamic teachings) from which it derives its world view as well as its goals and strategy. The goals of Islam (*Maqasid al Shari'ah*), unlike those of the predominantly secularist systems of the present-day world, are not primarily materialist. They are, rather, based on its own concepts of human well-being (*falah*⁶⁸) and good life (*hayat tayyibah*⁶⁹) which give utmost importance to brotherhood and socio-economic justice and requires a balanced satisfaction of both the material and spiritual needs of all human beings

Chapra (1992, 7) then continued: "[t]he *maqasid al-Shari'ah* [objectives of Islam] ... include every thing that is needed to realise *falah* [well-being] and *hayat tayyibah* [good life] within the constraints of *Shari'ah*". Al-Ghazali, also, studied the Objectives of Islam and wrote:

The very objective of the *Shari'ah* is to promote the welfare of people, which lies in safeguarding their faith, their life , their intellect, their prosperity and their wealth. Whatever ensures the safeguarding of these five serves public interest and is desirable (Al-Ghazali, in Chapra 1992, 1).

According to Islam, spiritual uplifting is an essential ingredient of human well-being and any effort to realise it otherwise is bound to fail (Chapra 1992, 6). "The objective of *Shari'ah* are none other than the repositories of what is good for man. Professional economists cannot but appreciate that Islamic economics is seeking to ensure through reason, aided by divine guidance, some of the very ends they are seeking to secure through reason alone" (Siddiqi 1989, 260).

Ibn Qayyim (in Chapra 1992, 1) emphasised that:

the basis of the *Shari'ah* is wisdom and the welfare of the people in this world as well as the hereafter. In this welfare lies the complete justice, mercy, welfare and wisdom; anything that departs from justice to oppression, from mercy to harshness, from welfare to misery, and from wisdom to folly, has nothing to do with the *Shari'ah*.

Islam aims to guide man in his quest for salvation in the Hereafter through fulfilment of the purpose of human existence on earth (Abdul-Rauf, p 3. in Hosseini, 1992, 109).

⁶⁸. The call for *falah* is also made from the minaret five times a day and each time the phrase, "come for '*falah*'" is repeated twice.

⁶⁹. The expression of *hayat tayyibah* comes from the following verses of the Qur'an: "All those, male or female, who do righteous deeds and are believers, we will most certainly grant to them *hayat tayyibah*, and also reward them (in the hereafter) in accordance with the best of what they did (16:97).

"[T]he objective of Islamisation is to abolish an exploitative socio-economic system" (Asghar Khan 1992, 139). Objectives of Islamic economics may seem utopian and practically difficult to attain. But as Abu-Sulayman (1968, 24) said "we have to keep our economic policies approximate to the ideal".

Features of Islamic Economic System (IES)

Particularly after studying the section discussing the features of capitalism, it seems that the same, or at least a similar, summary of the characteristics of the Islamic Economic System (IES) can also be tabulated. But this is not the case. With regard to its specific characteristics, IES should be analysed in a specific way. Economics is only one aspect of Islam. A thorough understanding of IE requires a thorough understanding of Islam. Nevertheless, the same order of institutions will be adopted here for the sake of simplicity.

A. Ownership:

As analysed before, the institutions of IE are rooted in the principles of Islam. Ownership is no exception. It rests on the basic principle of *Tawhid*, which is that everything in the universe, according to Islamic teachings, belongs to God⁷⁰. He is the real owner of whatever exists. Therefore, whatever people have are bounties bestowed by God and are on trust from Him. "Private ownership is *not* a social function, nor is a natural wealth the property of the society or collectivity. All wealth belongs to Allah alone and private ownership is only a metaphoric expression" (Abu-Saud 1989, 268).

Moreover, there is a consistency between the institutions of IE. Ownership is related to the institutions of individual, society and state. Hence, it must be analysed in relation to them. The ownership system in Islam is unique and is comprised of three types: private ownership of individuals, public ownership of society and the ownership of *Imam* (the

⁷⁰. 3:129

ownership of the Islamic state)⁷¹. To investigate the philosophy and the rationale behind the recognition of three kinds of ownership is beyond the scope of this theses and demands specific research attention. It is suffice to say here that all three are needed and are complementary to have a welfare state with free citizens seeking purification and perfection. Each serves its specific function and is needed for the fulfilment of the duties and responsibilities of individual, society, the Islamic state and the system as a whole.

Private ownership corresponds to the principles of vicegerency (Principal-agent contract) and is one manifestation and a necessary requirement of individual freedom. Individuals, it was mentioned in the section discussing "Basic Beliefs", possess freedom of ownership, acquisition, consumption, saving, investment, trading, doing donations, giving charities etc. Properties in Islam have instrumental value. Without freedom of private ownership (that is, without access to necessary instruments) it would be difficult to examine individuals to see how they perform.

It was also mentioned that all these freedoms are conditional, and limited to the constraints of the framework prescribed by God. Ownership, therefore, is regarded as stewardship. The acquisition, holding, utilisation and even its disposing must comply with the rules and conditions of trusteeship. Ownership rights must "be exercised towards the ends He has defined" (Kahf 1978, 32).

Acquisition: Property must be acquired in a *halal* (lawful) way and by legitimate means. The basic principle guiding and governing acquisition in Islam is the fact that income source must not be based on peoples' wants, but rather on common good; that is, trade is permitted for the items (goods and/or services) with purposeful and lawful benefit⁷². This is because Islam considers wealth as a tool for the attainment of superior goals. Therefore, Islam recognises the common good rather than the peoples' wills and wants as the source of income. Islam has an important chapter about prohibited occupations such as usury, gambling, lottery, selling pork, alcoholic beverages and other harmful items like

⁷¹. Rich literature exists dealing with ownership in Islam. Those interested in further information please refer to the literature.

⁷². *Manfa'at Mohallala* Maqsooda**

drugs. Lawful income, from the Islamic point of view, is the fruits of their efforts⁷³, or at least must be one free of exploitations⁷⁴ (Motahhari 1991, 16 and 23-24). No harm⁷⁵, no damages and no injustice must be done to the person or others in the process of earning or acquisition of property (income or wealth). It is explicit in the Qur'an that "God made trade *halal* (lawful) and *Riba* (usury) *haram* (unlawful)"⁷⁶. *Riba* will be explained more in the section analysing the distribution system. Suffice to say here that *Riba*, according to one interpretation, comprises any kind of undeserved loss to one party and unearned gain to the other party in a transaction. In Abu-Sulayman's definition "*Riba* is a deal to exchange something for nothing" (1968, 22). "Any raising of private or individual claim beyond what Islam considers lawful is *riba*" (Abu-Sulayman 1968, 16). Therefore:

- As an employee, he must be honest, just and loyal to his employer and must work at his best.
- As an employer, he must pay the price of goods and services he purchases in full and on time⁷⁷, and must not exploit others. Islam recognises fair wages for workers (Mannan 1986, 42).
- As a producer, his behaviour must be guided by an overriding concern for public interest (as viewed by the principles of *Shari'ah*) which is relative to social needs (Mannan 1986, 149). He is motivated to promote both his life as well as others (CBHU 1984, 286). He must not be involved in the production and sale of prohibited products (wine, pork, drugs and the like) and harmful products (regardless of whether they are prohibited by the state laws or not, because a new product may not have been investigated by the state yet, but it is still harmful. The person's

⁷³. 53:39. "And indeed there is nothing to man but what he has done effort for".

⁷⁴. The sources of lawful income or ways of acquisition of wealth are: work, inheritance, received donations, *Mahr* (dowry), *Wasiyya** (wills), *hiba** (donations), *Diya** (injury or damage compensation) and assistance of the Islamic State.

⁷⁵. No harm to self or others is a well-known rule in Islam, known as the principle of *La Zarar Wa La Zirar* (a Prophetic Quotation), which applies to all human actions.

⁷⁶. 2:275, 276 2:278-281.

⁷⁷. It has been quoted from the holy Prophet Mohammad (P.B.U.H.) that he commanded his followers to pay the wage of the labourer before the sweat upon his body dries (Mannan 1986, 112).

conscience will be the judge⁷⁸). He must not cause harm to society, environment and the eco-system in the form of pollution and waste, or in the form of abuse of (non-renewable and renewable) resources, according to the principles of *La Israf* (no waste) and *La Zara* (no harm). "[T]he production in an Islamic Economic System (IES) must be guided by both monetary gain and economic ethics based on the injunctions of Holy Qur'an and the *Sunna*" (Mannan 1986, 56).

- As a trader-party, he must consider any transaction and dealing that is beneficent for both parties, and not be exploitative. Both parties should find themselves better off as a result of the transaction. There must be no deceiving in business dealings, no low weighing⁷⁹, no overpricing, no usury, no dumping, no hoarding⁸⁰, no monopoly, cartel, trust, no coercion, forward deals, black-marketing, no speculation, no fraudulent practices (selling with elements of uncertainty and aleatory contracts based on risk or chance (Jomo 1992, 25)), no false oath (Mannan 1986, 285) and no other kinds of unfair practices.

Kuran (1992, 10), referring to the economic behaviour of *Muslim* man, stated:

He is also obliged to refrain from earning more than his effort justifies. This means that he must pay 'fair' wages, charge 'reasonable' prices and be content with 'normal' profits. It means, moreover, that he must not engage in speculation and monopolisation, or make deals, like insurance contracts that allegedly involve gambling, uncertainty and exploitation.

In summary, "[t]he believer feels he is dealing directly with God" (Mahmud 1982, 158) in any of his transactions and social activities.

Holding: After acquisition, keeping wealth, also, has its own recipe. It is a trust. It must be kept in the instructed way. Wealth must also be kept in a productive way. There must be no freezing⁸¹ and no hoarding. As stated in the Proceeding of TECRCMSAUSC (1968, xii).

The Qur'anic injunction against hoarding (9:34; 59:7) means that man may neither stop the circulation of wealth after his acquisition of it, nor reduce the momentum of such circulation. Consumptive monopoly as well as vertical and horizontal concentration of the means of production ought not to allow the development of economic arteriosclerosis. All

⁷⁸. "Conscience is the only court needless of (external) judgement" (Ali ibn-AbiTalib (P.B.U.H.)).

⁷⁹. 83:1-7, 55:9

⁸⁰. 9:34 and Ali ibn-AbiTalib (P.B.U.H.) (*Al-Nahjul Balaqa**)

⁸¹. 9:35, 34, 59:6, 7

wealth, Islam teaches, should be productive, thus providing greater and larger means to all men to earn, to have and to enjoy. Ever-faster circulation of real wealth, evergrowing productivity and ever-larger enjoyment by means of the fruits the permanent economic needs of human society. To violate these needs, is to violate the divine pattern.

One important point is the title that others have in the wealth of *Moa'mineen* (believers)⁸². *Khoms* and *Zaka** are two kinds of obligatory dues on wealth and income. According to Qur'an, there is a right in the wealth of believers for the beggars, the destitute, the way farers, orphans and the next of kin⁸³. "The Caliph Ali is reported to have stressed that 'God has made it obligatory on the rich to provide the poor with what is adequately for them; if the poor are hungry or naked or troubled it is because the rich have deprived them (of their right), and it will be proper for God to account them for it and to punish them.'" (Abu Ubayd 1353 A.D., p 595: 1909; and with a slightly different wording, Nahj al-Balaghah Cairo n.d., v. 3, p 231 in Chapra 1975, 14). Payment to them must not involve any obligation or tease⁸⁴ since it is their own right and within the conditions of trusteeship. Withholding due shares is also prohibited⁸⁵. This results in the concentration of wealth, on the one hand, and deprivation of some people, on the other hand. Islam prohibits, by means of various techniques, the concentration of wealth⁸⁶, because it leads to an unbalanced social structure full of tension and conflict. It also makes the rich oblivious to the moral and spiritual urges which are so essential for the creative growth of society (Engineer 1992, 118). The Prophetic Tradition dictates: "He is not from us who goes to sleep full and his neighbour is hungry".

The **Utilising** of wealth, also, must comply with the rules set by Islam. Property must be used, spent and utilised in a *halal* (lawful) way⁸⁷ - in the way prescribed by God and which makes Him satisfied, without adversely affecting the interests of the community (Mannan 1986, 334).

⁸² 51:19, 70:24-25

⁸³ 7:25, 51:19, 70:25

⁸⁴ 2:64

⁸⁵ 26:283, 81:1-6

⁸⁶ 57:7

⁸⁷ "And eat not up your property among yourself in vanity" (2:188). Also 4:20 and 29, 9:34

Moderation must be adopted in spending and utilising⁸⁸. *Israf* (extravagance)⁸⁹, luxury and luxurious living⁹⁰ and *Tabthir* (profligacy, spending in wrong way)⁹¹ are prohibited, "because it distorts the allocation of resources and deprives the poor of their legitimate rights in society" (Mannan 1989, 300). *Israf* in Alms is even prohibited⁹². Siddiqi (1982, 166) stated:

Allah ... being its real owner, property has to be handled as a trust and all economic activity conducted in the framework of trusteeship. ... Waste is sinful and it is imperative to economize ... Worldly wealth should be treated as a means to good normal life leading to eternal bliss rather than as an end in itself. ... the motto ... [is]: "utilize the resources given by Allah, including your own abilities, to live and help others live a well provisioned life conducive to moral excellence".

As a general rule, a *Moa'min* (a believer) must not commit harm or hurt to anyone (himself, others, society, etc.) as a result of his deed or his word⁹³. He is also required "to take positive steps ... the externalities of his action" (Kuran 1992, 52). Neither of the processes of private ownership should involve harm or jeopardise for society or any of its citizens. As Kahf (1978, 32) stated:

Even the limited rights of ownership can neither be devoid of purpose nor an end in themselves, in view of the purposive nature of man's life. Wealth is a means to the end of living a life in accordance with Allah's guidance and of earning the reward in the Hereafter. It should be instrumental in the effective discharge of man's responsibilities as the vicegerent of Allah, and in the achievement of well-being in this life as well as in the Hereafter.

A *Muslim* shows moderation and morality in consumption⁹⁴ (Mannan 1986, 45), and makes voluntary donations to less fortunate members of the Islamic community and must not devote resources to illegitimate activities (Kuran 1992, 10).

Disposing of property must also be done in a way which satisfies God. If someone needs the property which is to be disposed, it cannot be destroyed, burned or demolished, as is done by some countries like the United States of America who burn the

⁸⁸. 25:67 and 17:29.

⁸⁹. 6:141, 7:31, 40:43, and *Sahifa* Sajjadiyya**, Al-Doa 30.

⁹⁰. 23:64

⁹¹. 17:27

⁹². 17:29, 25:67

⁹³. Actually this is one definition of *Muslim*. The *Muslim* is one who *Muslimoon* (plural of *Muslim*) became safe from his hand [deeds] and tongue [words].

⁹⁴. One side effect of moderation in consumption, it is argued, is the elimination of the scarcity problem through a lowering of aggregate demand; another is the prevention of demand-pull inflation (Kuran 1992, 10).

grain which can feed the needy people. "[M]an cannot dispose of whatever is in his possession without restrictions, or in a manner discordant with the terms inscribed by the Lord (Abu-Saud 1989, 268).

In brief, Islamic economics is not based on the foundations of the unlimited freedom of individual ownership, the result of which is uncontrolled capitalism (Talighani 1982). "[M]an's freedom to own property is only relative to the needs of the society" (Naqvi 1992, 154), and is an instrument to fulfil his vicegerency obligations.

Ownership by individuals is one kind of ownership in Islam. As mentioned at the outset of this discussion, collective ownership by the society and State ownership are also recognised in Islam. It is believed in Islam that Allah's bounties belong to all mankind. As a result, natural resources of the earth (such as mines, forests, pastures and wildlife), the seas and the rivers (such as aquaculture and pearls) and air (such as birds), the environment and the ecosystem and any bounties of Allah belong to all people. These are called *Mubahat Amma** (rights or properties belonging to no particular person). All people are equal in using them. They cannot be privately owned. Neither can they be used as one wills, reducing the possibility of their use by others and the next generation, weakening the Islamic Government (CBHU 1984, 312) and causing problems such as the ones analysed in chapters two and three in analysing social responsibility accounting (SRA) and sustainability accounting (SA).

The Islamic State owns and administers them, uses them in fulfilling its duties, and in establishing social security and public welfare. The Islamic State supervises public properties as well.

This section is but a brief introduction to the institution of ownership in Islam. Rich literature exists on the issue as well as on the philosophy of each type of ownership in Islam.

B. Incentives:

Human life, as it was analysed in the section "Basic Beliefs", has two aspects; material and spiritual aspects. They are intertwined. Material life is necessary and the basis to pursue the spiritual life and spiritual life sheds light on the material life and directs it. The spiritual desires of man "cannot be separated from his bodily appetites. His "moral needs cannot be divorced from his material needs" (Qutb 1982, 125). A *Muslim* is motivated, then, not only by material and pecuniary self-interest, but by non-material, spiritual incentives as well. "There is no place in the Islamic perspective for an economic order which is *exclusively* devoted to the attainment of material plenitude⁹⁵" (Naqvi 1992, 154). As noted by Chapra (1975, 6):

... Islam creates a harmony between the material and the moral by urging Muslims to strive for material welfare but stressing simultaneously that they place this material effort on a moral foundation thus providing a spiritual orientation to material effort⁹⁶.

As Kahf (1978, 15) stated:

life has aspects other than economics which call for devotion and require our energy and time for their proper development. A balanced life necessitates proper allocation of human efforts and resources among all the important aspects of life. Exclusive devotion to economic development may mean the neglect of other vital aspects of human life.

A *Muslim's* motivator is satisfaction of Allah. He is moderate in his material, worldly living; in earning, saving, spending, consuming, alm-giving, etc. Moderation in consumption saves natural and other economic resources and enhances sustainability. It also provides the opportunity for other members of society to satisfy their needs. A Muslim's *Iman* (faith) provides him with "a motivating system that gives biting power to the goals of need fulfilment and equitable distribution of income and wealth" (Chapra 1992, 7). This guarantees the welfare and prosperity of Islamic society. The profit motive in Islam has, then, "been subjected to certain moral constraints so that it serves individual interest within a social context and does not lead to economic and social ills or violate the Islamic goals of social justice and equitable distribution of income and wealth"

⁹⁵. 2: 200-201

⁹⁶. And seek to attain by means of what God has given you the abode of the Hereafter, but neglect not your share in this world, and do good to others as God has done good to you, and seek not to make mischief in the world. Surely God loves not the mischief-makers (28:77).

(Chapra 1982, 228). Islam has given special attention to educating people towards this end. As Hosseini (1992, 109) noted:

... it is possible for individual Muslims to follow these norms - it becomes possible through moral teachings. To them, it is, firstly, possible to alter preferences through belief in Islam: believers can be made to think that they are components of a larger Islamic community, rather than isolated individuals. Thus, they should primarily be seeking the welfare of the entire community.

Islamic education, therefore, focuses on controlling the frame in which individuals' needs, wants, desires, wills and aspirations evolve and motivate them. In addition to control mechanisms in Islam⁹⁷, there still exists another set of devices to direct human behaviour by their set of beliefs. In other words, a *Muslim* is motivated both in hope of reward and in fear of punishment⁹⁸. The holy Prophet Mohammad's (P.B.U.H.) mission, also, was to give people good news (that they will be given pleasant rewards because of their good deeds) and fear them (that they will be given punishments as a result of their sins and bad actions).

The co-existence of material and spiritual dimensions in man kind and the corollary co-existence of material and non-material needs as well as incentives match the structure of the game and the setting of the scene. Man becomes driven by both of the forces. His experimentation and the theatre, as mentioned earlier, obtains reality.

C. Allocation and Income Distribution Mechanisms

Islam, on the one hand, rejects excessive inequalities in the standard of living between *Umma** (*Muslim* nation), and on the other hand, recognises the market and the forces of supply and demand as the mechanism of distribution. This rejection (of deep inequalities) and acceptance (of the market system) in conjunction with other Islamic institutions, like prohibition of *Riba* and *Haram* (unlawful), gives specific features to the Islamic market which is totally different from what exists in capitalistic or other

⁹⁷. Control mechanisms in Islam will be analysed in the section "Individual, Society and State".

⁹⁸. Only the most pious *Muslims* like Ali ibn-AbiTalib (P.B.U.H.) could claim that "Oh God, my prayer is not because I covet Your Paradise, nor because of fear of Your hell, rather I realised You merit prayer" (Al Nahjul-Balagha*)

economies. The voluntary cooperation of individuals (Marginson 1992, 40) is the basis of the market in Islam. This is partly because of, among other things, different notions of "efficiency", "purpose of life", "meaning of welfare" etc. in the two systems. Mannan (1989, 302) discussed the Islamic concepts of "equity" and "efficiency". He declared:

In an Islamic economy the ultimate aim of both efficiency and equity considerations is to ensure economic justice to all, for the final goal of an efficient utilisation of resources is to have them distributed equitably. This would enable the individual to perform his social and moral responsibility in a better way.

In this connection, it is pertinent to mention that Islam does not believe in total equality in income. This does not mean that Islam does not want to have equality of opportunities to earn income.

Unequal distribution of income and wealth leads to unequal political and economic power (Mannan 1986, 313). Islam emphasises distributive justice and incorporates in its system a program for redistribution of income and wealth so that every individual is guaranteed a standard of living that is humane and respectable, and in harmony with the regard for the dignity of man inherent in the teachings of Islam (God's vicegerent on earth) (Chapra 1975, 14). Beliefs which shed light on the distribution system in Islam include such issues as there must be no reward without effort and no effort without reward⁹⁹. Reward must be proportionate to the effort and based on contribution to output (Okun 1989, 73). "Fair reward is characteristic of an Islamic system" (Abu-Saud 1989, 268). Differences in income must be limited by differences in human capacity for work (Abu-Sulayman 1968, 35) and "the differences in the value of the contribution made or services rendered to society¹⁰⁰" (Chapra 1982, 223). Others' rights must be paid in full. Wages and shares of production factors must be determined fairly.

A most significant institution of Islamic Economics is the authorisation of trade and the prohibition of *Riba*¹⁰¹. Islam introduces various forms of trade as alternatives to *Riba*¹⁰². Some have limited the meaning of *Riba* to only interest on loans. Some others have

⁹⁹. 4:32; "Man hath only that for which he maketh effort, and his effort will be seen" (53:39-40).

¹⁰⁰. 6:165, 61:71, and 43:32

¹⁰¹. Qur'an explicitly states: "God made trade lawful and prohibited *Riba*" (2:275-279).

¹⁰². *Qard-al-hasan** (interest-free loan), *Mozara'a** (partnership of in-use land and work-force), *Modhariba** (a partnership in which one party provides capital and the other his expert and work), *Mosa'qaat* (a venture in which one party puts his garden and the other his work force), *Jo'aala** (an agreement in which one party is appointed by the other to perform a determined task in exchange for some reward). For a thorough knowledge of *Riba* alternatives see Shirazi (1988) and Kuran (1992, 19).

attributed to it a more comprehensive connotation. Any gain or benefit above and beyond what one is entitled in a transaction or dealing (in general), according to the second view, is *Riba*. "Islam does not allow anyone to gain at the cost of others, much less at the cost of the whole of society" (Engineer 1992, 121). Any part or kind of transaction, therefore, which involves a forced or undeserved loss to one party or unearned gain to the other party (Kuran 1992, 61) is considered *Riba*, and is prohibited¹⁰³. Renting cultivating land without the contribution of the owner in tilling is one example of unearned income. Changing one kind of commodity (grain or gold, for instance) to another kind of the same commodity is another example. As a general rule, "those who hope for gain out of any transaction must also be ready for a commensurable loss" as Abu-Saud (1989, 268) noted. This principle is the demarcation line between *Riba* and its Islamic alternatives¹⁰⁴. Abu-Sulayman (1968, 28), similarly, stated:

The fifth policy of the Prophet was a well maintained market. The *sunnah* is full of rules and orders to plan and maintain a just and good market. At the time of the Prophet, no monopoly was allowed, no unfairness or cheating was permitted. All opportunistic speculation and ill-deals were ruled out. The market was meant for honest exchange of products and services, and not for exploitation and risk playing. In sum: the market was for trade not for *riba*.

Faith, as Chapra (1992, 7) declared "provides a moral filter for allocation and distribution of resources in accordance with the dictate of brotherhood and socio-economic justice". To play the hypocrite, dissimulation, low-weighing, misinforming customer(s), and similar fraudulent deeds are all prohibited, because they result in undeserved loss to one party and unearned gain to another. Hoarding, likewise, involves undeserved loss and unearned income, and can have other adverse social and especially political consequences; hence, it is prohibited.

There is still another important institution related to market, allocations distribution and welfare, which is unique to Islam. Islam has made it a collective obligation (*Fard al*

¹⁰³. Karl Marx said in his *communist manifesto* that interest is ... 'an unearned income' and in some of the writings of his intermediate followers, interest as well as profit are "thefts" (Ghanameh 1968, 57)

¹⁰⁴. In interest bearing loans the provider of capital has protected and insured himself against any kind of loss at the expense of the borrower - even loss due to inflation. He receives an assured gain. Whereas, the provider of money in Islamic alternatives of *Riba* has prepared himself for a probable loss.

*Kifaya**) to produce the goods and services which are still less beneficial and less attractive from a benefit-making point of view but strongly needed by Muslims¹⁰⁵.

Not only do equity, and brotherhood¹⁰⁶ atmosphere shed light on the process of distributing produced income between the owners of factors of production, and not only do fairness and honesty govern the soundness of transactions, and stimulate the market, but other devices also contribute to the elimination of the distributive gap. As articulated by Mannan (1986, 132), some of the examples of this built-in device are: *Zaka* (an obligatory payment out of income and wealth)¹⁰⁷, *Khoms* (a 20% due out of saving)¹⁰⁸, prohibition of *Riba* as well as the depletion of exhaustible resources, inheritance system (through which a deceased person's estate is distributed to inheritance after his death), *Waqf* (setting-up of philanthropic trusts), alms, *Sadaqa* (charity)¹⁰⁹, *Qard-ul-Hassan* (interest-free loan)¹¹⁰, social *Kifala** (through which not only a minimum rather a respectable standard of living is guaranteed for any Muslim), provision for additional taxes beyond *Zaka* and *Khoms*, cooperation rather than competition. "These are systematic rules that assure a just and systematic distribution of resources in society" (Abu-Sulayman 1968, 28). A humane standard of living to all members through proper training, suitable job, "just" wages, social security and financial assistance to the needy through the institution of *zakat* (Chapra 1982, 223) and through the mechanisms and institutions already cited is guaranteed. As a result "no man in the commonwealth of Islam was to be deprived as long as any other has more than he needs" (Proceeding of TECRCMSAUSC 1968, xiii). It is also quoted that the Prophet Mohammad (P.B.U.H.) declared; "He is not true Muslim who eats his fill when his next-door neighbour is hungry (Bukhari, p 52 and 112 in Chapra 1975, 14).

¹⁰⁵. This, of course, is one example of *Fard al Kifaya**. "In order to strengthen the social orientation of Muslims, Islam introduced the concept of collective obligation which carries individual responsibility and accountability. In Islamic jurisprudence this is called *Fard al-Kifayah*" (Kahf 1978, 48).

¹⁰⁶. 49:10

¹⁰⁷. 9:60, 103, and many other *Ayaat* (verses)

¹⁰⁸. 8:40, 41

¹⁰⁹. 2:26, 219, 261, 272, 274, 280, 3:92, 93, 9:34, 6:160, 8:60, 9:75, 76, 111, 24:32, 57:7, 59:9, 61:10

¹¹⁰. 2:246, 5:15, 57:11, 73:20

Considering these arrangements there seems less necessity for the Islamic state to intervene in economic activities. Nonetheless, the state can interfere and regulate, control, and administer the market, and can pay subsidies as well.

D. Individual, Umma (Society) and State*

Individual, society and state are all recognised in Islam. All are given various types of freedom, are entitled to specific determined rights (ownership right, for instance), are assigned duties and are liable to fulfilment of specific responsibilities.

The features of the individual in Islam, his domain of freedom, his rights, duties and responsibilities, were analysed in the section "Basic Beliefs". One more important point must be mentioned here. The individual in Islam is not considered in isolation from his family. Rather, "[i]n an Islamic society, the institution of the family is very strong. ... Consumer behaviour in Islam is not that of an individual. The family is the basic unit of consumption. Consumption decisions are taken in a family setting¹¹¹ (Akram Khan 1989, 276).

The analysis of society and state must be similar to the analysis of the individual. All three have mutual rights, duties and responsibilities to each other. Their rights must be respected and not transgressed.

Society must be considered as consisting of individuals all "equal in being God's vicegerents on earth and His dependents, and cannot feel inner happiness and tranquillity until the real well-being of all has been attained through the satisfaction of both spiritual and material needs" (Chapra 1992, 6).

¹¹¹. "A realistic consumption model in the Islamic framework cannot be conceived in isolation of the family.

The concept of extended family may introduce a number of economies. If people live under one roof and eat from the same kitchen they may spend much less as compared to multiple units living separately as independent families. This also affects the demand pattern of housing, furniture, and other household durables in the economy. In a consumption model, all these factors may change the conclusion significantly" (Akram Khan 1989, 276).

An individual's responsibility toward society is that their behaviour at any course of their private and social life must not involve any harm to society or any of its members. Examples of harm to society as a result of human performance were given in the chapters analysing Social Responsibility Accounting (SRA) and Sustainability Accounting (SA).

Society is, mutually, expected to provide specific services to individuals. All resources and claims are to be made within the limits of humanity. No weak or needy person need be lost, and all human needs and rights are to be guaranteed (Abu-Sulayman 1968, 19). Providing suitable conditions for individuals to perform their duties and fulfil their vicegerency responsibilities is the responsibility of Islamic society. Kahf (1978, 45) quoted from Maududi (1955, 130-131) said that:

The free and ultimate reason for the existence of the social system is the individual's welfare and happiness, and not that of society. Hence the true measure of a good social system is the extent to which it helps its individual members to develop their personalities and to improve their personal abilities and capabilities. Based on this, Islam disapproves of any type of social organisation and any social welfare scheme if it suppresses individual and ties them very strongly to the social regime, so that their independent responsibilities perish, and the majority of them become mere machines or tools in the hands of a few others

In an Islamic society, there is mutual respect, consideration and responsibility between society and its members on the one hand, and between its members on the other hand. Such a society is described as *Umma**. *Umma** ties religion with other aspects of life including economic and fiscal policies. One logic behind the State ownership in Islam is to empower it to fulfill its responsibilities independently.

Another issue relating to individual/society relations is the conflict of interests. As Mannan (1989, 297) noted the individual's choice for his own betterment and the Islamic choice for collective moral, spiritual, and social welfare may not always go together. Islam has not suspended the issue. From the Islamic point of view, both social welfare and individual freedom are very important. Islam aims to strike a balance between the liberty of the individual to profit and the right of society (Mahmud 1982, 155 and 157). But in case of any conflict the larger interest of society prevails over the interest of the individual (Chapra 1975, 17). Social benefits and interests in Islam prevail over

individual benefits and interests (Talighani 1982 and Engineer 1992, 119). Allama* Tabataba'i, a famous commentator of the Qur'an, interpreted this prevalence of interest of society over private interest from the verse 2:29 of the Holy Qur'an (Hosseini 1992). Individual freedom in Islam does not enjoy a place independent of its social consequences. It is sacred only as long as it does not conflict with the larger social interest or as long as the individual does not transgress the right of others (Chapra 1982, 228 and 1975, 17).

Mannan (1989, 299) raised the question of "where individual freedom ends and social control begins?" Then he answered:

Actually social control guarantees individual freedom as it enables the individual to perform his duties as prescribed by the Shari'ah. Freedom and control are therefore not contradictory but complement each other because control protects freedom, and vice versa. This is the essence of the Islamic concept of freedom and control. ...

Islamic law has formulated a number of individual rights and has assigned the individual several obligations toward his family, his kinship, his community, and the world at large in order to develop a structure of universal brotherhood or *ummah*.

Most proponents of Islamic economics believe that there exists a basic harmony of interest among individuals, society and the state (Hasan, 1983 in Hosseini 1992, 111) and "the establishment of communal rights and good relations is for the preservation of the individuals' independence ..." (Taliqani 1982, 214). Therefore, "a balance between the liberty of the individual to profit and the rights of society" (Mannan 1982, 155 and 157) is one of the significant institutions of IE.

Like the individual and society, the Islamic state also possesses rights and is assigned responsibilities. "The *Shari'ah* allows the state to interfere in all societal activities of its citizens, but only within the narrowest limits" (Abu-Saud 1982, 268 and 270) depending "on the extent to which a society is prepared to respond to this Islamic injunctions. In an ideal state of affairs, perhaps there is no need for any social control by the state, because the individual will be expected to perform his duties without any social persuasion or coercion" (Mannan 1989, 299). Also "for proponents of Islamic economics, the Islamic society is one where the spirit of cooperation and dedication to the common good

prevails. If there are still unresolved problems (free-rider, etc.), the Islamic state should step in" (Hosseini 1992, 111).

As noted by Chapra (1982, 227) "the Islamic state is essentially a welfare state and is duty-bound to play an important role in the economy for the fulfilment of the *Shari'a* in the economic field." The Islamic state provides equal opportunity (Mahmud 1982, 155), has an efficient social security policy and must ensure a respectable standard of living for every individual who is unable to take care of his own needs and hence requires assistance (Chapra 1982, 223). In order to perform its duties and fulfil its responsibilities independently, the Islamic State has been given ownership right to varieties of resources, incomes and wealth¹¹². Moreover, the Islamic State has been given the legislation authority within the free zone.

Mannan (1989, 299) analysed the limit of individual, society and state and argued:

... individuals do not exist for society or the state. It is society and the state that exist for the individual. It is the individual who is accountable for his action before Allah. This notion of accountability gives him freedom to participate in the construction of the society to which he belongs and puts restrictions on him not to degrade the society Islamically. In an Islamic state, the individual is seen as an integral part of his own family, his community, his state and the international community at large. Therefore he has economic and social responsibility toward each of the components of his integral life.

Yet, from the responsibility point of view, it remains with the individual alone. No community or nation is responsible before Allah as a group; each member is responsible before Him individually (Kahf 1978, 45). Even the responsibility of changing societies is also with the individual¹¹³.

The purpose of the Islamic State (IS), as summarised by CBHU (1993, 490) is the establishment, development and maintenance of the virtues through which Allah wishes the enrichment of human life as well as the prevention of evils in human life.

The duties and responsibilities of Islamic State (IS) can be summarised as executing the rules and regulations, providing social security, determining the domain of private and public ownership, protecting the ownership right within the economic system, providing

¹¹². Please refer to the sources on public finance in Islam (*Anfal* and *Beit al-mal*).

¹¹³. 13:11, 8:53

growth and development, coordinating economic activities, expanding economic relations and coordinating them with economic policies.

Vested Civil Power/Authorities of the IS are:

1. Having authority of law-making within the free domain.
2. Authority to determine the priorities, needs and secondary grounds.
3. Guardianship to collate Islamic Economics.

At least three control mechanism drive a *Muslim* to the fulfilment of his responsibility.

These form control mechanisms in Islam. They are:

- Self control mechanisms or conscience: a *Muslim* feels himself in the presence of God at all times. This is operationalised through continuous Islamic teachings and education,
- Public control through the institution of *Amr bil Ma'roof* (commanding others to common good) and *Nahy Anil Monkar* (preventing others from doing bad deeds)¹¹⁴. According to this institution commanding others to do good actions and preventing them from doing bad actions is an important duty of any Muslim.
- State control. Control is an important duty of the Islamic State. The Islamic State exerts its control through an official body called the *Hisba* Agency. Its role, as noted by Kahf (1978, 99) "is to practice control over the social behaviour, so that they do what is right and abstain from what is wrong".

The first two institutions educate *Muslims* to feel accountable. Feeling "accountability gives a Muslim a sense of completeness, direction, and a permanent code of conduct" (Mannan 1989, 305). Greater importance has been given to purification, education and training in Islam. As a result, state intervention in Islam is "needed only when behavioural norms fail" (Hosseini 1992, 109).

¹¹⁴ 3:104, 22:41 among many verses.

E. Sovereignty

Sovereignty in Islam is for Allah, for The Prophet and for the *Mu'mineen* (the believers, the Islamic *Umma**)¹¹⁵. Islamic sources have many references to the sovereignty of Almighty Allah. The Holy Prophet has also been described as the noblest amongst the prophets and the messengers. All individuals, as the believers, are sovereign regardless of whether they are producers, sellers or consumers - as capitalism believes in. As stated by Mannan (1986, 348):

The distinguishing mark of Islam is its respect for the individual and for absolute human equality, irrespective of any other considerations at all. All enjoy equal status - socially, politically and economically.

Individuals' sovereignty is tied to the extent they fulfil their vicegerency duties¹¹⁶. This is to say that individuals are potentially sovereign. Their actual sovereignty depends on the extent to which they actualise their potentialities. The most sovereign and noble is the one who is the most pious¹¹⁷.

G. Competition

Competition is an explicit commandment in Islam. But competition in Islam is different from that of the secularistic societies. Islam orders competition for charities¹¹⁸. As a result, competition in the exploitation of natural resources, for instance, at local, national or international level, is not what Islam orders. In addition, the rules of *Halal* (lawful), *Haram* (unlawful), *La Zarar Wa La Zirar* (no harm) prevents a Muslim from committing harm to society, the environment, the ecosystem and individuals in competing for his personal profit. A Muslim perceives others as his brothers and considers their rights and welfare, and hence believes in cooperation and constructive, rather than destructive, competition. Chapra (1975, 7) stated:

A natural corollary of this concept of universal brotherhood is mutual co-operation and help, particularly among Muslims who, beside being united to each other as to the rest of

¹¹⁵. 63:8

¹¹⁶. 49:13

¹¹⁷. 49:13

¹¹⁸. 2:148, 3:114, 5:48, 23:56, 35:32

mankind by a common origin, are further united by bonds of common ideology, and have been characterised by the Qur'an as 'brothers-in-faith' (al-Qur'an, 9:11; 33:5; and 49:10) and 'merciful among themselves' (al-Qur'an, 48:29).

It is said that the Holy Prophet Muhammad (P.B.U.H.) "emphasised cooperation among Muslims as the foundation of the Islamic society and the secret of its performance" (Kahf 1978, 47).

Summary

Institutions of Islamic Economics (IE), as analysed already, form a system which is, in turn, a subsystem of a more complete and perfect system; namely, Islam (CBHU 1984, 44). The institutions are internally consistent and externally valid. Economics in Islam is not divorced from the other aspects of human life (Jomo 1992, 1). Man is vicegerent of Allah on the Earth. Whatever man owns are trusts from God and have instrumental value. The purpose of human life is to fulfil the duties of the trusteeship; to have, to develop, to live and enjoy the world, to help others and live by means of God's bounties, by utilising them in the way prescribed by Allah. According to the Proceeding of TECRCMSAUSC "the divine pattern given in the Qur'an which is relevant to man's economic activity consists of six principles. By order of logical priority, they read as follows:

1. The world was created for man to transform, to have and to enjoy.
2. Man is by nature obliged to transform, and entitled to have and to enjoy the world.
3. Man is the rightful owner of the all the fruits of his own work.
4. In the cultivation and harvesting of the fruits of the world, man is to commit no injustice.
5. Man's having and enjoyment of the fruits of the world are to be conditioned by the permanent needs of society.
6. The destitute have a title to some of the goods of the world which are in possession of the affluent (1968, x).

The way God prescribes for man's economic life (as well as for his whole life) is a moderate way which involves no harm to society, its members, environment, or the ecosystem. According to Islam "a producer may advertise his product truthfully when he

need not, a labour union may refrain from breaking the law when it could do so for a net gain, a producer may resist contaminating a river when he could do so without detection, a firm may elect to pay 'fair wage rates' when it could exploit some workers' ignorance of wage rate and job availability elsewhere with impunity, a benevolent butcher may abstain from short-weighing" (Pheleps 1975, 5 in Mannan 1982, 306). A *Muslim* is considerate of the consequence of his actions to others, to society and to its members. He has strong faith in God, His Prophets and their guidance and in accountability. Faith, in the Islamic perspective, is the most important ingredient of human well-being. It puts human relation on a proper foundation, enabling human beings to interact with each other in a balanced and mutually caring manner to help ensure the well-being of all (Chapra 1992, 7).

It can be concluded from the analysis of this chapter that Islam supports the idea of economic strength. But Islam believes that economics is not the final or the only objective. Rather, it believes that Islamic objectives will not be attained without sound economics. Islam perceives economics as a pillar of social life. Therefore, it does not damage the other pillars for the sake of economics. Islam holds that incomes source should not be individual's wants and demands; but rather, believes in the conformity of the individual's wants and public interests (Motahhari 1991, 26). It is argued in this chapter that the exercise of a fully fledged Islamic Economic System (IES) guarantees material as well as non-material and psycho-social welfare of societies. Rejecting the pig principle and greed, Islam purifies and educates people. It trains people to use natural resources, their environment and the ecosystem conservatively and feels responsibility for saving these potentialities for others and the next generation. A society which exercises IE will never face such socio-economic ills and environmental and ecological problems and crises as those analysed in the chapters on SRA and SA.

The next chapter will argue that to rescue mankind from his threatened sustainability, and also cure his socio-economic ills, man has to rethink his economic behaviour. He has to train and educate himself to replace his relish-taking activities with prudent activities. He

must realise that the human of the future, as Motahhari (1990, 17) claimed, is the human of ideas, faith and principle, not the human of balley and below. He must rethink a cultural life in lieu of a purely economic and pecuniary life.

CHAPTER SIX

A Comparative Analysis of Islamic Economics (IE) and Western Capitalism: A Social Responsibility Accounting (SRA) and Sustainability Accounting (SA) Approach

Introduction

The literature on comparative economics contains very few examples of contributions of non-Muslim authors to comparisons between the Islamic Economic System (IES) and secularist economic systems. The first and very simplistic reason can be their unfamiliarity with Islamic Economics (IE). Some may have even wondered in the past whether Islam has, or may have, an economic system. There are still some who may doubt whether Islam has the capability of providing solutions to the prevailing problems of our present time.

This chapter will compare Islamic Economics (IE) to the most dominant secularist economic system, that of Western capitalism, from the stand point of the consequences of the exercise of each system pertaining to the Social Responsibility Accounting (SRA) and Sustainability Accounting (SA) fields, as analysed in chapters two and three. The introduction of the IES in chapter five is an intuitive answer to the past suspicion as to whether Islam has or may have an economic system. An answer to the doubt whether Islam can solve the problems of our present time will be sought in this chapter.

Chapter four argued that the micro or local/regional level social and environmental ills of societies, as well as the macro or global/universal ecological problems and crises as analysed in chapters two and three are a consequences of submission to capitalism and the exercise of capitalistic economic systems. This chapter, further, revealed that capitalism emphasises only on material welfare and neglects non-material aspects of life. This emphasis on the material aspects and negligence of non-material aspects can causes some of the psychological, social and economical ills and problems which capitalistic societies face. Neither could capitalism provide the procalimed material welfare to all

social groups. Poverty and hunger in the midst of plentiful exist. By definition, in its purest form, capitalism accelerates the pace of the premature exhaustion of resources and an increase and acceleration of environmental and ecological issues which threaten the sustainability of human and other forms of life on the planet.

Failure of the proposed alternatives, as analysed in chapter four, brought to the focus of attention the fact that the world is well in need of a sound alternative economic system. Chapter five served as a preliminary attempt to introduce the Islamic Economics System (IES) as a response to this need. The chapter argued that IES is capable of resolving the problems of human welfare in its various aspects and claims to be able to guarantee the sustained welfare and prosperity of man kind.

This chapter is a comparative analysis of capitalism and Islam. The analysis in this chapter will compare the consequences of the exercise of the capitalistic and Islamic economic systems from the stand point of their effects on issues in the fields of Social Responsibility Accounting (SRA) and Sustainability Accounting (SA).

The analysis will be in the following order. The next section will compare and contrast the institutions of the two system. It will critically analyse the consequences of the exercise of each system on the issues relating to SRA and SA. Section three will answer the question - is the IES only a theory or is it applicable in the real world? Section four analyses the issue of Islamic Economics (IE) in practice by referring to the state of the art in Muslim societies. The applicability of the IES and its empirical example is the subject of the analysis of section five. Section six provides answer to the doubts as to whether the IES can solve the problems of our present time. The last section serves as the summary section.

Islamic Economics Vs. Western Capitalism: A Social Responsibility Accounting (SRA) and Sustainability Accounting (SA) Approach

It is an obvious fact that "[h]uman well-being has been the professed objective of all societies. There is, however, a difference of opinion on what constitutes well-being and

how it may be realised" (Chapra 1992, 1). Societies, similarly, share beliefs in the elements of well-being. All societies mention efficiency (in resources allocation) and equity (in income distribution), or fairness (Kuran 1992, 49), as their socio-economic objectives. There is, again, differences of opinion on the concepts of efficiency, equity and fairness. All nations agree on the way of operating efficiency and equity. All accept that answers to the three basic questions of "what, how and for whom to produce" is the way in which efficiency and equity is practically exercised. Each nation, however, provides different answers to each of these three questions.

Why are there differences? This is a philosophical issue. It requires an extensive research endeavour, and is beyond the scope of this research. Suffice to state here that the reason for the differences of opinion on what constitutes well-being, the notions of efficiency and equity, and why each society answers the three basic economic questions differently lies in the nature of the questions. The questions are not value-free. They are, rather, value-laden. These differences rest on the underlying principles of the belief system of each society, the differences in their philosophy; their understanding of life, nature of the human and purpose of creation, and origin of the world. That is, their worldview. "This worldview controls 'the nature of man's reflections on almost any subject'" (Loveoy 1960, 7 in Chapra 1992, 4) and results in different solutions to identical problems. As Chapra aptly stated,

Difference in views about human nature leads to differences in conclusions about the meaning and purpose of human life, the ultimate ownership and objective of the limited resources at the disposal of human beings, the relationship of human beings towards each other (their rights and responsibilities) and their environment, and the criteria for efficiency and equity. Such a worldview performs the same function for an economic system as the foundation does for a building: even though the supporting foundation is invariably invisible and unmentioned, it continues to play a determining role (1992, 4).

Each worldview dictates its own goals and ways and means to those goals. Each worldview offers a different social, economic and political system. "Every paradigm in economics is based on a certain philosophic foundation and is a system of belief" (Edwards *et al.* 1978 in Arif 1982). "[A]n economic system is the outcome of the paradigm that it follows" (Arif 1982) or the thought that it rests on (Sadr 1969, 8).

Likewise, any economic behaviour is rational only within its own framework of assumptions. This study will not delve into these philosophical issues, but rather will analyse the consequences of these differences on the sustainable well-being of humankind, for present as well as future generations.

A sound worldview is one in which its goals, strategies, the ways and means to its ends all are based on sound beliefs and assumptions. Such a worldview has the potential capability of solving the problems of all generations at all times. Its principles do not need amendments and revisions. It is a system (of beliefs) which is internally consistent and externally valid. The result of adaptation of such a philosophy would be:

...adequate nutrition, clothing, proper upbringing and education for spiritual and intellectual development, housing, a healthy spiritual and physical environment (with reduced tension, crime and pollution), medical facilities, comfortable transport, enough leisure to meet all essential family and social obligations and an opportunity to earn an honest living. Allocation and distribution of resources must take a course that helps fulfil these and other needs that are considered essential. The fulfilment of all these needs would make all members of both present and future generations tranquil, comfortable, healthy and efficient, and able to contribute richly towards the realisation and perpetuation of *salah* and *hayat tayyibah*¹ (Chapra 1992, 7).

Chapra (1992, 5) referred to capitalism, socialism and their joint offspring of the secularist welfare state as the most dominant economic systems of the present-day world; each being a different explanation of the universe and of the nature and meaning of human life. Each proclaims human welfare. Each dictates its own package of prescriptions and solutions to the socio-economic problems of societies. Chapra continued:

... in spite of the various 'revisions' in the systems, the enormous wealth that the countries following these systems have created, and the relative abundance of their resources, these countries have failed in varying degrees to realise the goals they aspire for. Many of them are also facing serious macroeconomic imbalances. Their problems have in fact increased continually. Social unrest and crime have also risen and they are in general facing a crisis situation (1992, 5).

One of the major objectives of chapters two and three was to depict the deteriorated picture (socio-economic ills, environmental and ecological problems and so on) of western capitalistic economies as a result of the exercise of an economic system which is

¹. These terms and phrases as well as most of the terms and phrases used in this chapter are introduced in chapter five. Otherwise, they will appear in the Glossary at the end of the thesis.

neither based on assumptions and axioms consistent with human nature nor is it externally valid. Examples of consequences of the exercise of this system in contrast with the consequences of the exercise of an IES are as follows.

The philosophic foundations and axioms of both capitalism and Islam create different systems of beliefs in their followers. Each system of belief guides and directs personal, social, political as well as the economic activities of its followers. Each philosophy differs from the other. Each dictates, and its corollary system of belief justifies, a specific economic system. The differences in the underlying worldview and the basic beliefs of the two systems count, initially, as the major source and cause of the differences in the institutions, and hence the consequences of the exercise of the systems. References to these differences will be made throughout the comparison.

The exercise of each economic system has its own consequences for people and their welfare, for the environment, for the ecosystem, and for the universe as a whole. The following paragraphs analyse and contrast the favourable and unfavourable consequences of the exercise of the two economic systems from the SRA and SA perspective.

Ownership

The analysis of chapter four showed that western capitalism believes in absolute private ownership, whereas Islamic economics, as analysed in chapter five, believes that absolute ownership belongs to God only. Individual ownership is, then, a trust from God. An individual's relationship with property is the relationship of an agent to the property of his principal. An individual's right to property is, then, not absolute, rather conditional, limited and conditioned to the terms of the contract. The comparison of the analysis of chapters four and five reveal, furthermore, the fact that while capitalism recognises private ownership as the only form of ownership, IE, on the other hand, recognises ownership of individuals as well as ownership of the Islamic Society (*Umma*) and the State. All natural resources, the environment and the ecosystem belongs to either the Islamic State or *Umma*. Moreover, each has various sources of income and wealth².

². *Khoms, Zakat, Khiraj, Jizya, Kaffarat, etc.* (CBHU 1993, 241).

The wealth and income of the Islamic society and State are collectively called *Anfal* (CBHU 1993, 229) or *Beit ul-Mal*. *Anfal* are supervised and administered by the Islamic state. The resulting income is spent on public needs and charitable institutions to increase public welfare.

From the SRA and SA point of view, the difference in the ownership system, combined with the differences in the system of basic beliefs of capitalism and Islam results in the following consequences.

The philosophy of individual ownership, as mentioned in CBHU is:

- Private ownership motivates the individual for more activity and work;
- Private ownership increases creativity and motivation;
- Private ownership provides the basis for planning, economising life and establishing decision-making and control over economic affairs.
- Private ownership is an instrument for spiritual perfection of humans, since perfection can be attained by means of voluntary activities only. And voluntary activities, through which man can earn God's happiness, cannot be done without private ownership (1984, 111).

Of the four rationales mentioned already, the first three are common in the two economic systems. The fourth, however, matches the philosophic assumptions of IE only. While ownership in capitalism is based on natural drives and instinct (CBHU 1993, 241), IE perceives individual ownership as a means to humans' spiritual perfection and as a way for individuals to fulfil their *Khilafa* (vicegerency) duties (CBHU 1993, 143). Ownership in Islam combines the instinctive drives and social justice (CBHU 1993, 241).

On the basis of this belief system, a Muslim, then, does not commit any social cost, externalities, harm to society, the environment and the ecosystem. He does not violate regulations. He abstains from any kind of unethical and immoral action at any point of his ownership - acquisition, holding, using and disposing - as analysed in chapter five. Rather, a Muslim perceives himself at any of these points and at any time in a theatre before Allah. A Muslim aims at any point to earn God's happiness, and hence feels

accountable in his personal and social life. This in turn results in increased and sustained public welfare.

At our present time, where societies have experienced numerous regulations, traffic regulations for instance, it is more easily acceptable than ever before that absolute freedom cannot be acceptable. Indeed, wisdom will view it as anti-freedom. Applying this simple example to our analysis reveals the bitter and unpleasant fact that capitalism and the exercise of capitalistic economic systems, either pure capitalism or its revised versions, have been depleting our limited non-renewable and renewable natural resources, have made the picture of societies look bad by dumping various wastes, pollution and hazardous discharges, have reduced human welfare a great deal and have threatened the sustainability of human as well as other forms of life on the planet, among many other unfavourable consequences. These all happen to humans, and still more are expected and will not be strange when they happen, because of the so called absolute freedom (of ownership) that they have. IE, conversely, being from God, who is more aware of man's temptations³ than anyone else thinking to regulate them, has drained all of these socio-economic ills at their very root. The limited and conditional ownership of the individual prescribed by Islam is, indeed, man's real freedom. There is no convincing answer to why an individual should be given absolute freedom (of ownership) (Motahhari 1991, 20).

Pure capitalism denied public ownership by recognising such institutions as the absolute freedom of individuals' private ownership, *Laissez-faire*, and individualism. The versions of capitalistic economic systems were inevitable modifications of their principles and the recognising of degrees of governmental ownership. The IES, on the contrary, has recognised the society's and the State's ownership alongside the institution of private ownership of individuals. From the stand point of SRA and SA the following differences can be cited for this difference of recognition of public ownership:

³. 50:16

- Public ownership of natural resources in Islam, either by Islamic society or the Islamic State as analysed before, prevents individuals and corporations from abusing these scarce resources. Muslims believe that natural resources are not free and unowned goods are to be used as one wills. They belong to all Muslims (present and future generations) and to the Islamic State. They are others'. Other peoples' rights are highly respected in Islam. Islam recommends repeatedly to consider others' rights⁴ and not to harm them. Harm must be compensated. In this way none of the SRA and SA issues will appear in an Islamic society.
- In addition, without this public ownership and in the absence of state administration and supervision conflict between individuals themselves over using (or more appropriately, to say in competing to exploit) natural resources is natural. IE prevents these kinds of conflicts by its divine rules and regulations.
- Moreover, ownership of natural resources as well as owning sources of income and wealth empowers the Islamic State financially. It strengthen the Islamic State's independence and eventually empowers it politically. In this way, the Islamic State can represent all sects and classes of its citizens and strongly defend and support the weak and the poor. Conversely, if the state depends on financial sources like taxes - as is the case in modified capitalistic economic systems - it will be biased by the consideration of the interests of the rich; those who pay tax and/or support the state. In this case, the state is not an independent entity any more, as is the case in the United States of America, the very representative of capitalistic economies. The result will be what their poor and lower income families are experiencing now - hunger amidst affluence, because they are given freedom and because they belong to a society which believes in so called absolute freedom and democracy.

⁴ *Haqq un-Nas* (rights of people) has preference over *Haqq-Allah* (Allah's rights) at least in one respect. It is an Islamic principle that if one doubts in Allah's rights one can act on the basis of his own benefit. But if he doubts in others' rights must give preference to the benefits of others over his own benefit. Moreover, transgression to *Haqq un-Nas* is counted as a great sin.

- In the same way which Islam unifies all Muslims at any time, it aims for the unity of all Muslims throughout history. It can be argued that the institution of social ownership is a device through which Muslims (of different ages and generations) become united. This is because, as a result of Islamic teachings, Muslims use public properties more carefully and conservatively in consideration of the interests of next Muslim generations (CBHU 1984, 108) and their entitlement to the public properties. Conversely, capitalism not only does not consider the interests of the next generations, it further discourages the consideration of others in the present by recognition of such anti-social institutions as individualism, the results of which are given in the examples provided in chapters two and three.

That is only a very superficial analysis of the philosophy and the rationale behind public ownership. And, of course, very rich reasons lie behind this institution. Though pure capitalism has modified itself to accept kinds and degrees of public ownership, it still lacks strength in its philosophical bases because of its emphasis on private ownership only.

Incentives and Motivations System

The difference in the incentive and motivation system of an economic man from a Muslim man leads to the following consequences:

While in pursuing his material/pecuniary self-interests an economic man may commit various kinds of unethical, immoral and unlawful actions, a Muslim man gets motivation not only from his material/pecuniary gains, but from his spiritual incentives as well. A Muslim man's behaviour in all courses of his economic life - consumption, production and distribution; and at whatever position - as an employee, employer, producer or trader - is directed by his strong religious beliefs. Seeking the satisfaction of Allah is his major motivator. His material incentives are balanced and in harmony with his spiritual motives. His material needs do not supersede other vital aspects of his life. A Muslim's

motivation system is such that it prevents him committing any kind of harm in the forms of discrimination, illdealing, lowweighing, mischief, polluting the environment, the ecosystem, wasteful use of resources, hoarding, damping, making monopolies, trusts, cartels and holding companies. His behaviour is directed and controlled by his beliefs. He believes that harm to people, even to self, is *Haram* (unlawful). Self interest is not the only thermodynamic of a Muslim man, his motivation sometimes is accompanied by sacrifice of his self-interest. While this motivation system may seem entirely irrational from the stand point of capitalism, its rationality in the IES is to the extent that it causes a Muslim to sacrifice not only all of his wealth, but even his life. A Muslim holds that "[L]ife is not but a belief and to struggle on the basis of that"⁵.

While an economic man becomes motivated by his self seeking, a Muslim man's *Iman* (faith), his belief in brotherhood and equitable distribution of income and wealth (Chapra 1992, 7), his belief in the welfare of the entire community rather than his self-interest in isolation (Hosseini 1992, 109) and his belief in reward and punishment motivates him to moderation in all areas of his economic activity, such as earning and consuming. This results in the economical use of resources, no wastage, less pollution and less damage to the environment and the ecosystem. Moreover, moderation rather than greed in economic behaviour provides an opportunity to the other members of society to satisfy their needs and to fulfil their vicegerency responsibilities. Moderation enhances sustainability. The theme of all conferences, research works and courses in the fields of SRA and SA is but to encourage moderation and to introduce its benefits.

Islam emphasises moderation and alters preferences through moral teachings (Hosseini 1992, 104). It educates people and focuses on the frame in which individuals' needs, wants, desires, aspirations evolve and motivate them. It also serves individual needs and interests within a social context. This prevents any kind of socio-economic ills.

⁵. Imam Hossein ibn-Ali (P.B.U.H.).

Allocations and Distribution Mechanisms

Efficient allocation of resources and equitable distribution of income and wealth is a proposed objective of any economic system. Capitalism depends on the market and the forces of supply and demand for efficiency and equity. There are, however, significant weaknesses associated with the market system from SRA and SA point of view.

In terms of equity, it was analysed in chapter four that the exercise of pure capitalism results in the polarisation of society and in excessive inequalities in the distribution of income, wealth, welfare and as a result in economic and political power, which in turn further weakens the society. This condition in capitalistic economies was delineated in chapter four by the quotation from Okun (1975, 1 and vii) who described capitalistic equity as "find a job or go hungry" that is, "succeed or suffer". Chapra (1992, 37) quoted from Okun that markets "award prizes that allow the big winners to feed their pets better than the losers can feed their children".

In terms of efficiency, dependence on the market to allocate resources together with the institution of "consumer sovereignty" which is another principle pillar of capitalism, combined with increased volume and variety of unnecessary products the employment of unfair as well as sophisticated techniques of marketing and advertising, encourages the emergence of unnecessary needs and directs (the scarce) resources toward the production of goods and services which (the sovereign) consumers demand. Competition between producers to meet these demands and to serve the sovereign consumer accelerates the wasteful and exploitative use of resources. It also leads to the extinction of species of wildlife, birds and aquaculture and the continuous transformation of forests to deserts due to competitive and greedy abuse in order to meet the luxurious and unnecessary wants (not needs)⁶ of consumers.

Islam, on the other hand, while recognising the market, does not accept its capability to provide efficiency and equity through the forces of supply and demand alone. That is,

⁶. The difference between needs and wants is discussed in chapter five.

the notion of efficiency and equity in Islam is totally different from the notion in capitalism. Islam believes in socio-economic justice and brotherhood and rejects excessive inequalities in the standard of living. For this reason, it incorporates a very strong moral filter as well as other institutions in order to make the allocation and distribution mechanism Islamic. For instance, the principle of "no reward without effort and no effort without reward" together with recommendations and commandments about fairness in determining wages and prices or to pay wages and other dues in full and on time, works out any unjust and unnecessary inequalities resulting from distribution. There are principles and built-in devices which level income, wealth, welfare as well as economic and political power. Some of them are: the concept of ownership (a trust from God), explicit and implicit teachings that the poor, the destitute, the deprived, the needy and the wayfarers have rights to Muslims' wealth; the purpose of life (a theatre to test man), the institutions⁷ of *Zaka*, *Khoms*, *Waqf*, *Sadaqa*, *Qard-ul-Hassan*, *Silat-ur-Rahm*, *Social Kifala**, voluntary cooperation of Muslims and the like, on the one hand, and the prohibition of *Riba*, unearned income and undeserved or forced loss, employing temptive advertising techniques, fraudulent and unethical actions in business and other courses of life, on the other.

In contrast to the competitive exploitation of resources in capitalism to meet the wants of the consumer and to earn as much money as possible, which results in inefficient allocation of resources and leaves many necessary but economically less attractive needs of people unfulfilled, the institution of *Fard-al-Kifaya** makes Muslims feel responsibility collectively and individually to march to produce the goods and services Muslims need but that are scarce in the market.

Moreover, since the Islamic State has the responsibility to provide a humane and respectable standard of living for Muslims as well as the conditions where they can fulfil their vicegerency responsibilities, it can interfere to reduce inefficiency in the allocation of resources and inequality in the distribution of income and wealth if needed.

⁷. These institutions are introduced in chapter five.

Individual, Society and State

Perhaps the major difference between capitalism (and also communism) and Islam lies in their perception of individual, society and state. Capitalism, like communism, is based on individualism. The difference, as analysed in chapter four, is that the central axis of capitalism is the fortunate individual whereas, communism's objective is pursuing the interests of the unfortunate individual. Capitalism, therefore, recognises the individual and neither society nor state. Government intervention in capitalist societies, in most cases, has, unfortunately, been in the form of a catalyst for the fulfilment of the wills of individuals, regardless of how ethical or unethical they are. The individual in capitalistic economies is the sole actor in the economic scene, and among individuals, the consumer, the one who has money to spend, is sovereign. He is the king and the one who owns the world and governs and rules the rest. He has the right, the power and the authority to use the world, its utilities, including people, in whatever way he desires. Adam Smith's invisible hand is the harmony between private interest and public goods (Adam Smith 1977, 20 in Chapra 1992, 29) which practically results in social Darwinism, which perceives life as a competitive struggle where the fit survive and those who are unfit do not. Furthermore, the analysis of chapter four showed that capitalism, through the institution of individualism and self-responsibility, eliminates public control in society which, in turn, causes many unfavourable consequences.

Islamic Economics, on the other hand, recognises all three; individual, society and state alongside each other and complementary to each other. Capitalism, however, aims to divide communities and families into isolated individuals to increase sales (especially of those items which cannot be sold to families⁸) for the sake of profit. Islam, on the opposite side, encourages the cohesiveness of families. The consumer in IE is the family rather than the individual.

⁸. Like alcoholic beverages, sexual magazines, etc.

Society, in Islam, consists of individuals who have equal rights because they are God's vicegerent; entitled to real well-being through the satisfaction of both spiritual and material needs (Chapra 1992, 6). The fact that both have mutual rights and responsibilities to each other makes society provide welfare and suitable conditions an atmosphere for individuals to fulfil their vicegerency responsibilities, and makes individuals abstain from any harm to society and its members. The fact that Islamic society, better known as *Umma**, rests on the basic principle of mutual respect between Muslims themselves, between society and its members and between society and the Islamic State prevents economic inequalities and excessive differences in welfare and standard of living. It also prevents harm to society, the environment, the ecosystem, and the committing of other kinds of SRA and SA issues.

The fact that freedom of the individual in Islam, as opposed to absolute freedom of the individual in capitalism, is not independent of its social consequences and rights of society, balances the right of the individual to profit and the right of *Umma** to a sustainable welfare. Whereas, potentially, conflict, may arise between absolute freedom of the individual and the welfare of society in capitalistic economies.

While the institution of *laissez faire* in capitalism leaves the hands of the materially self-interested individual open to use scarce resources and other scarce utilities of the world according to his will, *Shari'a** allows the Islamic State to interfere and control wherever needed⁹ (Hosseini 1992, 111). Both State interference and control are complementary to the individual's freedom in Islam, which is a conditional freedom. Whereas, capitalism holds that state interference and control limits the individual's freedom. This concept is, of course, true within the assumptions and principles of capitalism since government intervention prevents the individual from doing what they want - or from committing SRA and SA issues.

⁹. Though this interference will be very little if all institutions of Islam are practiced.

The difference between the control mechanisms of IE and western capitalism is another advantage of IE as related to SRA and SA. Capitalistic economies depend on external control by state agencies, which has proved to be inefficient and unsuccessful (Preston, 1993¹⁰). Islam emphasises purifying and educating Muslims, which establishes a self-control mechanism by strengthening conscience. Islam is also equipped to a public control mechanism by declaring *Amr bil Ma'roof* (commanding others to common good) and *Nahy anil Monkar* (preventing others from doing bad deeds) as religious duties. By means of these two institutions and the State control mechanism of the *Hisba* Agency the social behaviour of Muslims is controlled and social costs and externalities prevented.

Sovereignty

Capitalism's belief in the sovereignty of the consumer directs the resources to the production of goods and services consumers demand. This eventually results in the satisfaction of unnecessary and luxurious wants of the rich class of people and leaves the basic needs of the majority and the poorer class unfulfilled. This in turn results in tension and other unfavourable outcomes, as analysed previously. Competition has tended to meet these wants of consumers. To compete for more profit results in the rapid exhaustion of resources, more pollution, discharge of more waste into the environment and more damage of the ecosystem, all of which reduce human welfare and threaten the sustainability of life.

IE, on the other hand, attributes potential sovereignty to any Muslim who stays in line with *Shari'a*, rather than recognising sovereignty in the consumer only. Therefore the difference, from an SRA and SA point of view, is obvious. While the institution of sovereignty in capitalism leads to awful SRA and SA issues, the opposite is the case in IE.

¹⁰ Personal discussions with Professor Alistair Preston of the University of New Mexico, USA on his visit to the University of Wollongong in 1993.

Competition

The pioneers and proponents of capitalism were enthusiastically attracted by the benefits of capitalism. The exercise of "competitive capitalism" in Friedman's words (1962, 13 in Marginson 1992, 40), or "monopolistic competition" in Gianaris' expression (1993, 19) resulted however in a number of unfavourable outcomes of competition. According to CBHU examples of these harmful effects are:

- A decline in ethics - as manifested in obstructing by some businessmen their competitors' initiatives, or perceiving their own gain at the cost of other people's loss and vice versa,
- Employment of unrealistic and fanatic destructive advertising and marketing techniques -as manifested in making unrealistic advertisements for their own benefits and spreading rumours or doing deceptive advertisements against their competitors,
- Shifting of production toward unnecessary goods and services [as a result, inefficient and inappropriate allocation of resources],
- Elimination of smaller competitors as well as the establishment of monopolies (CBHU 1993, 147).

All of these unfavourable outcomes eventually resulted in externalities and social costs, reduced peoples' welfare and caused SRA and SA issues, which are greater than the benefits of competition. According to Samuelson : "*Laissez-faire* perfect competition could lead to starving cripples; to malnourished children who grow up to produce malnourished children; to perpetuation of Lorenz curves of great inequality of income and wealth for generations or forever" (Chapra 1992, 38).

Islam, on the contrary, commands Muslims to compete in the common good¹¹, to cooperate with charity and piety, and prohibits them from cooperating with sin and hostility¹² involving *Haram* (unlawful), *Zarar* and *Zirar* (harm) and any evil in the process of competing as well as in other areas of life. These commandments and enjoinders make competition in Islam free of destructive consequences and different from the capitalistic style of competition.

This comparison is summarised in Appendix H.

¹¹. 2:148, 3:114, 5:48, 21:9, 23:61

¹². 5:3

In summary, the comparison of the consequences of the exercise of the capitalistic economic system with the IES, as previously analysed, leads to the following conclusion. On the one hand, submission to materialism/capitalism and the exercise of capitalistic economic systems has sometimes ended in highly unfavourable results. The reduced welfare of humans due to the micro or local/regional level socio-economic ills as well as the macro or global/universal level environmental and ecological problems resulting from the exercise of capitalistic economic systems necessitates a rethinking of the way in which people live and their socio-economic behaviour. The problems of recent decades is a serious warning that production should no longer be guided by its exchange value and profit, *per se*; but rather, social needs and the use value of production must be the criteria for allocation of scarce resources. That is, the interests, welfare and sustainability of nations and generations should not be traded off with the unlimited and unfettered welfare of those who act on the basis of their wants and spirit of lasciviousness.

Examples of micro-level consequences of the exercise of capitalistic economies are: decline of business ethics, the fall of "public good" into disfavour (Marginson 1992, 1); the production and sale of low quality products (Frey 1989, 64); greedy exploitation of labour (Motahhari 1981, 113) and natural resources; production and sale of harmful products like cigarettes, alcohol, heroin and other similar narcotics and intoxicants and selling them in an unfair way by addicting people and disintegrating families; unethical business practices like dumping, making monopolies, monopsonies, trusts, holding companies and cartels in destructive competition; and production and sale of luxurious and unnecessary products (Okun 1975 and Schnitzer 1991, 78). The way in which unnecessary products are advertised and the way in which the consumers are informed (indeed misled) are still other examples of the exercise of pure material incentives.

Though it is a very thin point, it is still an unpleasant fact that, as a result of material incentive, production and advertising of many unnecessary products, besides using-up scarce resources, uses money and the opportunities of consumers, and surpasses the fulfilment of basic human needs. This causes tensions and imbalances, which in turn results in many psychical and social ills and imbalances, as will be discussed here.

The tension between enhanced material affluence and social risk, dramatically negative social developments, increased unemployment and distributive injustice, inhumane standards of living, the exploitation of limited economic resources through military expenditure as well as extensive damage to mankind's natural living conditions (Steinkuhler 1991, 283) and the like provide still more bitter facts about the deteriorated socio-politico-economic picture of capitalist societies. On the non-material side of the coin, lack of inner contentment in the life of individuals as evidenced by such anomies as a rising level of stress, tension and strife in human affair, accompanied by an increase in all the symptoms of anomie, such as frustration, crime, alcoholism, drug addiction, divorce, child battering, mental illness and suicide (Chapra 1992, 2), all depict an unfavourable picture of human life in western capitalist societies. The trend analysis shows still more worrying horizons for human welfare and the continuity of human life on the planet.

Examples of macro-level unfavourable consequences of submission to capitalism and the exercise of capitalistic economic systems are: the greenhouse effect, the global warming of the planet, thawing ice in the Poles and rise of sea levels, ozone layer erosion, acid rains, soil degradation, deforestation, annihilation of species of wildlife, birds and aquaculture and so forth, all of which are threats to the sustainability of human life on the planet.

Due to these and many other tremendously destructive effects in the economic, social, psychological and cultural foundations of societies, capitalism is known as "economic

dictatorship" (Motahhari 1991, 222) or "a religion of money ... dictatorship" (Manna 1986, 310).

The IES, on the other hand, is absolutely free of these unfavourable consequences. Continuous spiritual, moral and ethical teachings illuminate and direct Muslims' behaviour at any level of their personal, social, economical and political life, which guarantees the sustainable welfare of human generations.

Based on this conclusion, a few questions can be posed here:

- Is the IES only a theory or is it applicable in the real world?
- What is the state of the art in Muslim countries?
- If it is applicable in the real world, has it passed the test of applicability at all? And if it has passed, how?
- Is Islam (and IE) capable of solving the problems of our present age?

These will be analysed next.

Is the IES only a theory or is it applicable in the real world?

It was argued in the analysis of the last section and in chapter five that IE is a system which is internally consistent and externally valid. External validity of the system is implied, or is inferred from, its applicability. That is, the IES is not only a theory, but rather it is the most complete economic system. IE guarantees sustainable development, welfare and prosperity of mankind. The unpleasant appearance of Islamic societies does not represent Islam and the IES. The economic failure of Muslim countries cannot be attributed to Islam itself, but rather to Muslims. IES has passed the severe test of applicability very successfully, as will be discussed later in this chapter. Islam and IES is capable of solving the problems of our present age as well as the problems of the ages to come.

Islamic Economics in Practice:

The state of the art in Muslim societies

For the non-Muslim people as well as the Muslim youth it may seem that the current Muslim world represents the Islamic society. This is not the case in practice. Islamic societies have been influenced by non-Muslim secularist ideologies throughout history. As a result, the social, economical and political systems of Muslims are not Islamic. Presently Muslims suffer from almost the same burdens that the secularist non-Muslims do. They are in need of a solution to their problems as are the western capitalistic countries.

Until the fifteenth century Islam ruled more than half of the world (CBHU 1982, 5) and until to the first world war it was the dominating power in the world. Since then, as Chapra stated:

Unfortunately, because of a number of historical factors, two of which are the decadence of Muslims and their consequent subjugation by imperialist forces, both capitalist and socialist, there is a wide gulf between the *Shari'ah* and the actual practice in Muslim countries. The Muslim society does not reflect the spiritual lustre of Islam and, in fact, among a vast majority of the society, there is not even an awareness of the necessary characteristics required of the Muslim or of the Islamic society. The dominant ideology in Muslim societies is not Islam but rather secularism along with a mixture of feudalism, capitalism and socialism. The Islamic economic system does not prevail in any part of the Muslim world. The Muslim countries have been trying to solve their economic problems through policies developed within the secularist perspective of the prevailing systems. Their problems have become aggravated and they have moved farther and farther from the realisation of the *maqasid*. Despite a rise in gross domestic products, poverty has not declined; rather it has risen. Inequalities of income and wealth have also worsened, and the basic needs of their people remain unsatisfied. The public sector budgetary deficits have risen, as have balance of payments deficits and external debt, and the threat of inflation persists." ... "Why is this so, and can Islamisation (reconstruction of the economics of Muslim countries in the light of Islamic teachings) be helpful (1992, 9)?

The glory of Islam has, unfortunately, faced a declining phase. Like other affected nations, Islam was also affected by the famous thesis of "Divide them, then govern them". The so called nationalism thesis divided the strongest power in the world, the Islamic *Umma*, into so called countries separated by geographical and racial boundaries (Motahhari 1989, p 92).

Khorshid Ahmad (1982, 28) appraised the development policies in the Muslim countries as being more or less Islamic neutral. He attributed the existing situation to their departure from Islamic teachings at the individual or systematic level. Akram Khan (1989, 285) further argued:

It is astonishing to see that Muslim economists have paid only scant attention to such a vast portion of the Qur'an and the *Sunnah*. They have failed to determine precise meaning of these concepts, explore the relationship of these beliefs and values with the economic theory of Islam, or try to structure a design for the Islamic economy that can be deduced from these basic and general principles.

The analysis of the last section compared Islamic Economics with western capitalism and revealed that Islam guarantees the sustained welfare and prosperity of peoples. However, the Muslim world faces the same social, economical and political problems as the rest of the world. Chapra (1992, 2) described the conditions in the Muslim world as follows:

Muslim countries ... are in state of turmoil, like the rest of the world. Poverty and inequalities have become more marked: while even the basic needs of a considerable proportion of the population remain unsatisfied, the rich and upper middle classes live in great affluence. The existence of poverty alongside affluence tends to corrode the fabric of brotherhood and social solidarity and serves as one of the prime causes of crime and violence, social unrest and political instability. Most of these countries are also beset with extremely difficult macroeconomic imbalances. This failing on the part of Muslim countries is all the more serious because Islam places an uncompromising emphasis on human dignity, brotherhood and socio-economic justice, which will remain an empty slogan until all the essential elements of well-being are secured.

Muslims, unfortunately, are not an *Umma** at present. They do not act on the Qur'an and Sunna. An Islamic State is one "which believes in and applies Islamic injunctions and teaching in all spheres of life (Abu- Saud 1982, 265).

Applicability of the Islamic Economic system (IES):

That Islam captured more than half of the world in less than half of a century after it first emerged in the early 7th century AD and that Islam was the dominating power in the world until the first world war indicates the practical applicability of Islam and its economic system (ES). Contrary to the present status of the Muslim countries, Islamic principles, institutions and traditions were generally accepted and applied all over the

Muslim world before it moved into a declining phase. Reference to the experiment of the holy Prophet Mohammad's (P.B.U.H.) government in Madina*, was a wonderful real-world story, which proves the applicability of Islamic ideas as a whole and the IES. Economists, politicians, law-makers, management scientists in particular and others can realise its practicable pattern and that it is a model of society based on fair-play. The next section provides an overview of the story from an economic perspective.

The Holy Prophet's Government in Madina*

Three years after he became a Prophet *Hadhrat* (his excellency) Mohammad (P.B.U.H.) was asked by God to invite people to Islam openly. Previously, inviting people to Islam was hidden. The news of this new religion spread in Makka*¹³ and its surroundings very rapidly. Every body became aware of this new religion. The susceptible persons, the slaves, the deprived, the destitute, the needy, the poor and the oppressed classes of people eagerly welcomed Islam and accepted it as their religion without any hesitation. The majority of the early Muslims were economically poor, but they adopted the golden principle of brotherhood, affection and sacrifice. They helped one another in all walks of life and shared their economic resources. Whatever they had they distributed among themselves.

On the other hand, the rich and those who obtained their wealth and power by unfair means felt Islam, this new religion, was a threat against their personal interests and started opposing it. They started teasing the Prophet (P.B.U.H.) and his followers. The Muslims, at that time, were in a very miserable condition politically and economically. They had to face an economic boycott from the whole non-Muslim community for three consecutive years in a valley outside Makka*¹⁴. In the 6th year of the beginning of Islam some of the Muslims migrated from Makka to Habasheh due to harsh conditions and the pressure of their enemies. In the 13th year of Islam the enmity reached the extent that

¹³. 'Makka*' is sometimes written as 'Macca*'.
¹⁴. The name of the valley is *shea;b AbiTalib*.

the disbelievers (*Koffar*) planned to murder the Prophet (P.B.U.H.). On the night of the plan, the Prophet (P.B.U.H.) together with three of his companions left Makka* to Yasrib¹⁵. Some of the Muslims had already migrated to Yasrib. The people of Yasrib launched a warm welcome for the Prophet (P.B.U.H.) and his companions. Later, the rest of the Muslims of Makka* joined them. They left Makka* because of the strong pressure of their enemies, leaving their property and their families and all their belongings in Makka. These Muslims were called *Muhajirin* (migrants).

According to the story so far, they were economically poor, but they were united firmly due to their strong *Iman* (faith) in Islam. They shared whatever they had, and they also shared their poverty.

These being the conditions, they attained a very good financial and economic position and status within only a few years under very tough political conditions and while fighting frequent battles with their enemies. They had a surplus in their budget¹⁶ and no poverty among them. How they obtained such good social and economic condition within a short term, in lawful ways and under politically bad conditions, is itself a very interesting story.

The *Muhajirin* were so poor that they did not even have shelter. They used to stay overnight at a platform which was built next to the mosque (Shahidi 1983, 50 in Sadr, p 27). People in Yasrib welcomed *Hadhrat* Mohammad (P.B.U.H.) and *Muhajirin* warmly. They even changed the name of their city to *Madinat-unNabi* (briefly Madina*) which means "The City of the Prophet".

As a result of the holy Prophet's policies and bold actions, the welfare of the Muslims gradually improved. Within a few years all of the *Muhajirin* had the basic amenities of life, food, clothing and shelter. In 2 AH¹⁷ the verses about *Khoms* (an Islamic tax) were

¹⁵. This historical event, called *Hijra** (migration), is the beginning of the Islamic calendar (the Islamic epoch).

¹⁶. Perhaps this was the first official budget and budgeting in history. For those interested in the history of the evolution of public finance and budgeting, this can be a rich source for conducting research.

¹⁷. A. H. Stands for "After *Hijra**", after the migration of the holy Prophet (P.B.U.H.) from Makka to Yasrib.

revealed. Whereas the payment of *Zaka* previously was voluntary, it became mandatory in 7 AH because of the improved financial status of the Muslims. People had savings and they paid *Zaka*. The needy were given financial assistance out of *Zaka* funds. Some of the holy Prophet's (P.B.U.H.) policies and actions were as follows:

- To establish social, political, legal and defensive security required for training a Muslim generation.
- To substitute the values and beliefs remaining from the pagan state of the Arabs before Islam with the Islamic values.
- Creating a social and political atmosphere required for building Islamic culture, enforcing justice and erasing the pagan state of the Arabs.
- Regulating ownership rights, ownership of natural resources, the way of utilising them and business.
- Regulating trade laws and the distribution system.
- Arranging Islamic forms of partnership; namely, *Mozara'a**, *Mosaqat*, *Modaraba**, *Ijara**, *Jo'aala** and *Bey'a*.
- Defining the rights of Muslims and non-Muslims.
- Defining the rights of individuals and society.
- Preventing unfair means and income; that is, "*eating in vanity*", through defining pious actions (such as cooperation) and unpious actions (such as: usury, hording, low-weighing theft, usurption, extortion and conducting unlawful transactions).
- Preventing disorders in the system.
- Providing the incentives and potential for production and occupations, such as providing tools, instruments, taking action to raise income and the productivity of labourers and preventing monopolies.

- Establishing of the brotherhood between *Muhajirin* and *Ansar* through which the *Ansar* shared their property with their *Muhajir* (migrant) brothers, who were poor.
- Defining business partnership agreements (*Muzara'a** and *Musaqat*) between *Muhajirin* and *Ansar* which resulted in growth in production and productive activities. Increase in the employment of the *Muhajirin*, increase in the productivity of cultivated lands, enhancement of interest in cooperation, creation of a favourable atmosphere and stabilisation of ownership rights. Meanwhile, a favourable distribution formula was applied and the *Muhajirin* learned agricultural skills.
- Teaching people how to read and write.
- Educating people and preaching Islam.
- Propagating Islam and advancing Islamic culture and values.
- Promoting social sciences.
- Planning for cooperation and public activities.
- Increasing the efficiency of the work force through specialisation and division of labour through a suitable organisation.
- Preventing conflicts and resolving them immediately.
- Establishing infrastructure foundations, like building markets, roads, pavements; establishing post, security and defence fortifications.
- Training workers.
- Strengthening the defensive position of Muslims.
- Enacting laws to protect orphans' property.
- Insisting on the payment of *Zaka*
- Solving the accommodation problems of *Mohajirin* by providing land for housing. This gave rise to the construction industry.

- Inviting craftsmen to Madina* to teach the new skills and technology to Muslims and eliminating any monopolies in technology.
- Making Muslims self-sufficient by raising capital through *Modharaba**; eliminating monopolies; encouraging business, hiring and employment; as well as preparing tools for businessmen and farmers.
- Establishing a *Beit-ulMal* (treasury) which was centred in the mosque. The income sources comprised of *Khoms*¹⁸, *Zaka*¹⁹, *Jiz'ya**²⁰, *Khiraj*²¹, *Kaffarat* (expiations and redemption) and infringements. The mosque was a place for praying, meetings, debates, consolation as well as the headquarters of the army. Financial organisations, like other organisations, were simple, flexible and without bureaucratic monopoly. Later on as the Islamic State expanded, local treasuries were established in the provinces. *Khoms* and *Zaka* served as economic stabilisers and *Khiraj* as a tool for implementing deflationary and inflationary policies. Each item of income was to be spent for specific purposes. There was no budget deficit and sometimes there was a surplus.
- Sending missionaries to propagate Islam and for educational and guidance purposes.
- Appointing judge(s).
- Appointing clerks and writers.
- Appointing someone (Bilal) to investigate the living conditions of the poor and the destitute and provide them with food and clothing. For this purpose borrowing was permitted if the treasury did not have enough money.
- Accepting gifts and presents.

¹⁸. *Khoms* was set in 2 A.H.

¹⁹. *Zaka* was set in 8 A.H.

²⁰. *Jiz'ya** is money received from non-Muslims living within the realm of Islam as the price of social and economic security and other services provided to them by Islam. It is set in 7 or 8 A.H.

²¹. *Khiraj* is the rent of public-owned and other lands. It is set in 7 A. H.

- Establishing an efficient system for allocation of resources and an equitable system for distribution of income.
- Balancing supply and demand.
- Establishing social justice.
- Planning economic development and improvement policies as well as protective policies.

Submission to the Islamic worldview and its belief principles served as a source of evolution of new incentives for economic activities within the new society. Belief in *Tawhid*, *Risala** and *Ma'ad* resulted in those economic activities which guided Muslims to the acquisition of God's satisfaction²². Therefore, the holy Prophet, through the divine education, changed the thinking style and worldview of the Muslims as well as directed their behaviour and actions according to the Islamic Injunctions. Some of these teachings are as follows:

Worship Commandments

New Obligations:

- Necessity of doing good to parents.
- Necessity of charity to relatives and neighbours.
- Necessity of being faithful to promises.
- Necessity of defending non-Muslims.
- Declaring killing of human beings unlawful.
- Declaring killing of female babies unlawful²³.

Preventing depression

²². 2:207 and many other verses.

²³. The pagan Arabs before Islam used to kill their daughters (bury them alive) because they believed that to have a daughter is shame and disgrace for a family.

- Declaring fornication unlawful.
- Declaring oppression unlawful.
- Necessity of exercising justice.
- Necessity of being honest in measuring and weighing the things in business.

Banna Razavi (1988, 46) has summarised the policies and actions of the Prophet (P.B.U.H.) in the table which appears in Appendix G.

Are Islam and Islamic Economics capable of solving the problems of our present age?²⁴

This section will answer the above question in the following form: "With regard to the changes of societies and vicissitudes of life and the fact that Islam was revealed fourteen centuries ago, can Islam solve the problems of this and any other age?"

With regard to space limitation a brief answer to the question appears here. A thorough answer, however, appears in Appendix H.

This question rests on two underlying reasons, first unfamiliarity with the facts of Islam and secondly, not distinguishing between the elements of improvements and advancement of time and the deflectional events (Motahhari 1989, 11). Islam has both eternal and non-abrogable laws as well as a flexible rule-making system. The combination of these two elements makes Islam both solid and flexible and therefore strong, up-to-date and respondent to the problems and emerging phenomena of each age. One the other hand, not all of the emerging phenomena are favourable for people to adopt. Some of the emerging phenomena may be unfavourable which requires resistance rather than adaptation. Confusion may occur both between the unchangeable principles and the flexible rule-making system of Islam as well as between the favourable and unfavourable phenomena and changes through time.

²⁴. This section has, mostly, benefited from Motahhari 1989.

Islam aptly blends rigidity with flexibility which is inherent in its rule-making system. This is what the seal of the divine religions should be. While the framework is made fixed and eternal by major principles and a set of primary ordinances, flexibility within the framework is built in by the provision of *Ijtihad* (exegesis of divine law on matters of theology and law). *Ijtihad* means the significant skill of matching a new phenomenon with the sources and bases of rule-making in Islam (Motahhari 1989, 148).

Islam is the middle and straight way. It states that the lapse of time cannot change every thing in the world nor can every thing remain unchanged throughout time. The relationship of man with nature, for instance, changes as a function of his ingenuousness, knowledge and understanding of nature. The tools and techniques man has employed at different ages indicates this claim. The relationship of humans to each other, however, does not change with time. The distribution discourse, as an example of this kind of relationship, has always existed, regardless of the means or methods of production.

For this reason Islam believes in the necessity of some permanent principles and unalterable commandments as well as the necessity of the existence of a rule-making system capable of making rules suitable with, and respondent to, the demands of each age.

The question at the outset of this section, then, emanates partly from the unfamiliarity with either the totality of Islam or with its rule-making system (*Ijtihad* in Islam) and partly from the confusion between the favourable and unfavourable phenomena and changes of age. Mannan similarly referred to this issue by stating:

This conception arises out of a lack of proper appreciation of Islamic values and life philosophy. The fact is that Islam is the only religion which has enunciated the basic principles covering all aspects of human life, not to speak of economic values only. ... these principles are universal and fundamental, valid for all ages ... Islam has laid down a broad framework based on equality of economic opportunity and justice for its followers to guide them in the course of their normal economic life. The derivation of microconceptions through the exercise of *Ijtihad* from within this broad framework has been permitted. This provision for the application of *Ijtihad* is indicative of Islamic dynamism in the economic sphere of life. ... Islam has provided us with a number of broad principles ... If they are properly implemented, many of the present-day difficulties in handling problems ... will disappear (1986, 146).

Ijtihad is a technique through which any new phenomenon is matched against the Islamic principles, then an opinion is expressed based on this analysis and many other considerations. It is important to note that *Ijtihad* has, however, a limited realm and cannot be exercised for the fixed and eternal principles. As noted by Sadr:

Any act in Islam falls into one of the three major categories of *Halal* (lawful), *Haram* (unlawful) and *Mubah* (undetermined, neutral). The *Halal* acts are made lawful and the *Haram* ones unlawful for ever [Al-Muzaffar 1983, 4]. These are commonly called the primary commandments. There are, however, acts about which Islam has not expressed an opinion primarily. These are commonly called *Mubah* acts. The limits of "The Realm of Freedom of Legal Opinion" which determines the frame of the rule-making authority of the Islamic State is limited to *Mubah* acts only. The Islamic State may declare either lawful or unlawful, as a secondary commandment, only any action which is not either banned or declared obligatory before. The commandments of the Islamic State should not, of course, contradict God's commandments and the general laws (1969, 316).

Sadr (1969, 312) uses the phrase "The Realm of Freedom of Legal Opinion" to refer to this rule-making system of Islam, which keeps Islam an up-to-date religion in all ages and respondent to the demands of each age.

It follows, then, that Islam is equipped with a built-in and powerful rule-making system. This system is capable of determining the demands of each age, distinguishing between the favourable and unfavourable phenomena and demands, and making rules suitable and respondent to the demands of all ages. The rules, certainly, declare lawful the adopting of any favourable phenomenon and unlawful the adopting of any unfavourable phenomena. Differences in the criteria of judging the emerging phenomena and the changes in societies as favourable and unfavourable may lead to a hesitancy in the capability of Islam for solving the problems of our present age.

Summary and Conclusion

The analysis of this chapter reveals that, contrary to its proclaimed objectives, capitalism has been unsuccessful in solving the economic problems of humans and providing welfare to societies. Furthermore, it has caused an enormous amounts of social, political, economic, environmental and ecological problems. Not only have these problems reduced human welfare and prosperity, they have, to a great extent, threatened

the continuity of human life on the planet. Although communism had similar consequences, the analysis in this chapter focussed, mainly, on the welfare reducing and sustainability threatening consequences of capitalism.

The underlying reasons for this practice, according to the analysis of this chapter, have been the inherent inconsistency between its goals and its worldview and strategy as well as the external invalidity of the principal tenets of capitalism. According to Chapra:

Unless the worldview and the strategy of a system are in harmony with its professed goals, the goals cannot be actualised ... Systems which reflect an inherent inconsistency between their goals and their worldview and strategy are unable to bring about the fundamental adjustments in the life-style and the structure and organisation of their economics. They are therefore crisis-prone. People living in such systems cannot but be the victims of false promises - promises that cannot be fulfilled, no matter how many minor adjustments are made. Such minor adjustments do not penetrate to the root of the problem. They address merely the symptoms of the inconsistency but fail to achieve consistency between the worldview and strategy and the goals. The problems therefore appear in a different form, more serious and more aggravated each time (1992, 4).

The analysis of the chapter showed entirely contradictory results in appraising the Islamic Economic System (IES). It was concluded that Islam guarantees the welfare and prosperity of societies, subject to its complete application. The analysis did not accept the existing conditions of Muslim countries as representing Islam and Islamic *Umma*. Muslim countries are also affected by secularist ideologies and are well in need of reconciliation with Islam.

The last parts of the chapter were devoted to answering the questions of whether the Islamic Economic System is a theory, whether it can be put into practice and whether Islam has the capability of solving the problems of our present age. Reference was made to the real-world example of the government of the holy Prophet Mohammad ^(P.B.U.H.) in Madina. The fact that Islam was revealed in the ethically poorest part of the world - where there was pride in plundering and people used to bury their female children alive - evolved the styles of thinking and living of people, spread in less than half of a century to more than half of the world and was the dominant power in the world until recently all indicate the potential of Islam in practice. The analysis also revealed that Islam is equipped with a built-in rule-making system which keeps it up-to-date and makes it capable of solving the problems of humans forever.

CHAPTER SEVEN

Summary, Conclusion and Extension

Introduction

This thesis attempted to investigate the role of accounting in solving and curing the social, economical, environmental and ecological ills of societies. These ills and problems fall into two major categories. Those which have a social and economic aspect fall into the realm of *social responsibility accounting* (SRA) and were analysed in chapter two. Those which have environmental and ecological aspects are in the domain of sustainability accounting (SA) and were analysed in chapter three. Arguing that these ills and problems are rooted in a materialistic worldview, adherence to capitalistic ideology and the exercise of western capitalist economic systems, chapter four was devoted first to critique of capitalism then some proposed alternatives and the extent of their success in curing the social, economical, environmental and ecological problems within the SRA and SA framework. The analysis of this chapter revealed that not only are capitalism and its proposed alternatives incapable of solving these problems, they have even been the major causes of them. The strong need of societies, present as well as future generations, for a sound economic system was highlighted, and Islamic Economic System (IES) was introduced as the final answer. Therefore, chapter five was devoted to the introduction of IES from the stand point of its relevance to SRA and SA. Chapter six compared IES and capitalism and the effects of each system on the social, economical, environmental and ecological issues which adversely affect human welfare and sustainability.

Environmental Degradation

Chapter two analysed social costs and externalities imposed on societies due to the undesirable activities of corporations. The magnitude of the imposition was highlighted by reference to the most common examples of the social and economic ills within the

SRA framework such as air, water, noise, heat and soil pollutions; oppression, injustice and unfairness resulting from discrimination; unsafe working conditions; production and sale of unsafe/faulty products; and mineral exploitations, land distractions, etc. Other types of issues falling within the SRA framework were highlighted by references to such catastrophes as the leakage of toxic gas from the Union Carbide plant in Bhopal, India; the explosion of a nuclear reactor in Chernobyl, in the then Soviet Union; the collapse of a coal mine in West Virginia, USA; the discovery of a 15-year-old chemical spill at the Cambridge, Ontario Plant of Ciba, Canada; and the leakage of 50 million litres of oil into the sea as a result of the 'Exxon Valdez' tanker striking a reef. All of these resulted in the loss of numerous lives and millions or billions of dollars of nations' wealth.

Short-term as well as long-term adverse effects of the social costs and externalities, the analysis showed, are in the forms of loss of lives, loss of welfare and enjoyment, being threatened by actual or potential diseases, damages to fisheries, aquaculture and seafood sources; agriculture; loss of the beauty of buildings, art works and cultural heritages; aesthetic and recreation and so forth. Public awareness of the effects of the social cost on their welfare required corporations to feel responsible and to behave responsibly. The response of the accounting discipline to the demands of the time was the establishment of social accounting. Chapter two then classified various types of social accounting and then concentrated on corporate social responsibility accounting (CSRA), the most frequently occurring form of social accounting. The objective, the *raison d'être*, the definitions and the problems involved in the measurement of CSRA also were analysed.

Chapter three argued that, as a result of the acceleration in the adherence to materialistic worldviews, greed in increasing secular welfare and the resultant exercise of capitalistic economic systems, corporations did not accept the full responsibility of taking actions required to correct the consequences of their actions on societies. As a result, the socio-economic ills of the 1960s and 1970s resulted in the macro or global/universal level disasters. The neglect of corporations to take seriously their adverse effects on public

welfare together with such political events as the election of the Conservative Government of Thatcher, which "sought to emphasise the importance of wealth creation in the context of a relatively unfettered market economy" (Hines 1991, 38), further accelerated self-seeking economic behaviour and the exploitation of natural resources. This unfolded a new page in the history of social unrest, much more serious than ever before.

While the initial SRA issues are of a local/regional dimension, adversely affecting the welfare of members of societies at local/regional levels, the social unrest issues of the 1980s and 1990s are of macro-global/universal dimensions, not only threatening social welfare but rather questioning human sustainability on the planet. The magnitude of the threatened sustainability was highlighted by such phenomena as the greenhouse effect, the global warming of the planet, thawing of ice in the Poles and the rise of sea levels, ozone layer erosion, acid rains, soil erosion and degradation, deforestation and tropical desertification, species annihilation, loss of wild life and bio-diversity, habitat destruction, air pollution, water pollution, land pollution, noise pollution, heat pollution. Energy usage, resources scarcity, depletion of fishing stock, inequality, population, ethnic peoples, poverty and starvation, third world debt, waste disposal, litter and rubbish, decline in the planet's waste-sink-absorption capacity, water depletion, toxic chemicals, nuclear waste, radioactive waste, insecticides and fertilisers, oil spills and coastal degradation, drinking water quality and loss of green belts, an accelerating rate of increase in technological catastrophes and scientific ignorance, pressure on water resources were further examples to highlight the magnitude of the threatened sustainability. Chapter three also argued that unless immediate corrective actions are taken humans are approaching the threshold of "an inevitable slide to disaster" (Jacobs 1993, 3) with an accelerating pace.

Accounting and Capitalism

The accounting discipline, according to this analysis, has contributed to these socio-economic and sustainability threats through supporting the antisocial (and possibly

unethical and immoral) behaviour of business corporations by its silence (Rubenstein 1990, 40) as well as by depicting an incomplete and distorted picture of the enormous effects of entities on societies and the biosphere (Stone 1991, 14). However, it can contribute significantly to the solution of the problem (Stone 1991, 14). Therefore, there is a strong need for the involvement of the accounting discipline, as the most powerful informational element of (managerial) decision-making, and accountants, as the stewards of resources and the trustees of wealth of nations.

Following the generally accepted need for the replacement of the "(Environmentally/Ecologically) Sustainable Development" (ESD) with the traditional concept of economic development (ED) and the "green movements", this analysis argued for the necessity of the replacement of the traditional accounting systems with the "Sustainability Accounting" (SA). The chapter continued with the analysis of theories and principles of SA as well as the underlying worldview. The underlying worldview argued for the recognition of a returning point from sustainability back to (feeling more) social responsibility.

The analysis introduced the dominance of materialistic worldviews and the exercise of capitalistic economic systems as the major cause of these public welfare-threatening social, economical, environmental and ecological crises. Chapter four, therefore, critically analysed western capitalistic economic systems and the adverse effects of them on social welfare.

The analysis showed that capitalism has not solved the socio-economical ills of societies because it did not delve into the roots of the problems. Nor does its proposed alternatives including socialism. The solutions scratched the surface only. They did not attempt to investigate the underlying reasons of the phenomena - social and socio-economical ills and environmental and ecological problems. Neither did they investigate the shortcomings and inconsistencies of the underlying supporting theories of the misperformance of humans and corporations in western capitalistic societies nor the underlying philosophical assumption of the supporting theories. All of the suggested

solutions serve as the revised versions of "pure" capitalism and do not involve basic changes or deviations from the root. As a result, western capitalist societies are still struggling with their **insurmountable** difficulties. Not only is there little hope of betterment of their conditions, they even get further and further from welfare, prosperity and sustainability with an accelerating pace. Urgent corrective actions are called for.

Especially since the 1980s, the very idea of the "public good" has fallen into disfavour; instead, "greed is good" has become favourable (Marginson 1992, 1). While "equal justice" and "equal political rights" for all citizens serve as the slogans of capitalist societies, yet the exercise of capitalistic economic systems and dependence on the market has left these societies with very inhumane experiences. Sadr (1981, 284) appraised capitalism as the "law of the jungle" which can work only under its own tenets. He viewed such capitalist theories as "The Iron Law of Wages" to be very inhumane in that its implicit good news to labourers is:

wait and pray till some of you die from hunger and diseases, because of the freedom you have been given. Then the supply of labour decreases. Only then you can hope for a minimum living prospects (Sadr 1981, 291).

Okun (1975, 1 and vii) encapsulated the ultimate result of the exercise of capitalism as "find a job or go hungry"; that is, "succeed or suffer", a degree of deprivation that conflicts with the democratic value of human dignity and mutual respect as well as with the so called democracy slogan of capitalism. Such is the double standard of capitalist democracy. And how then does capitalism survive in democracy? As Mooney (1992, 167) stated "the tremendous inequality of wealth generated by modern capitalism impedes the possibility of political equality and makes the relationship between contemporary capitalism and democracy problematic".

Masked in such an illusive objective as greater and growing GNP and other similar indices, substantial disparities in living standards and material welfare among citizens of capitalistic societies are indications of "tensions between the political principles of democracy and the economic principles of capitalism" (Okun 1975, vii). As Samuelson has pointed out:

Laissez-faire perfect competition could lead to starving cripples; to malnourished children who grow up to produce malnourished children; to perpetuation of Lorenz curves of great inequality of income and wealth for generations or for ever (in Chapra 1992, 38).

While some big winners of market rewards feed their pets better than the loser can feed his children (Okun 1975, 1) and still struggle to acquire more of the rights that are supposed to be fairly distributed, and the so-called losers of the market undergo very inhumane standards of living, the welfare of both is in jeopardy. Social, environmental and ecological catastrophes, according to the analysis in the chapters dealing with SRA and SA, not only reduce the micro-level welfare of people, they also threaten the continuity of human life on the planet. Their welfare is threatened by such problems as worsened economic conditions, as evidenced by the "underground" economy (Dallago 1989, 447), and economic instability, as evidenced by increased rates of unemployment and inflation (Gianaris 1993, 39 and Keynes in Gregory and Stuart 1992, 90) and increased national debts. During the 1980s, the United States of America, the flag-leader and pioneer of the capitalistic economy, became the lead debtor nation (Schnitzer 1991, 107).

Capitalist economists have tried to make the principle tenets of capitalism sacred. The exercise of capitalism, on the other hand, reveals contradictory results. Inequalities in the distribution of income, wealth, and material welfare, economic fluctuations, high rates of unemployment, inflation and national debts, abuse and exploitation of natural resources, increased wastes and emissions dumped into the environment and the ecosystem are only material aspects of the consequence of the exercise of the capitalistic economic system. Non-material, social, psychological and cultural aspects are no less significant than the material ones. The proliferation of consumer goods/services together with the employment of often unethical marketing techniques employed misleads the consumers and results in the emergence of artificially induced needs. Their income becomes spent on the consumption of goods and services which they **do not** really need. Their real needs remain unmet. They are left with their tensions and complexes. Chapra referred to the:

lack of inner contentment in the life of individuals, as evidenced by such anomies as a rising level of stress, tension and strife in human affairs, accompanied by an increase in all the symptoms of anomie, such as frustration, crime, alcoholism, drug addiction, divorce, child battering, mental illness and suicide, all indicating lack of inner contentment in the life of individuals (1992, 2).

These non-material issues are not included in this analysis. The adverse material/economic results of the exercise of capitalism, as they relate to our analysis, are as follows.

Capitalism is subject to criticism in that it has an incomplete concept and definition of the human being. Focusing only on material and safety needs and eschewing the superior needs of human beings not only gives a wrong and incomplete picture of humans, but it also insults them by briefing them to eating and sex: "balley and below" in Motahhari's words (1991, 17).

The exercise of these principles has had a tremendously destructive effect on the economic, social, psychological and cultural foundations of societies. This has caused capitalism to be referred to by some as "economic dictatorship" (Motahhari 1991, 222) or "a religion of money ... dictatorship" (Mannan 1986, 310). These all depict an unfavourable picture of human life in western capitalist societies. The trend analysis shows still more worrying horizons for human welfare and the continuity of human life on the planet.

It has been claimed that capitalism is unable to take society forward beyond a certain stage (Glyn 1988, 638). Some like Schumpeter (1967), Prestowitz (1988), Mancur Olsen (1983) and Mooney (1992) believe in the "creative destruction" of capitalism and look forward to see the end of it. Prestowitz (1988, 4-5 in Schnitzer 1991, 107) held that "the United States in particular and the West in general are in a process of decline" and Schumpeter predicted the end of capitalist civilisation. "[D]eveloped countries are moving out of anything that could be called 'capitalism'" (Drucker 1993, 4). Mooney (1992, 163) argued that:

... capitalism, like all previous socio-economic orders, will eventually be destroyed by the internal contradictions it generates. Reference to the current stage of capitalism as "late capitalism" (eg., Mandel 1978), for instance, reveals a belief in the inevitability of capitalism's demise.

In a similar statement Drucker (1993, 7) claimed: "[t]he same forces which destroyed Marxism as an ideology and Communism as a social system are, however, also making capitalism obsolescent."

Therefore, searching for a better solution to the problems and for a sound alternative to western capitalism is still a continuous effort. The socialist market economy has its own inefficiencies (Mises 1989, 175) and "a post-capitalist society would surely not be a Marxist one. ... [A] Marxist society is the one thing the next society is not going to be" (Drucker 1993, 4). "Both [capitalism and Marxism] are rapidly being superseded by a new and very different society" (Drucker 1993, 7). The question then is whether there is an alternative viable system that reduces or eliminates some of the disadvantages of both extreme economic systems (Gianaris 1993, 39).

What alternative economic system can, then, solve the socio-economic problems of mankind? What will a post-capitalist economic system be like? "What will emerge next" (Drucker 1993, 13). "[A] broader approach to economic problems is called for" (Siddiqi 1982, 164). What are the characteristics of a sound economic system?

A better solution to the problem must be devoid of the pitfalls which caused the failure of capitalism and also be backed by theories consistent with human nature. As stated by Chapra:

The reason behind capitalism's failure to actualise the socially-desired goals is the conflict between the goals of society and the world view and strategy of capitalism. The goals were humanitarian based on a moral foundation: the world view and strategy were social Darwinist. The claimed harmony between private and public interest was based on certain assumptions about background conditions which were false and so unrealistic that they could never have become true. Since these background conditions are not generally spelled out clearly in economic literature, it is not normally realised how their absence is bound to frustrate the realisation of both 'efficiency' and 'equity' in the allocation of scarce resources, defined in relation to the humanitarian goals of society and not social Darwinism (1992, 33).

The sound alternative to western capitalism must, then, be devoid of these imperfections. It must provide conditions in which, if perfectly applied, neither of the unfavourable consequences of capitalistic (or any other) economic system would appear. It should aim to create an atmosphere in which there would be no opportunity for social ills to

develop. Nor should it permit any opportunity for exploitation of natural resources or any damages or unfavourable consequences to the environment and ecosystem. The system must educate and train people to abstain from causing the phenomena which fall into the domain of SRA and SA. The system must be equipped with stronger built-in control devices.

Islamic Economics as a Solution?

Chapter five introduced Islamic Economics (IE) as the sought after alternative for capitalism and the final word in searching for a basic solution to social, political, environmental and ecological problems of mankind, the one which guarantees human welfare and prosperous sustainability. The chapter analysed the basic beliefs, definitions, objectives and features of the Islamic Economic System (IES), a system fundamentally different from the materialistic/capitalistic economic systems.

Institutions of Islamic Economics (IE) form a system which is, in turn, a subsystem of a more complete and perfect system; that is, Islam. The institutions are internally consistent and externally valid. Economics in Islam is not divorced from the other aspects of human life (Jomo 1992, 1). Man is vicegerent of Allah on Earth. Whatever man owns are trusts from God and have instrumental value. The purpose of human life is to fulfil the duties of trusteeship: to have, develop, live and enjoy the world, to help others and live by means of God's bounties, by utilising them in the way prescribed by Allah. The divine pattern given in the Qur'an which is relevant to man's economic activity consists of six principles as follows:

1. The world was created for man to transform; to have and to enjoy.
2. Man is by nature obliged to transform, and entitled to have and to enjoy the world.
3. Man is the rightful owner of the all the fruits of his own work.
4. In the cultivation and harvesting of the fruits of the world, man is to commit no injustice.
5. Man's having and enjoyment of the fruits of the world are to be conditioned by the permanent needs of society.
6. The destitute have a title to some of the goods of the world which are in the possession of the affluent (The Proceeding of TECRCMSAUSC 1968, x).

The way God prescribes for man's economic life (as well as for his whole life) is a moderate way which involves no harm to society, its members, environment, or the ecosystem. A *Muslim* is considerate of the consequences of his actions to others, to society and to its members. He has a strong faith in God, His Prophets and their guidance and in accountability. Faith, from the Islamic perspective, is the most important ingredient of human well-being. It puts human relations on a proper foundation, enabling human beings to interact with one another in a balanced and mutually caring manner to help ensure the well-being of all (Chapra 1992, 7).

Islam supports the idea of economic strength. But Islam believes that economics is not the ultimate or the only objective. Rather, it believes that Islamic objectives will not be attained without sound economics. Islam perceives economics as a pillar of social life. Therefore, it does not damage the other pillars for the sake of economics. Islam holds that an income's source should not be an individual's wants and demands; but rather, it believes in the conformity of the individual's wants and public interests (Motahhari 1991, 26). It is argued in chapter five that the exercise of a fully fledged Islamic economic system (IES) guarantees the material as well as the non-material and psycho-social welfare of societies. Rejecting the materialistic hedonism, Islam purifies and educates people. It trains people to use natural resources, their environment and the ecosystem conservatively and feels responsibility for saving these potentialities for others and the next generation. A society which exercises IE will never face such socio-economic ills and environmental and ecological problems and crises as those analysed in the chapters on SRA and SA.

Capitalism and Islamic Economics

Chapter six compared IE and western capitalism from the SRA and SA points of view. This chapter argued that the underlying reasons for the adverse effects of capitalistic economic systems, as summarised in the chapter, have been the inherent inconsistency

between its goals and its worldview and strategy as well as the external invalidity of the principal tenets of capitalism. According to Chapra (1992, 4):

Unless the worldview and the strategy of a system are in harmony with its professed goals, the goals cannot be actualised ... Systems which reflect an inherent inconsistency between their goals and their worldview and strategy are unable to bring about the fundamental adjustments in the life-style and the structure and organisation of their economics. They are therefore crisis-prone. People living in such systems cannot but be the victims of false promises - promises that cannot be fulfilled, no matter how many minor adjustments are made. Such minor adjustments do not penetrate to the root of the problem. They address merely the symptoms of the inconsistency but fail to achieve consistency between the worldview and strategy and the goals. The problems therefore appear in a different form, more serious and more aggravated each time.

The analysis showed entirely contradictory results in appraising the Islamic Economic System (IES). It was concluded that Islam guarantees the welfare and prosperity of societies, subject to its complete application. The analysis did not accept the existing conditions of Muslim countries as representing Islam and Islamic *Umma*. Muslim countries are also affected by secularist ideologies and are well in need of reconciliation with Islam.

The last parts of chapter six were devoted to answering the questions of whether the Islamic Economic System is a theory, whether it can be put into practice and whether Islam has the capability of solving the problems of our present age with regard to the facts that it revealed fourteen centuries ago.

Reference was made to the real-world example of the government of the holy Prophet Mohammad (P.B.U.H.) in Madina. The fact that Islam was revealed in the ethically poorest part of the world - where there was pride in plundering and burying their female children alive - evolved the styles of thinking and living of people, spread in less than half a century to more than half the world and was the dominant power in the world until recently, all indicate the potential of Islam in practice. The analysis also revealed that Islam is equipped with a built-in rule-making system which keeps it up-to-date and makes it capable of solving the problems of humans for ever.

Islam has both eternal and non-abrogable laws as well as a flexible rule-making system. The combination of these two elements makes Islam both solid and flexible and therefore strong, up-to-date and responsive to the problems and emerging phenomena of each age. Islam aptly blends rigidity with flexibility which is inherent in its rule-making system. This is what the seal of the divine religions should be. While the framework is made fixed and eternal by major principles and a set of primary ordinances, flexibility within the framework is built in by the provision of *Ijtihad* (exegesis of divine law on matters of theology and law). Sadr (1969, 312) used the phrase "The Realm of Freedom of Legal Opinion" to refer to this rule-making system of Islam, which keeps Islam an up-to-date religion in all ages, one which is capable of determining and responding to the demands of each age.

Conclusion

This study has investigated the responsibility-sustainability discourse from an accounting perspective, that is, the role SRA and SA can play in preventing and curing the social, economical, environmental and ecological welfare-threatening problems of man. However, the formal principles of both SRA and SA are rooted in direct control, the compulsory complying with regulations. Direct control, such as efforts to reduce social costs and environmental damages through regulation, however, has proved to be inefficient, ineffective, more costly and less successful (Meister 1991, Baumol, Blinder 1988 in Meer 1994, 9 and Preston, 1993). Moral reasoning, ethical responsibility and self-control, on the other hand, have proved to be more successful. Therefore, SRA and SA must necessarily contain important elements of control above and beyond the power and potential of direct control, with the integration of elements of ethics and morals being the most significant components.

This conclusion together with two additional factors lead this thesis to support non-financial solutions for the welfare and sustainability threatening socio-economico-

environmental ills which societies face, along with SRA and SA. The first of these additional factors is the difficulty involved in measuring, and accounting for, social costs and externalities within the SRA and SA framework "because of a lack of credibility, quantifiability, and objectivity" (Hariadi 1991, 510).

The second factor which contributes to the support of the non-financial solutions is based on the premise that we must defend any evil at the gate through which it enters, that is, finding the source, cause, and reason for illness and curing it. Capitalism was introduced as the major reason for welfare and sustainability-threatening problems. The underlying reason for the widespread exercise of the capitalistic economic system, however, is the fact that it corresponds to the spirit of lasciviousness in mankind. People, in seeking for comfort and material welfare, tend to free themselves from responsibilities and turn their eyes from "*musts*" and "*must nots*", though those "*musts*" and "*must nots*" are the bases of sustainable welfare of the human race - themselves. Capitalistic ideology induces people to seek more consumption, more economic welfare and more pecuniary/material enjoyment. This has been the underlying reason for social costs and externalities¹ as well as for more production, more exploitation of natural resources, more waste, more harm and damage to the ecosystems and the environment.

A sound and appropriate solution to the problem, therefore, could be one rooted in human spirit at least as deep as his spirit of lasciviousness. The solution must be one which weakens the human spirit of lasciviousness and activates its conscience. All of the adverse effects of the activities of corporations on societies, that is, the SRA issues, SA issues, as well as the non-material psycho-social and the socio-cultural ills and disasters excluded from this analysis, are but aspects of (and due to) the absence of conscience and the manifestation of the spirit of lasciviousness.

A solution to the problem, therefore, demands a frank **return** to feeling and exercising more responsibility, a discourse which is very easy and attractive to speak but very difficult to exercise (Ali-Ibn-AbiTalib ^(P.B.U.H.), Nahj-ul-Balaghah).

¹. Externalities are explained in chapter two.

Although the macro global/universal-level crises of the 1980s and onwards have surpassed the micro local/regional-level socio-economic ills of the 1960s and 1970s it may seem that sustainable development (SD) and SA address more significant issues and problems than those covered by SR and/or SRA, and are still rooted in, and emanate from, irresponsibility. The conclusion is that the discourse of *sustainable development* (SD) as well as the relevant disciplines, although wide and all-inclusive, are but parts of the wider moral discourse of *Social Responsibility* (SR), which targets all moral and ethical areas.

SA is even a part of the wider issue of *Social Responsibility Accounting* (SRA). This is to say that the substance of the discourse of sustainability is also SR, a different way of thinking which links accounting to people, societies, the environment and the ecosystem (Birlin 1994, 2).

If the wider issue of social responsibility is fully attempted, the discourse of sustainability is attempted too. Had individuals and corporations performed their duties and fulfilled their social responsibilities, and had the SR teachings and arguments of the 1960s and 1970s borne the expected fruits, mankind would not have encountered the socio-ecologico-environmental crisis which threatens human sustainability on the planet and which has led to the evolution of such disciplines as SD and its related disciplines. There would be no need to think of the relatively narrower, though apparently more significant, discipline of SA, and having it surpass the much more comprehensive discipline of SRA. Even after societies encounter the crises, the only cure for the crises is feeling and exercising SR.

Therefore, the conclusion will be a **return** to SR. There exists no way for mankind to survive unless it consents to its major duty, which is feeling SR, but this time - after bitter experiences - a true consent, faith and loyalty from the core and bottom of the heart is needed.

A genuine belief in the necessity of social welfare, sustainability and principles of SRA and SA will end social costs, externalities, the over-exploitation of common access goods (such as fishing grounds), as well as traditionally so-called free goods (such as air and water), even before these common access goods and so-called free goods need to be regulated by governments. To act on such a belief would require sacrifice. But as Grayson *et al.* (n.d., p 2 in Raar 1994, 4) argued "there is little evidence that ordinary people are willing to suffer a fall in living standards in the cause of environment, however 'green' their opinions". The operationalising of such a belief is, of course, demanding. Education, as chapters five and six discussed, has the potential of directing people in such a way that they put their 'green' opinions into practice eagerly.

When considering the significance of social welfare and sustainability-threatening problems, people must prepare "a definite timetable for change" (Repetto 1992, 70).

What actions are required? What is the best point to start with? To begin with, "a rapid change in thinking" (Duthie 1993, 41) and a sound worldview capable of providing "a profound shift in societal values and attitudes, and a significant restructuring of national and global economies" (Rees 1990, 23) are the most urgent needs.

A systems approach to the analysis of human-ecosystem relationships is imperative at any time. Resources must be viewed as part of systems cycles, not as separate items, and sustainability as a dynamic concept (Batley and Tozer 1993, 42). This approach necessitates compromised or friendly relationships and a dynamic equilibrium in human-ecosystem interaction at all times.

What dominates western capitalistic societies, on the contrary, is an opposite philosophy. Western economic models are rooted in a philosophy which "sees the world and the universe as a vast machine which can be disassembled into discrete parts, each of which can be considered in isolation from the other" (Chapra 1982 in Evan 1993, 5). The outcome of the exercise of these economic models, which is the focal point of the criticisms of this thesis, indicates the incompleteness of the worldview as well as the

models based on that worldview. Allen argued for the need for a sound worldview.

According to Allen:

There is the green worldview, an urgent call for greater responsibility and accountability on the part of those who affect the environment. This new 'green' accountability will not be satisfied within the constraints of technical/professional structure. Making small adjustments to present technocentric systems will not be enough to successfully meet the challenges of pressing environmental crises (1993, 16).

"No amount of ethical axiology, or legal, policy and technological engineering is going to solve problems that are misunderstood" (Drengson, 1989 in Rees 1990, 18). Significant changes in sociocultural beliefs, attitudes and behaviour are required.

Some infrastructural changes in people's worldview, value system and attitudes are required so that they become ready to do with fewer goods and services than they desire in order to save the planet for future generations. Changes in 'human-human' and 'human-environment' interaction patterns will follow the changes in worldview. Significant changes by corporations and individuals in modes of production, distribution (of income, mainly) and consumption are required. If we are using more energy and more resources than we need, and producing more waste, we are almost certainly bearing costs that are higher than necessary. We deplete natural capital but do not regard this as a problem (Jacobs 1993, 5-2). It is noteworthy that this undervaluing is worse than the depleting itself, because, to quote from Ali-ibn-Abi Talib (P.B.U.H.), "the worst of sins is the one undervalued by its doer"² (Al-Nahj-al-Balaghat). Organisations must ensure that they are not contaminating the environment (Rich 1994, 26) and that they are not committing social costs and externalities.

Therefore, feeling responsibility is the significant problem of SR and sustainability (Bebbington *et al.* 1994, 18) and the infrastructure for business operation. Human being (as members of corporations and/or as individuals) must feel accountable for the consequences of their actions³. Capitalistic ideology must be substituted with an alternative ideology totally compatible with social welfare and SD. Unless these basic

². *Ashadd al-zonooba* mastakhaffa bihi sahibohoo.*

³. 116:93

changes are made, especially in people's worldview, social unrest and the unsustainability of mankind on the planet will become more certain.

Man has to rethink his worldview and his socio-economic behaviour if he is to rescue mankind from threatened sustainability, and also cure his socio-economic ills, . He has to train and educate himself to replace his relish-taking activities with prudent activities. He must realise that the human of the future, as Motahhari (1990, 17) claimed, is the human of ideas, faith and principle, not the human of "balley and below". He must undertake a cultural life in lieu of a purely economic and pecuniary life. He must struggle for the success of his conscience over his spirit of lasciviousness in order to attain a tranquil state of mind⁴.

Only then can man hope for real social welfare and prosperous sustainability. Only then can the accounting discipline develop an accounting system, that is, an SRA and/or an SA, which is capable of translating the consequences of socially and environmentally related activities of corporations and individuals into accounting language (and/or figures). The prerequisite for bringing about changes in peoples' worldview and philosophy, however, is their purification and education⁵. The thesis concludes that education, rather than direct command-and-control, will be a significant component of an SRA and an SA.

Prospect for Future Research

As already indicated in the study there are many and varied aspects of the topic which time and space constraints did not permit to be fully developed. For example there are many other situations in which it can be demonstrated that the social responsibilities of business have been avoided or overlooked. Researchers with more time could well uncover these situations. There are institutions - social and/or economic - that have taken up issues of social responsibility and these too could be investigated more fully. In addition, definitions of sustainability will be put to greater test as new scientific and

⁴. 89:28-30

⁵. 62:2

economic knowledge comes to hand. Future researchers will then be able to investigate how social responsibilities can be incorporated to accommodate these developments.

Extension

The analysis of the drawbacks of materialistic worldviews and western capitalistic economic systems led to the conclusion that the world is urgently in need of social and economic systems compatible with the principles of social welfare and sustainability. Prerequisite to this change, the analysis revealed, is substantial changes in people's worldview to include spiritual and religious elements in order to attain self-control.

Islam was introduced as the sound and divine worldview which guarantees welfare and prosperity of human at any time. The analysis also introduced the Islamic Economic System (IES) as an economic system which is responsive to material as well as non-material human needs, and one which is totally compatible with the requirements of social welfare and sustainability.

However, it is not claimed that either Islam or IES is introduced in this thesis in full. Neither the space limits of the thesis nor the ability of the researcher permits conducting such a big task. What, instead, this research aimed to do is to introduce a window, named Islamic Economic System (IES), through which many things can be seen, and totally different from what can be seen or how they are seen through any other window. The research pointed to the window as a new perspective to SRA and SA. How are SRA and SA issues seen from this perspective? Those interested in and show a deep concern to social, environmental, ecological and sustainability discourses are recommended to get familiar with Islam. Any single *Aya* (verse) of the holy Qur'an is linked to the welfare, prosperity and sustainability of mankind.

Therefore, this research work can be extended to in-depth analysis of every aspect of social welfare and sustainability from IES perspective. May Allah direct some researchers to pursue this way! Amin.

Glossary:

*Adala** Justice

Adl: To put every thing in its place; To be moderate in social life; Justice

Ahadith: Plural for *Hadith*

*Amana**: Trust, Trusted

Amin: Trustee

Amr bil Ma'roof: Directing others to do what is good or lawful.

Anfal: Public wealth

Ansar: Helpers, People of Yasrib who helped the migrant Muslims from Makka

*Aya**: Verse

Ayat: plural of Aya

Beit ul-Mal: Public wealth and treasury

Bey'a: Transaction

Dholm: oppression

Falah: Human Well-being

*Fard al Kifaya**: Collective obligation.

Fiqh: Jurisprudence

Hadith: Quotation from the Holy Prophet Mohammad^(P.B.U.H.)

Hadhrat: his excellency, his majesty

Hajj: Pilgrim of *Bait Allah* in Makka*

Halal: Lawful, Permitted

Haram: Unlawful, Prohibited

Hayat tayyibah: Good life

Hisba: The agency through which the Islamic State exerts its control

*Ijara**: A contract in which one party either sells his labour or rents a property to the other.

Ijtihad: exegesis of divine law on matters of theology and law

Imam: Religious Leader

*Imama**: Religious leadership arrangements

Iman: faith

Iqtisad: Literally means "to be moderate". It is used as equivalent to economics

Israaf: Extravagance

Istikhlah: Vicegerency

Jihad: The Holy war in Islam

*Jiz'ya**: money received from non-Muslims living within the realm of Islam as the price of social and economical security and other services provided to them by Islam.

*Jo'aala**: A contract in which the principal agrees to pay or give a predetermined compensation in exchange for a specified service

Jowr: Injustice

Kaffarat: expiations and redemption

*Khalifa**: Vicegerent

*Khilafa**: Vicegerency

Khiraj: the rent of public-owned and other lands.

Khoms: Islamic tax on wealth

*Kifala**: Guarantee

Koffar: Disbelievers

La Zarar Wa La Zihar: No harm to self or others

Ma'ad: The Day of Judgement, the Day of Resurrection

Madinat-unNabi: The City of the Prophet

Maqasid al Shari'ah: Goals of Islam

*Mo'amala**: Transaction

Moa'min: Believer

Moa'mineen: The plural of Moa'min, Believers

*Mobahat Amma**: Rights or properties belonging to no particular person

*Modharaba**: A contract in which one party provides capital and the other party provides his expertise and effort. Profit is to be shared at a predetermined proportion. Loss will be incurred by the provider of capital only, because in this case the other party loses his wage as well.

Mosaqat: A cooperation agreement in which one party provides land or gardens and the other party provides his expertises and labour.

*Mozara'a** A contract in which one party provides a farm and the other party provides expertise and effort. Any gain or loss is to be shared at a predetermined rate.

Mubah: undetermined, neutral

Muhajir: migrant

Muhajirin: migrants

Mujtahid: Islamic scholar who does *Ijtihad*

Muslim: One who believes in Islam

Nah Anil Munkar: Enjoining not to commit what is unlawful or wicked

P.B.U.H.: Peace Be Upon Him

Qard-ul-Hassan: Interest-free loan

Qasd: To be moderate

Qist: Moderation in economic life

Qur'an: The Holy book of Islam

Rabb-il-Alameen: The nourisher and sustainer of the worlds

Razzaq: Sustainer, nourisher

Riba: Anything in a transaction in excess of the fair exchange which leaves one party worse off. The most common example of it is interest charged on a loan.

*Risala**: The arrangement for Prophethood

*Roboobiyya**: Sustenance, nourishment

Sadaqa: Charity

Salat: Worship, Prayer

Shaitan: Satan

*Shari'a**: Islamic Teachings. It literally means both the straight way and the place people take water.

Silat-ur-Rahm: Visiting parents, relatives, neighbours and friends

Soam: Fasting

*Soora**: Chapter, Section

Sowar: The plural of *Soora**

*Sunna**: The tradition of Prophet Mohammad (P.B.U.H.)

SWT: Stand for *Subhanahoo Wa Ta'ala*, which means "The Glorious and Most High Exalted" Allah

Tabbarra: To renounce or deny, to exonerate

Tabthir: Profligacy, spending in wrong way

*Taqdir-al-Maeesha**: The phrase used for economics in Early Islam

Tawhid: Belief in the unity of God

Tawwalla: Taking as a friend, friendship

*Tazkiya**: Purification

*Umma**: Muslim nation

Waqf: Setting-up of philanthropic trusts

*Zaka**: Purifying dues

Zarar and *Zirar*: Harm

Appendices

Appendix A:

Some statistical quotations

Earth's population in 1972 was 3.84 billion, in 1992 became 5.47 billion, growing at ninety-five million a year (Wheatley 1993, 20).

... trade and industry in Britain produces 50 million tonnes of waste each year, of which 3,5 million tonnes are hazardous. Though this is only 10 per cent of the national volume of waste, ... (Sadgrove 1992, 98).

... municipal solid waste (MSW) in the United States increased from 2.7 lb per capita per day in 1960 to 4.3 lb in 1990 (CEQ, 1992 in Lave *et al.* 1994, 24A). In 1990 the United States generated about 200 million tons of MSW, of which one third was product packaging. The quantity of hazardous waste has also increased because of greater use of toxic elements, increased production of synthetics organic chemicals, and expanding economic activity worldwide (Lave *et al.* 1994, 24A).

8.8 billion lb of toxic chemicals discharged into the U.S. environment in 1988 (Lave *et al.* 1994, 19A)

... the United States is running out of space in [landfills] (CEQ 1992 and MSWTF 1989 in Lave *et al.* 1994, 19A).

we are overwhelming ourselves with garbage and we are running out of safe and secure place in which to place it (Baucus 1991 in Lave *et al.* 1994, 19A).

Waste disposal through incineration is unsafe and leads to significant air pollution (Kunreuther and Easterling, 1992. in Lave *et al.* 1994, 19A).

The United States is leaving a legacy of toxic wastes dumps that threaten our health now and will do so for many generations (OTA 1985 and Maugh 1982, 215 in Lave *et al.* 1994, 19A). For example, the number of hazardous waste remediation (CERCLA) sites increased from 8000 in 1980 to 37598 in 1992 (CEQ 1992 in Lave *et al.* 1994, 19A).

In 1984 a toxic gas leak from a Union Carbide plant in Bhopal, India, resulted in 3500 deaths and 100, 000 permanent disabled. The legal ramifications run on, almost ten years later (Wheatley 1993, 15).

Fifty million litres of oil escaped into the sea due to the Exxon Valez's tanker accident. The adverse environmental consequences were reviewed in chapter two.

... on 26 April 1986 due to a nuclear reactor explosion in Chernobyl, then the Soviet Union, thirty-two died in the explosion and its immediate aftermath, ... But far more people will eventually die - some of them thousands of miles far from the disaster site. One US study has estimated that Chernobyl will eventually claim 12,000 Soviet citizens and 21,000 Europeans through the radiation induced cancers. But there is considerable uncertainty about figures like this: worldwide, as many as one million people may eventually fall victim. Even five years later, British sheep in certain parts of the UK were still being declared unfit for human consumption because of the level of radioactive dust on the moors and pastureland on which they grazed (Wheatley 1993, 15).

Only a small proportion of the reactor fuel in just one of Chernobyl's four units was released into the air. Clearly, the next such incident (and it *is* a 'when' rather than 'if', in the view of many people) could be a lot worse ... or a lot less severe (Wheatley 1993, 22).

There was in the world in 1972, just over 100 power-generating nuclear reactors, in 1992 there was 428 (Wheatley 1993, 21).

In 1972 sixteen billion tonnes of gas being released into the air each year. ... in 1992 twenty-three billion tonnes, the atmospheric concentration of carbon dioxide, a contributory factor to the greenhouse effect, 356 parts per million compared to 327 ppm - clear evidence that nature's photosynthesising couldn't keep pace (Wheatley 1993, 21).

... an increase of about 0.5 C [in the average temperature of the world] over the past hundred years (Source: P. D. Jones, CRU, University of East Anglia in Wheatley 1993, 22).

The oil company Shell, for example, was fined £1 million for polluting the river Mersey (Wheatley 1993, 34).

... scientists are currently estimating that the sea level will have risen by one meter by the end of the twenty first century. ... By the year 2000, global sea level will have risen between 5 cm and 10 cm, and global temperatures by between 0.1 and 0.2 centigrade degrees - and there could be serious droughts in semi-arid regions. Hurricanes (which already kill thousands of people when they hit areas like Bangladesh) could become much more frequent and severe. ... Some scientists predict that in the next twenty years, wheat yields in the US and Europe will decline by as much as a quarter (Wheatley 1993, 24).

In Africa an area twice the size of India is under threat of desertification; while 2.7 million hectares of woodlands disappear every year (Burritt 1993, 16).

... 170,000 square kilometres of tropical rainforest is cut back every year, an area equivalent to England, Wales and Northern Ireland (Wheatley 1993, 137).

By 1989, the area covered by moist tropical forest worldwide was less than 60 per cent of the original extent of 13.6 million kilometres. This means that the area of forest larger than the Soviet Union has disappeared, primarily since 1945. Worse, rates of tropical deforestation worldwide have accelerated over the past 10 years. ... the current annual rate of deforestation in the tropics is [above] 1.5 percent per year, a rate double that of the early eighties (Norman Myers 1989 in Gillis *et al.* 1992, 537).

... in 1983, a great fire spread over millions of acres of moist tropical forest in Northeastern Borneo, in the Malaysian state of Sabah and the Indonesian province of East Kalimantan. This conflagration was both a cause and a consequence of very wide-scale deforestation. On the Indonesian side of the island of Borneo, an area the size of Belgium was burned, on the Malaysian side, perhaps half as much was burned. Standing timber valued at over \$5 billion was destroyed in Indonesia alone (Gillis *et al.* 1992, 542).

According to Von Weizsacker and Jesinghaus (1992), 3000 square meters of forest are destroyed along with the emission of a 1000 tonnes of greenhouse gases (Carbon Dioxide in particular) every second (Meer 1994, 2).

Deforestation ... increased from 100, 000 square kilometers a year to 170, 000 (Wheatley 1993, 21).

In the Philippines, for example, annual losses resulting from deforestation averaged 3.3 percent of GDP between 1970 and 1987. In 1988 dryland farming losses attributable to erosion totaled roughly 2.5 percent of GDP (Repetto 1992, 68).

Natural resource depreciation rose from 26 percent of gross capital formation in 1970 to 37 percent in 1989. The conventional accounting framework overstated actual net capital formation (which subtracts depreciation of man-made and natural capital from gross capital formation) by more than 70 percent in 1989 (Repetto 1992, 68).

The loss of Costa Rica's forests in the last 20 years was 30 percent (Repetto 1992, 66).

... environmental abuse is ... the depletion, degradation and wasting of resources beyond a sustainable (renewable) level, the inefficient use of non-renewable resources and pollution (Meer 1994, 3).

For example, estimates of the cost to just clean up existing toxic waste sites runs to upward of \$100 billion. In addition, the expense of cleaning up our air and preventing future deterioration of the environment is estimated to cost even more (Easterbrook 1989 in Rittenberg *et al.* 1992, 12).

Three Mile Island, Love Canal, Bhopal: the names conjure up all the public fears and concerns, and intensive media scrutiny, that attend environmental spills and catastrophes. ... in June 1991 the soil underlying the Ciba Division in Cambridge, Ontario was found to be contaminated with a herbicide product. Discovery of a 15-year-old chemical spill at a Cambridge, Ontario, Plant plunged Ciba Canada into a lengthy and costly environmental remediation process. In the event of a similar problem, would your organisation be ready (Rich 1994, 24)?

The remediation process itself will probably last beyond the year 2000, at an estimated cost of more than \$10 million ... to protect the community's drinking water (Rich 1994, 25).

... \$15 million civil penalty and \$400m-600m clean up cost incurred by Texas Eastern Corporation, and \$280 million claimed from General Electric to cover the cost of dredging polychlorinated biphenyls spilt into the Hudson River between 1945 and 1977 (Economics Report 1991 in Gibson and O'Donovan 1994, 4).

Multi-million dollar liability suits, stricter civil and criminal community pressures, and sky-rocketing clean-up costs have put pollution issues on boardroom agendas. ... Pollution reduction costs in the U.S. are expected to rise to \$174bn in 1995 from \$56bn in 1989. In addition, the Environmental Protection Agency estimates that \$450bn will be needed to upgrade and construct water - and swage - treatment plants over the next decade (Bhat 1992, 54).

In terms of air pollution Tehran ranks the second in the World (after New Dehli). Two tonnes of lead is discharged into its air through the consumption of 8 million litres of car fuels. While the ... density of Sulphur-Dioxide in air is 80 micron, Tehran's air contains 150 micron of this toxic synthesis (*Kayhan Havai*. November 2, 1994, p 4).

In the Netherlands, over 100,00 sites have been identified as potentially contaminated, and the cost of remediation is estimated to be some \$45 billion (Windeyer 1992 in Gibson and O'Donovan 1994, 4).

... one meter rise would submerge eleven per cent of the Bangladesh's agricultural land area, for example. A rise of only *half* that much - a mere fifty centimetres - and a land area currently home to sixteen per cent of Egypt's population would sink beneath the waves (Wheatley 1993, 24 A).

39 per cent of adults in the UK buy green products as far as possible ... 35 per cent of the population rate the environment as the most important issue facing the country, making it the biggest issue in the political agenda. ... According to another survey conducted by Gallup for *Green Magazine*: 9.5 million out of Britain's 20.8 million households say they are 'very concerned' or 'extremely concerned' about green issues. Nearly all the rest are 'concerned', with a mere 8 per cent expressing indifference (Sadgrove 1992, 3).

A survey of Avon County Council in 1990 showed that 93 per cent of local residents wanted environmental issues to have a higher priority and 100 per cent said that pollution control was important (Sadgrove 1992, 4).

Indonesia's natural resource accounts show that between 1977 and 1984 the depletion of natural resources totaled 19 percent of GDP (Repetto 1992, 70)

.. in 1972 250 million motor vehicles, by 1992, 600 million, of which 480 million were cars (Wheatley 1993, 20).

The planet's two million African elephants reduced to 600,000, largely through the actions of ivory poachers. In 1972 there *was* no chlorine induced hole in the atmosphere's ozone layer, and so no body had bothered to measure the amount of chlorine in the air (Wheatley 1993, 21).

the Earth's tiger population still only numbers around 7500 (Wheatley 1993, 139).

Appendix B:

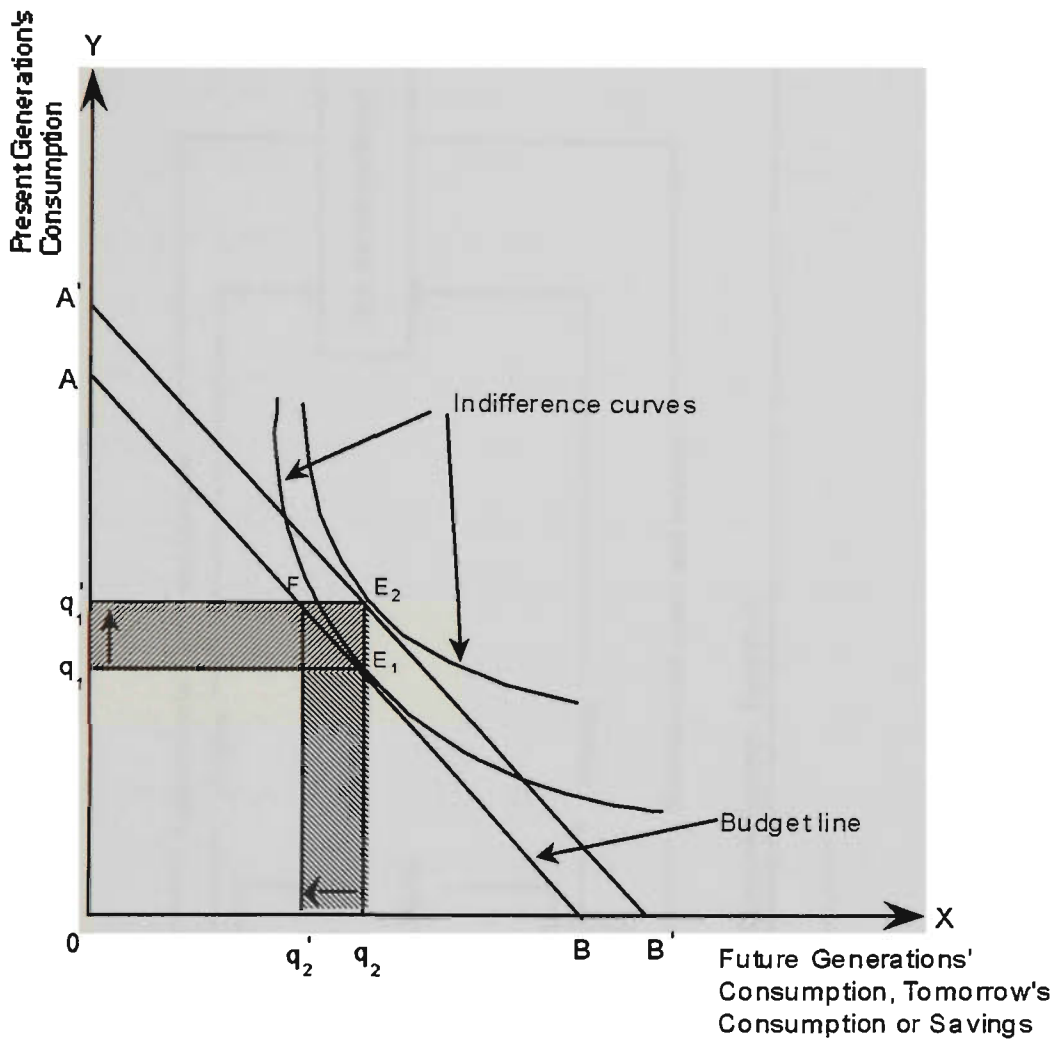


Diagram 3-1: The analysis of present/future consumption by means of indifference curves.

Appendix C

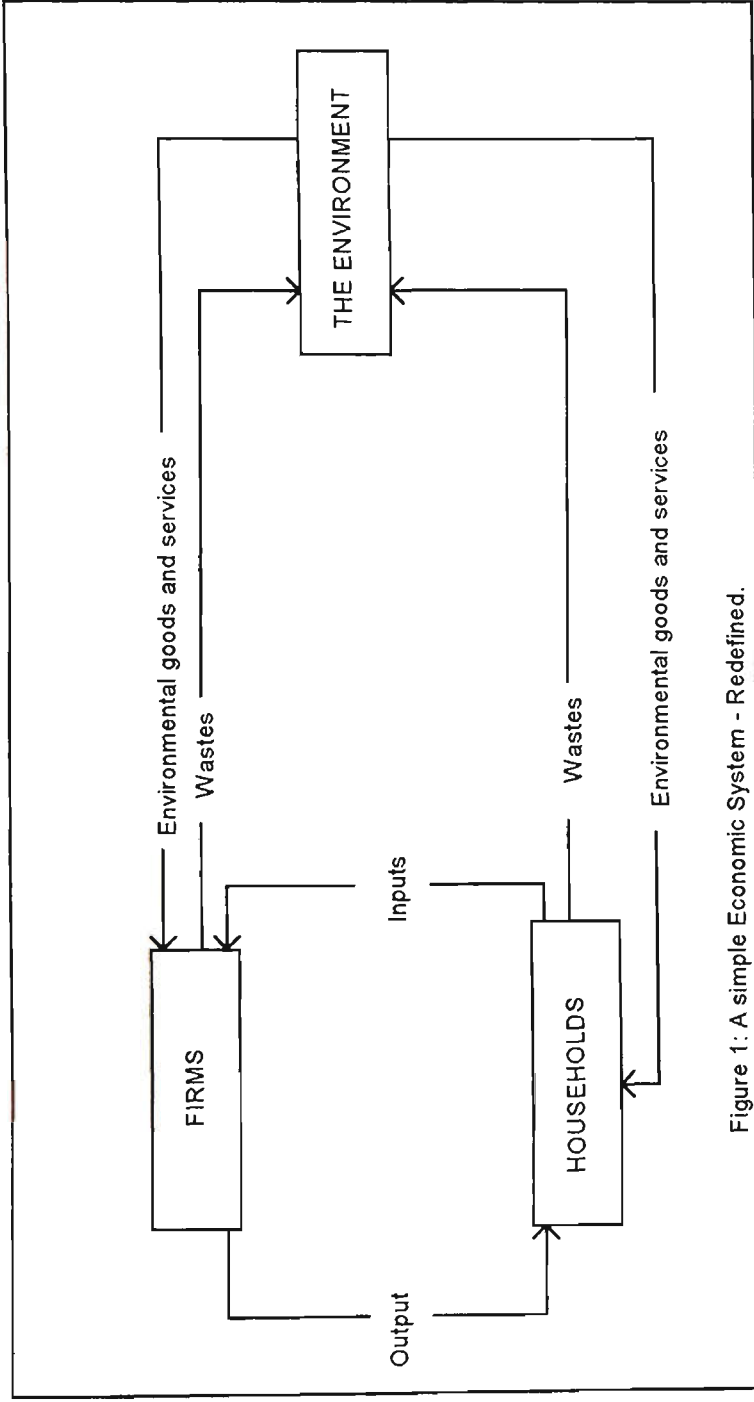


Figure 1: A simple Economic System - Redefined.

Source: Tampapillai, 1992 page 3.

Appendix D¹:

"Studies of the distribution of economic resources in America print a picture of a nation divided. One 1983 study, for instance, found that the top 2 percent of American families by income received 14 percent of family income, owned 28 percent of total net worth (total assets less total liabilities), and held fully 54 percent of net financial assets (liquid assets, stocks, and bonds). The top 10 percent of American families received 33 percent of the income, owned 57 percent of the total net worth, and held fully 86 percent of the total net financial assets in the country. The remaining 90 percent received 67 percent of the income, owned 43 percent of the nation's net worth, which was largely tied up in home equity, and held 14 percent of net financial assets. Another 1983 study, using somewhat different definitions and methods, found that the top 1 percent of families owned 31 percent (down from 35 percent in 1962)². Impressionistic evidence is strong that the growth in inequality in the United States accelerated after the early 1980s. For example, the wealth of the average member of the "Forbes 400," *Forbes* magazine's estimate of the wealth of the 400 richest Americans, grew from \$230 million in 1982 to \$672 million in 1989³.

And according to Okun (1975, 32 and 66) "[t]he richest 1 percent of American families have about one-third of the wealth, while they receive about 6 percent of after-tax income. The bottom half of all families hold only 5 percent of total wealth and roughly a quarter of all income".

¹. This Appendix is quoted from Logue (1991, 314).

². Robert B. Avery, *et al.* 1983. Survey of Consumer Finances: A Second Report. *Federal Reserve Bulletin*. December 1984. 863-84; and US. Congress Joint Economic Committee Report, "The Concentration of Wealth in the United States", July 1986, Tables 4&5, as corrected, as cited by Lawrence Mishel and Jacqueline Simon, *The State of Working America* (Washington, DC. Economic Policy Institute, 1988), 31 and 32, respectively.

³. *Forbes*, Fall 1983, 71 and 23 October 1989, 148. The total wealth holdings of the Forbes 400 grew from \$92 billion in 1982, the first year *Forbes* compiled the list, to \$269 billion in 1989.

Appendix E:

In the fields of management and law, there is a subject about the procedure and requirements of delegating authority. A high-level manager may delegate part(s) of his **authority** to a lower-level manager to perform some of his **duties** on behalf of him. The delegatee, accordingly, assumes some **responsibility** to fulfil some **obligations**. Since the delegatee's performance will be **assessed** and he is **accountable** for the consequences, he must be given a proportionate **freedom** to use resources and/or to make decisions. He must be vested commensurable power. Otherwise, the system will not work. The important point worth considering is the **proportionality** of the amount of delegated responsibility and given freedom. If the amount of delegated authority and freedom is compared less to the amount of assigned duties and expected responsibility, the delegatee will not be able to fulfil his responsibility. On the other hand, the excess of delegated authority and freedom to what is needed to perform the assigned duties and to fulfil the responsibility becomes idle, involves opportunity costs and may cause other unfavourable outcomes as well. This is an important point of proportionality implying that the domain of the delegatee's freedom is not unlimited, rather it is conditional and within the framework of the contract. The agent should not disobey the principal and violate the rules.

Appendix F

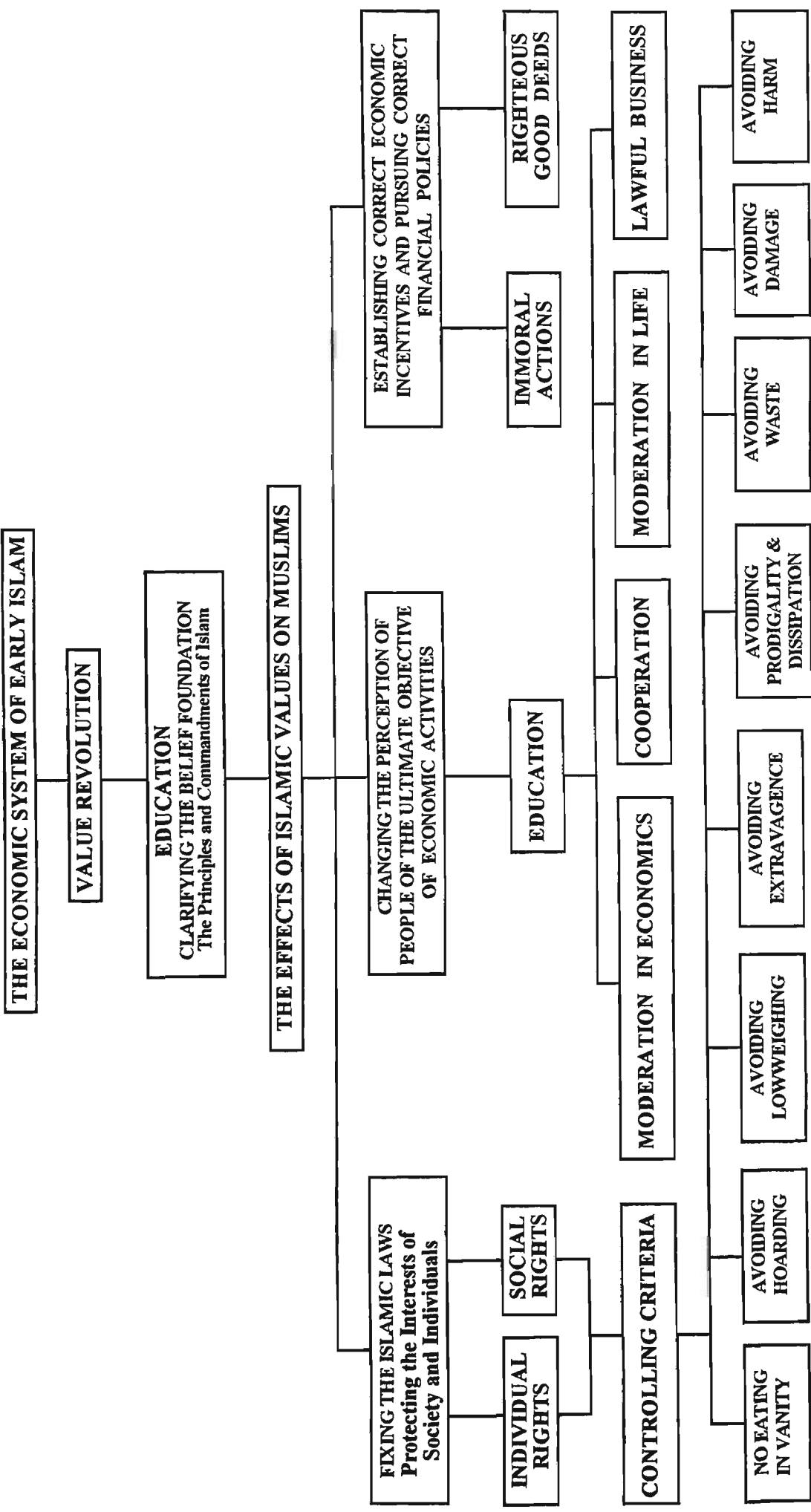
Features	Islam(ic Economics)	Capitalism
Man	Vicegerent and servant of God, trustee, dependant on and seeking God's guidance	Independent
Individual	Muslim man	Economic man
Responsibility of individual	To inhabit and build the Earth, to establish justice on the Earth, to leave and help others live	No responsibility
Individual's capability	Is commanded to exercise his utmost capability and seek guidance from God	Capable of determining and acquiring his best better than anyone else
Freedom of individual	Limited by inviolable values and spiritual constraints to the Islamic frame, subject to social welfare	Absolute, without spiritual constraints
Dimensions and needs of individual	Material and spiritual	Material only
Life	Worldly and hereafter	Worldly only
Purpose of life	Fulfilment of superior responsibility, to achieve <i>falah</i>	Material enjoyment, stomach and instinct
Spiritual and Moral quality of life	Highly valued, Strongly recommended, Emphasised	Declining and neglected
Scope of the system	Wide, multi-dimensional, comprehensive of material and spiritual aspects	Narrow, single-dimensional, consisting material and worldly aspects only
Axis of the system whose freedom and benefits are respected and guaranteed	Man	Customer, consumer
Purpose of earning wealth and material gain	To be used as an instrument to pursue superior goals	To be used as final objective
Concept of success	Associated with moral values, to be virtuous, to have positive attitudes toward life and other human beings	To earn as much money and other means as possible to satisfy the material needs and wants of oneself
Success assessment	Acting best in the prescribed way, being virtuous, The most pious is the most noblest	The more the material gain, the greater the success

Criteria of success	Achieve <i>Falah</i> and <i>Hayat et tayyiba</i> *	Utility maximisation
Value orientation	Value-laden	Value-free, or value-neutral
Rationality criteria	To be moderate, to follow <i>Shari'a</i> *	To follow the pig principle (more is better)
Behavioural norms, moral, ethics and values	Emphasised and guides behaviour and economic actions of individuals, combines/synthesises the material and spiritual dimensions	No explicit role ascribes to behavioural norms, is amoral or morally neutral, Declining, neglected and removed
Altruistic behaviour and quality of life that involve non-material dimensions	Plays a very significant role, Strong attention paid for that	Not recognised, Weak attention paid for that
Sacred/Secular	Sacred	Secular
Goal orientation of economy	Goal-oriented, to serve the supreme goals of society	To serve the individualist individuals, the sovereign consumer
Goals and Objective of economics	To serve society and to provide bases for individual and social uprisings; To serve <i>Ruboobyah</i> , growth toward perfection	To serve individual, the sovereign consumer to multiply his wealth to spend as he wills and to maximise his own utility at any cost/rate. Multiplying profit through high pressure sales and by promoting artificial wants which supersede satisfaction of the basic needs
Actor of economic scene	Responsible individual and state	Individual
Control devices and mechanism(s)	Internal self-control, (self-God relationships), external (both society members are responsible for the behaviour of each other according to the institutions of <i>Amr-bil-Ma'aruf</i> and <i>Nahy-anil-Munkar</i> as well as the state control through the institution of <i>Hisba</i> Agency)	No internal self-control, External (police, gendarme control)
Caring for and Responsible to	Self and others	Self only (individualism)
Concept of social and economic justice	Based on moral values and brotherhood	Following human-set rules and content to the results of interactions of the market forces of supply and demand
Concept of growth and Development	<i>Ruboobyah</i> (harmonious social, economical, cultural and educational growth)	Economic growth and not development
Sources of reference of economics	What is good for man is accepted as what God perceives to be good for man	There is no source of reference higher than human preferences

Accountability of individuals System is based on	To God, to society and to the Islamic State Forces other than forces of selfishness and innate motives	To state only Not on scientific rules, on individualism and self-interest (of fortunate persons), on innate motives of individuals
Ownership	State, Society and Conditional Private	Private
Private ownership	Recognised, but conditional and subject to its consistency with the interests of society	Unconditional, unconstrained
Incentive(s)	Non-material and material, Concern for the needs of self and others	Self-interest, Material progress only, Innate motives respected, Concern for needs of self
Distribution mechanism	Market together with Religious, behavioural, moral, ethical and social obligations to safeguard public interest and moral constraints against unearned income, income depends on real contribution to production as well as on concern in brotherhood	Market and the forces of supply and demand; hence, income is a function of capital, unearned income (like gambling, interest and the like) recognised
Income distribution accompanied by	Respect to individual freedom with spiritual and legal imperatives	Neglect of individual freedom and dignity as well as his weakness or disabilities
Guaranteed rewards	Not allowed, Reward expectations require undertaking a commensurable risk	Permitted. Like interest bearing loans
To gain at the cost of others and society	Strongly prohibited	Permitted, Recognised as a natural law/right unless the legislation ban it
Marketing policy	Provide true and perfect information to customer, leave him free and help him make reasonable decisions, No manipulation of consumers' decision	Consumer decisions manipulated, consumers are driven to consume more and more
Reward/Punishment	Material/Non-material, in this world and in the life to come	Material and worldly only
Sovereignty	Is for God, for the Prophet and for the <i>Moa'mineen</i> (believers)	Is for Customer, for consumer
Competition/Cooperation	Cooperation and constructive competition strongly recommended	Competition is strongly supported by state and its adverse effects are totally neglected
State	Responsible for social justice, personality development of its members, has Social obligations	<i>Laissez-faire</i>
Individual/Society	Individual, society and state all are recognised and respected. No conflict exists between them	Individual is in conflict with society and state, individual is preferred over society

Social security, Social balance and social equality	Guaranteed by special institutions such as <i>Zaka*</i> , <i>Sadaqa</i> and the like, a high importance placed on the responsibility to the need fulfilment of the needy and the deprived	Non-existent
Concept of wealth, purpose of seeking wealth	Wealth is considered a trust from God; hence, it is sought as a means to piety and as a way to upright merciful and loving action	Wealth is considered an absolute personal property; hence, it is sought for itself to be used for material enjoyment and according to the individual's wants
Concept of justice	Equality of individuals before laws, as well as belief in moral and brotherhood	Equality of individuals before laws
Internal consistency of the system	Political and social institutions are in complete match with economic system and its objectives	The consequences of economic freedom are in conflict with the social and economic freedom
Concept of welfare, notion of betterment	Accomplishment/Fulfilment of the vicegerency duties and obligations, to obtain <i>Falah</i> , <i>Hayat tayyibah</i> and to achieve <i>Roboobiyya*</i> - perfection and completion	Accomplishment/Fulfilment of material needs and aspirations
Psychological richness, the extent of spiritual need satisfaction	Very rich, leaves no room for any psychological complex	Very poor, the system does not satisfy the psychological needs of humans
The role and contribution of the system in making man's life and efforts purposeful	Is major. It cures any weakness in the human understanding of life and directs man's motives and his objectives	The system plays no role

Appendix G:



Source: Banna Razavi, M. 1988. *A decision for an Islamic Economic Analysis*. in Persian. Islamic Research Foundation of Astan Qods Razavi, Mashhad, Islamic Republic of Iran.

Appendix H⁴

This section will answer the following question: With regard to the changes in societies and vicissitudes of life and the fact that Islam was revealed fourteen centuries ago, can Islam solve the problems of this and any other age?

This question highlights two important necessities:

1. The necessity of knowing correctly the real Islam as a social philosophy, a divine ideology and a multi-dimensional and blessing system of thought and belief; and
2. The necessity of knowing the conditions and demands of the age as well as distinguishing between (a) the facts and realities resulting from the improvements in science and technology and (b) the deflectional phenomena and causes of decadence and collapse.

Unfamiliarity with the realities of Islam, or not distinguishing between the elements of the improvements and advancements of the age and the deviational events makes the problem puzzling.

There are those who perceive this as an insoluble puzzle and as an unreconcilable conflict. They believe that "Islam" and "the demands of age" are mutually exclusive and two incompatible phenomena; one of which only must be selected. That is, one should either submit to Islam and Islamic education, avoid any innovation and modernity and stop the lapse of time, or to surrender to the demands of age and put Islam in the archive of history.

They argue that since Islam is a religion and the seal of religions, its commandments are permanent. It must remain permanent as it was at the beginning. It is fixed and unchangeable. But time is changing; it makes things and phenomena old or obsolete. The nature of time demands evolution. It creates conditions and circumstances every day which are different from that of the previous day. Therefore, how is it possible to

⁴. This Appendix is quoted from Motahhari, 1989.

reconcile and harmonise a phenomenon which is naturally fixed and unchangeable with one which is changeable and flowing by nature?

The fact is that there has been some kind of false reasoning in the argument of the incompatibility between Islam and the demands of ages.

From the Islamic side there has been a mix of two completely distinct matters. That is, the following two different issues have been perceived as identical:

1. The eternity and non-abrogability of the laws of Islam - which is a definite matter and stems from the necessities of Islam, and
2. The flexibility which is relevant to the rule-making system of Islam - created automatically by Islam through a specific mechanism which is a feature of the rule-making system of Islam.

These two, however, are totally distinct matters. The wonderful responsive power of Islamic jurisprudence to the new problems of each age is a point which has surprised all. New problems did not come about in our age only. Ever since the dawn of Islam until the seventh and the eighth centuries [AH], when the Islamic civilisation was developing and was creating new problems daily, Islamic jurisprudence has performed its momentous duties without seeking any help from any other source. In recent years, however, the scant attention paid by the authorities of Islamic affairs as well as their apprehension of the West resulted in the notion that the Islamic laws are inefficient for the new age.

False reasoning about the demands of age is because of the presuppositions that the virtues of age make depreciated and old every thing, even the facts of the world. Whereas, that which becomes new and old in the world is matter and the material synthetics. A building, a plant, an animal and a human being is doomed to antiquity and decadence. But the facts of the world are invariable and unchangeable. For instance, does the "times table" of Pythagoras become old because it is 2000 years old? Or, does Saa'di's statement of "human beings are organs of one body" become old because it is

700 years old? Or, have justice, manliness, loyalty, beneficence, and so forth become old because they are being repeated over and over for thousands of years? The contents of Saa'di's poem and the "times table" are eternal and permanent facts. The poem and the table are but the recitation of these facts.

Those who raise these issues say that the rules and laws of the age of electricity, the aeroplane and aviation/space navigation cannot be exactly the same rules and laws of the age of the lampion, horse, mule or donkey. The answer is that there is no doubt that in the age of electricity and the aeroplane new problems come about for which answers must be found. But there exists no necessity that because the lampion has been taken over by electricity and the donkey has been replaced by the aeroplane that the legal problems relevant to them - such as buying, selling, usurption, surety, advocacy and mortgages - must also necessarily be changed. Or, since the parents, children and the spouses of the past ages travelled by donkey and they now travel by plane, must the rights of parents to children, the rights of children to parents and the rights of the spouses to each other necessarily be changed in our age?

Islam is a way not a halting-place. Islam itself describes itself as the "straight way". It is wrong to say that the way must be changed since the halting-places have been changed. There are two basic elements in each orderly movement: the element of position change which occurs successively and the element of the stability of the way and the orbit of the movement.

Secondly, it is not only Islam which, as a social ideology and philosophy and as a guide for travel, motion and perfection, proclaims eternity. Marxism, for instance, is based on the principle of the instability of nature. But never do the genuine Marxists perceive Marxism as an old phenomenon which belongs to a past age. Lenin said: "Marxism is as solid as a piece of steel".

No social school can be doomed to decadence and annihilation because of its identity and date of birth.

Therefore, the only way to argue about Islam and the demands of age is by knowing the education of Islam, understanding the spirit of the Islamic laws and knowing the rule-making system of Islam. These clarify whether Islam suits the demands of a specific century and a determined age, or if it has accepted the responsibility for guiding and leading mankind in all centuries and ages.

The properties of the rule-making system of Islam make it flexible and compatible with the different forms of life without permitting any abrogation, alteration or even slight damage to its eternity to occur.

The Reason for the Changes in the Demands of Age

The examples of questions posed in this regard are as follows: Can one be a Muslim and adapt to the demands of age, or not? With regard to the fact that the demands of age change, how can one remain a religious person, because the requirement of being religious is to abstain from the demands of age, and it cannot be helped? How should one adapt to the demands of age? Some say, adapting is anti-religion. Some pretext the case and do propagation against religion. They say: for this reason people should not have religion, because religion prevents innovations, modernity and improvement. If one supports modernity and innovations and opposes the old, then one should not have a religion.

As a religion and a way of life, what does Islam have to do with the demands of the age? Does Islam advise Muslims to adapt themselves to the demands of age? Does it prevent the creativity and initiative of man and not allow it to change the environment and the age? Or does Islam, on the contrary, believe in surrendering to the demands of age? Or, is there a third view, or is there, at least, a detailed account and explanation?

Two Kinds of Changes in Age

Another point must be mentioned here. Modernity and innovation are specific to mankind only, not to any other animals even if they have social orders like gazelles and honey bees. Animals do not transform and improve but humans do. In other words, animals do not have initiative and creativity and cannot change the conditions and style of their life to new conditions, but humans can and do⁵. Just as the life of animals does not have improvements, it does not have deflection as well. Nor does it have downfall. It has neither rise nor fall. That is, you cannot find a group of honey bees which gradually encounter a corruption and deflection; or those who are involved in immorality, change their orders, commit a wrong deed and annihilate as a result. But in the case of humans the possibility exists. That is, degression and decadence are also possible in humans. Just as they may improve, humans may collapse and become corrupt as well. Both of the ways are open to them. The possibility of collapse and corruption for humans comes from two sources: by oppression, tyranny, violating the rights of others, and departing from the way of justice; and the other through ignorance, that is, by committing mistakes. ... These two potentialities; namely, the talent of development and perfection as well as the possibility of collapse and degression due to depression and ignorance are inseparable. That is why humans move sometimes forward and sometimes backward. In other words, humans build their age. Sometimes they build it well and sometimes badly. Animals, on the contrary are constructed by the age. Humans are rather the creators of their time. This analysis results in the conclusion that the changes which occur in human life are of two kinds: one kind are correct or exaltational changes, and another kind are incorrect or non-exaltational changes.

One conclusion can be derived. Should one harmonise oneself or be opposed to the changes of the age? The answer is that one should neither harmonise themselves totally with the changes of age nor take a completely opposing position, because the age is

⁵. Why this is so is a very crucial issue. But for the sake of briefness, this analysis will not become involved in it. Those interested are referred to the source and other Islamic sources.

shaped by humans. Humans may make it good or may make it bad. Therefore, one must harmonise oneself with the changes towards goodness and abstain from harmonising with the changes toward badness, or further, oppose them.

This leads us to another question. Which changes can be counted as improvement and exaltation and which as digression and decadence? How can one realise that a change (in the conditions) is good and must be adopted or it is bad and must be opposed? What is its criterion?

Intellect is a good guide for human. God has given intellect to humans in order to distinguish the way of perfection from the way of degeneration. Humans sometimes follow the right path by following the intellect, and sometimes by following foolishness in the way of digression.

For instance, by knowing light and its nature humans learned photography and film-taking. This is the matter and action of science. Has science advanced here or not? Of course it has. What benefits can humans take from this?!

Science does its own job. It makes its explorations and inventions. Suddenly a venal and sensual person uses the means to empty peoples' pocket and meanwhile to make them immoral. By means of this science which people have captured he makes corruptive and digressive films, the result of which is to deprave peoples' morals. Then, can one accept a certain movie and say that this is a phenomena of the age and a fruit of the science? The answer is no. This is not the fruit of science only. The fruit of science is something else. This is the fruit of the passion of the voluptuous persons, who have employed science and have created such a condition.

Other examples can be cited. The production and sale of heroin and making atomic bombs by employing science as a means are two other examples. Has science contributed to the production of heroin or atomic bombs? Yes, but science did not make them, but rather the passion and the sensual or venal desire of man made them. Can one say that heroin is the fruit of the advancement of the age, the fruit of our age and

people must use heroin in the name of the advancement of time and the demands of the age? Or can we say that since the atomic bomb is the fruit of the discovery of the atom and the fruit of this age, then it is in the interest of humanity and is a demand of the age? If harmonisation with all of the demands of the age must be achieved, then why does humanity groan under the armament race which exists and all of the benevolent suggest banning arms (of this kind)? Why do they fight against it? This is the route of science but not the free science. Here, too, the initiative faculty of man has come under the control of his ambition. Here, the human being has followed the way of digression, not the way of progression.

In no other age has science been taken captive as in our age. This age should not be named the age of science, it should be named the age of slavery to science, the age of captivity of science, an age in which science is not left free. Science had been freer in all of the past ages than it is in this age. Never were science and scientists as unfortunate, captive/enslaved and helpless as today. There is no one more helpless than these in the world.

Our age is one in which a power other than the power of science rules human society, and that power employs the scientists as tools to attain its goals. We wrongly say that the age is the age of science, the age of intellect and the age of thought, because, in this age intellect, science and thought do not have freedom. The world is still the world of ambition.

The Growing Society

One issue which astonishes all is the speed of the growth of the Muslims and their independence.

Motahhari quotes from a European that three characteristics distinguish Islam from other revolutions:

- 1: The significance and glory of the goal; the goal was great: to revolve the moral and the belief system of the the people as well as the social order,
- 2: The scarcity of tools and potentialities; even the relatives and the next of kin to the holy Prophet (P.B.U.H.) opposed him. He had no money, no power and no collaborator; and
- 3: The speed of the goal attainment; within less than half a century more than half of the world population became Muslims.

With the least tools and potentialities, Islam could evolve the moral and the belief system of the people and their social institutions.

The question which arises is: Whether the Muslims of early Islam were specifically like this, was this characteristic of them, or is it the characteristic of Islam? That is, wherever and whenever some people believe in Islam and act on the commandments of Islam, they will have the same characteristics of growth, augmentation, gradual perfection, revival, independence etc. These characteristics are, of course, Islam's, not the peoples'. This is the characteristic of the faith in Islam, the virtue of obeying the Islamic education. Islam has not come to stop society and have people mark time. Islam is the religion of growth. It is a religion which has shown that it can advance societies in practice. See what Islam has done in the first four centuries. Will Durant in the "History of Civilisation" says there is no civilisation more marvellous than the Islamic civilisation. Therefore, Islam has showed its virtue in practice. If Islam were to advocate stability, stiffness and monotony, it would keep the society at the primary level of the Arab society. Then why did it embrace the great and strange civilisations and establish a more magnificent civilisation from them. Islam, therefore, does not oppose the advancements of the age. On the contrary, not adapting to the demands of the age has been stated as a reason for the decline of Islam (Gustav Lueben).

Some criticisms of Islam in this regard [the necessity of adaptation to the demands of age] are the issues against which Islam has come to fight. Islam does not perceive these as the demands of the age, but rather the digressions of the age, and it resists them.

The critics say that Islam is solid, inflexible and rigid. It does not adapt to the exigencies of the age. Islam has come to fight against 'mischief' under whatever name. Islam guards humanity. Some kinds of flexibility which the critics expect from Islam are not flexibility. They are naughtiness, mischief and misconception, indeed. Islam is the guardian of honesty, truth and justice. Basically, the philosophy of Islam is to have solidity and rigidity where required.

Extremisms

People may either choose a moderate way or go to extremes in relation to adaptation to the demands of age. There is extremist as well as moderate thought. I [Motahhari] have named the inappropriate and undue extremism as either ignorance [to adapt to the changes of the age by ignoring the principles of Islam] or stiffness [disbelief in the necessity of adapting to the demands of the age].

A Muslim must be moderate, neither ignorant nor stiff. Ali ibn-AbiTalib (P.B.U.H.) said: "Swerving to right and left both are wrong. Be in the straight way in order to get to the destination. Always seek the straight path."

The Moderate Path

One of the manifestations of Muslim life is to find the moderate and the middle way which is between the extremes.

Commandments in Islam are functions of a series of real interests and wickedness. That is, if Islam has declared something unlawful, there was a wickedness, either physical or mental wickedness. It was related either to the life of the individual or to the social life. Nevertheless, unlawful declaration of it had been due to a detriment. That is, there is not

any unlawful declaration for mere obedience which means declaring it unlawful without any reason.

The idea of nationalism was one way to divide Muslims into tribe; such as Turks, Arabs, etc. In Turkey they said: we focus on the race, then religion is a personal problem. It is an individual matter and is not among the social issues. They changed the alphabet. The Turkish parliament did not approve of religion. They did not accept Islam as the official religion. They pushed the country into seclusion. Then they said God does not have any specific language, why should you do your worship in Arabic? Let us pray in Turkish.

This is the highest degree of ignorance which, by such a childish reasoning that God has no specific language, says let us change the worship into another language.

It was said in one of the Muslim countries that since fasting reduces efficiency, then Muslims should not fast.

This is another kind of foolishness and ignorance which occasionally brings about changes in the religion. The moderate and just people should resist these changes.

Demands of the Age

A Muslim should follow the moderate way which the Qur'an teaches, not ignorance or stiffness. But with what criterion can one realise that he either belongs to the moderate nation explained in the Qur'an or to one of the swerving or congealed classes?

What is the meaning of demands of the age? We must explain this first. Time lapses continuously. At any moment, it has a demand different from the demands of past times. Using the word "demand" instead of "exigencies" makes our understanding clear. The second half of the twentieth century demands something which is different from what the first half of the century demanded. What, then, does the phrase "it demands" mean?

1. One interpretation of the demands of the age is to say that something has appeared within this century. Demand, indeed, means to appear. That is to say that this

century demands so. Appearance, then, means demand. Since whatever has appeared implies the demands of the age, to adapt to the demands of age then means to adapt (ourselves to) the phenomena of the age.

2. A second interpretation of the demands or the demands of the age is the demands of the people of the age; what people like and what their good taste, nature and choices are varies from time to time, like their different styles of dressing. "People must adapt themselves to the demands of age", then, means to see what the desire and good taste of the majority of the people is, and obey it. This indeed is the connotation of the old proverb which says "Be in Rome as Romans". Whatever they do, you follow.

If the demands of the age means any of these interpretations, people should not be governed by the demands of the age.

The first interpretation - to be governed by whatever phenomena appear - leads to the following question: Is whatever appears in the new age good and in the interest and for the prosperity of humanity? Has humanity been made so that whatever new things appear are in his interest and for his advancement for certain? Whether does not society deflect? Is it not possible that something new, which is still directed toward collapse, appears? Yes. It is possible. Is it possible that the phenomena at any time be in the interest, and conversely will cause the deterioration of humanity? That is why people need reformers. A reformer rises against the deflection of the age. A reformer does what Imam Hossein did⁶.

We do not accept that whatever exists or appears in our age is good. Neither do we accept that whatever the majority of people do is good. The phenomena of the age can be good or bad. As a result, to say "we must adapt to the demands of the age" is not true. The reason is that human has been created authorised⁷, originative⁸ and free, and this creation differs from the creation of animals. Since the time humans have known

⁶. Please refer to the history of his life and the history of the tragedy of Karbala.

⁷. Please refer to chapter five.

⁸. Please refer to chapter five.

honey bees, there has been no change, advancement or digression in their life. This is due to the fact that animals live according to their instinct. That is why human beings, not any other creature, has been chosen as God's *Khalifa* (vicegerent)⁹. God has endowed humans with the faculty of initiative. That is, God, has given him the power to create a figure which does not exist in the world. Because of his vicegerency, he must build his civilisation by his plan, design and initiative. Just as he can advance he can degrade as well. The way of digression is not closed. Ali ibn-AbiTalib (P.B.U.H.) said: "The right or left ways mislead. The rightful way is the straight way." Since there is the possibility for humans to swerve, then we do not accept as good whatever appears under the name of the phenomena of the age; that is, innovation, etc. It is wrong, therefore, to adapt to the demands of time in this meaning. We must be vigilant. We must contrast the phenomena with some specific criterion, then adopt them if they are good and reject them if they are bad. Heroin is the phenomena of the age. Various semi-naked styles of ladies dressing is a phenomenon of the age. But we do not adopt them.

The desire of people is not a logical reason. Ali ibn-AbiTalib (P.B.U.H.) said: "If you find out the truth, never feel scared if you are in minority."

3. There is still a third interpretation of the demands of the age. That is, that basic needs differ through the time. Then the needs of humans at any time have a different demand.

The axis for human efforts are their needs. One set of human needs are fixed and unchangeable. Human beings must put order into their spirit and provide it with ethical guidelines. They must regulates their society and put order into their relations with God, with the earth, the trees, the animals, etc. This is the same in all the times. These are fixed and unchangeable needs.

Human beings, however, need some means and tools to fulfil these needs. This second category of means differs from age to age, since means are bound to man's initiative. Religion has nothing to do with (of course lawful) means. Religion sets the goals and the

⁹. Please refer to chapter five.

ways to the goals. Providing means to fulfil needs is within the domain of intellect. Intellect accomplishes its job gradually. Every day it selects a better means. Human beings want to attain their goals in a way which is easier and cheaper. Wherever human's need for means changes, the demands of the time must change. The demand is not merely the choice or admiration of the age, it emanates from the real needs. Islam bans not the real needs, but rather the capricious desires. Islam never says till with plough when there is a tractor or heat the house with charcoal where there is gas or an electric heater. Tilling the farm and heating the house are needs and unchangeable. But destructive, exciting movies cannot be approved as the phenomena. A means can be used either in a lawful or unlawful way. A tool can not object to the way in which it is being employed. A television set can be used both for education and teaching the Qur'an or for showing destructive, exciting movies. This is condemned just as someone who wants to fight using a sword or knife in the age of atomic bombs.

This is the meaning of the demand of the age. Do not confuse the demand of the age with the approbation of people and the phenomena of age. The basic needs of humans are unchangeable. Their secondary needs, those which lead them to the primary needs, change. This demand of time changes, and any stiffness is doomed to failure.

The phenomena in any new age are of two kinds. They may be due to the advancement or due to the digression. Nothing can be accepted because of its newness, just as nothing can be accepted or rejected merely due to its oldness. Neither newness nor oldness is an indication of goodness or badness. The criterion for goodness or badness is not newness or oldness.

Material objects change but not every thing changes. For instance, laws do not change, like the law of gravity and Darwin's law of evolution.

Qur'an is a law. It explains the facts and the rules. This, then, is not depreciable. A law will last for ever if it is a fact and according to the facts.

What a big mistake some people commit if they think that the badness of one thing is because of its oldness. For example, they say Feudalism has become old. Was it good when it was new and is it bad now since it has become old? They compare both Islam and Feudalism with a car, a cloth or a shoe, which are good when they are new and bad when they are old. Is everything tantamount to a car, a cloth or a shoe?

This is not true about laws and principles. It is true about objects and articles.

Those who say that everything is subject to change believe that everything - science, art, industry, justice, religion, ethics, knowledge, politics, family laws and intellectuality, for instance - is rooted in economic affairs. That is, whatever man wants is because of its economic benefits. And since economic affairs change, they then conclude that every thing changes.

If we believe science, ethics, intellectuality, religion and worship, are begotten of stomach, then how does humanity differ from the animal-world? How do they define human being?

Changes of Age in the History of Islam

The critics of Islam ask: "If everything in the world is subject to change then how can Islam remain stable?" The answer we already gave was that matters and material articles are subject to depreciation and obsolescence, not laws and facts. "Matters become old" has nothing to do with the facts of the world. For example, when we say honesty causes God's satisfaction, perservance is a good quality, Muslims must pay the dues of their wealth or humans need laws to live with, these are unchangeable principle human needs. Those do not change. Minor needs change.

Islam considers the stable needs of humans constant and their variable needs as a function of their constant needs. This, I believe, is a miracle in the structure of this religion. Furthermore, as a general principle, any act which safeguards the domain of Islam has priority over any other act.

Islam sets the major principles and the commandments about the constant needs fixed and sets a rule-making system to issue the ordinances regarding the changing needs. This rule-making task is called *Ijtihad* (exegesis) and is performed by *Mujtahids* (religious scholars).

Iqbal Lahorei: "The motor power of Islam is *Ijtihad*." Abu Ali Siena (Avicenna) in *Shafa* stated: The human being has endless needs. Islamic principles are stable and unchangeable. Not only from an Islamic point of view are they not changeable but also they are facts which must serve as the life principles of humans at all times. They are real programs, but the ramifications are endless. He says for this reason *Ijtihad* is necessary. That is, there must be real experts and specialists at any time to match the Islamic principles with the different issues which emerge at any time, to figure out to which principle a new problem relates.

Islam relates to the matters which change over time; namely, the changing needs, to the constant needs. That is, Islam has tied any variable need to a fixed one. It only needs a *Mujtahid*, and expert in Islamic jurisprudence to discover this relation(ship), then express the Islamic commandment (opinion). This is the same motor power.

Since Islam has tied the changing rules to the constant ones, it never loses control.

No ordinance in Islam is without a wisdom and benefit. Both intellect and the commands of *Shari'a** follow the same logic. Whatever the intellect necessitates, the religion also makes it necessary; and whatever the religion necessitates, the intellect does as well. That is, if the intellect discovers a benefit (a certain not probable discovery), we can express the opinion that, of course, the command of Islam is this, even though that command has not reached us.

Islam is a religion which does not leave the interests of people in a state of painful suspense. Every commandment of Islam is either for the sake of a benefit or to repel an evil.

Islam is the religion of accounting. It takes into account the importance and the significance. It says: sacrifice a less important thing to a more important one if needed. This itself is one of the matters which makes Islam flexible. There are other indications of the flexibility of Islam. How to worship and fast on a journey or in emergencies, for instance, is an example.

Major laws and innate laws which are principles are fixed and unchangeable. The ramifications and branches are changeable.

The Prophet (P.B.U.H.) while defining the Qur'an said: "Qur'an flows just as the sun and the moon flow." That is, Qur'an belongs to the people of all places and all times just as the sun and the moon belong. It always rises. One of the miracles of Qur'an is the relation which Qur'an has with the interpretations of Qur'an. Qur'an has been interpreted ever since it was revealed, for fourteen centuries. At any age, people understood from Qur'an what they interpreted. Time has changed, science and the understanding of people has changed. New interpretations which abolished the previous ones have arrived. People see that the new interpretations match better with Qur'an than the old ones do. That is, Quran comes further age by age and puts the interpretations of the old ages aside.

The comprehensiveness of Islam necessitates not having a commandment in most cases. This, of course, does not mean ignorance or lack of opinion, but rather the commandment is to keep silent and to leave people free and not to have any obligation on that issue.

The personal and social needs of humans are of two kinds; some are unchangeable and some changeable. There are, however, some who believe that all the needs are changeable, and some who perceive all the needs at all times unchangeable. We name the first group ignorant persons and the last one stiff. According to the assumptions of the stiff, there is nothing which must adapt itself to the demands of the age. And according to the ignorant persons, there is nothing in the world which remains unchangeable.

What is the rationale for the abrogation of God's commandments? There is no objection to humans making a new legislation when they realise that they had committed some mistake(s) and the previous legislation is not efficient any more. How about God's rules? We cannot say that God may realise His mistake and realise that a law set by one of His messengers was inefficient and want to amend it. What is the reason for the abrogation of God's rules? Each religion abrogated the previous one(s).

The religions before Islam were not forever. They were temporary religions, each of them a response to the demands of its own age. The subsequent age required another religion. According to this analysis, there must be no religion as the seal of the religions. But why did the religions end after a specific point and no other religion reveal itself after that?

Islam is the seal of religions. Each religion discussed some of God's education above and beyond the discoveries of the previous religions. The process of discovery reaches a level at which humans have understood everything which is possible and feasible to understand, so that they have discovered from God's education anything which was possible. In this case the last Prophet leaves no room for a Prophet after him. The maximum extent of education is what he has stated. There is nothing from God's education beyond it for another one to come and state.

Intellect and inspiration are guides for human beings. Changes in inspiration are because of changes in the level of desire; that is, the talent of human beings to learn the divine rules. Human society, like an individual's life, has different courses of childhood, growth, prematurity and maturity. Humanity is like a child at the beginning. Its absorbing capability is small and weak. As it grows, it gains more talent, just as a child who cannot execute a fixed command perfectly. Therefore, you ask him to perform some part(s) of the command and some part(s) of it you either weave or perform yourself on his behalf. As he reaches maturity, he can perform at a level to which his intellect has reached you can give whatever commands you can, and you can teach him all of the ways and principles to follow in his life.

The general laws and principles which human beings need to be told through inspiration are not unlimited. The reason why all of the commandments were not given to the primitive humans is that humanity was in its childhood. The general laws for all of the ages are the same. But human beings had lacked the potential to be told all of the commandments and if they were told, they could not apply them. Even for whatever was told, a supervisor was needed to be sent to help them apply the commandments. When a human being reaches his maturity, the age of the completed intellect, and a point at which he has the talent to receive the laws which are the principles of his individual and social life, the laws must be told. He is then told: The whole inspiration to guide humans is this. Your intellect has reached a level that we tell you whatever you need to be told through inspiration and you must apply it. You learn it and adopt it in your life for ever.

Why were the messengers sent? What do humans need the inspiration for? Prophets do not come to take over peoples' thought and intellect. They have not come to suspend all human faculties and tell them you do not think, reason or practice religious jurisprudence, we will do all of the acts on your behalf. This is against the order of the world. The prophet says: O humans! do your best. The tasks which are within the realm of your thought, intellect and reasoning you must do your self. Whatever is outside of your abilities, we will help you by means of inspiration. As an example, consider how the doctors treat their patients. For the simple and common people they give a prescription and they supervise the other tasks themselves. But a doctors' job becomes easier if his patient is an educated person. The doctor contents himself with telling the general matters only.

The need of humans for inspiration is not unlimited. That is, there are some subjects such as divine education, ethical and social commandments which are out of the capacity of intellect, experiment and the knowledge of humans. And humans cannot understand them by means of their knowledge, because knowledge and intellect are limited. Inspiration comes to help. Then it is not necessary that unlimited amounts of issues be communicated to humans through revelation. The maximum inspiration man needs will

be infused to him when he has both the potential and capacity of capturing it and looking after it.

Communists believe that the conscience is also rooted in materialism and depends on it. Conscience, according to them, changes as the economic factors change. Based on this belief, the conscience loses its meaning. Whereas, the conscience, we believe, is an unchangeable fact at all times.

Qur'an says that conscience does not change, it says that it is unchangeable, but that it may become sick. It cannot function well if it is sick. The conscience, just as any other thing, works well when it is safe and works badly at times of swervence. People may see good or lawful matters as wicked or unlawful as well as the wicked or unlawful matters as good or lawful when their conscience decays and becomes ruined.

People judge differently at different times only the means of good and bad matters, not the good and bad matters themselves.

Materialists believe that everything even thought, intellect, mind and feeling, is rooted in matter, in stomach.

Viewing improvements in technology, people think that humans have advanced in all aspects of life. Whereas, there exist aspects which are tragedies for humanity. Half of the world population think in this way and perceive human life as rooted in matter and stomach. They have a wrong perception of man. They think that this wrong perception is related to the improvements in technology. They argue that had they committed mistakes, their technology would not have advanced so. The advancement in technology has nothing to do with this.

Whereas Marx and some others viewed stomach as the basis of all human transfigurations, Freud perceived sexual affairs as the origin of all, even material, human activities.

We believe that an age advances toward justice and moderation. It advances by itself, the world does not change because of economic reasons. Economics is one of the reasons, That is, there must be many factors in human life, one of which is economic

reasons. These factors must be in proportion to keep the society safe. Otherwise, the society becomes sick.

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