

Comparative Performances of Capitalistic and Islamic Banking Systems in a One-Sector Model (Development Perspective), 1994

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Pure Islamic and Capitalistic systems can hardly be found in real world. Hypothetical data has been used here to show the differences in performance. The assumptions of the two systems are identical; yet, they differ slightly on the presumption of money market and labor remuneration. However, the most important common assumptions are:

- (1) Production function is of Cobb-Douglas type with capital and labor as the only arguments.
- (2) Just two periods, present and future are considered each of which of the length 10,20,50,or any other years.
- (3) Labor force increase is 25% for these two periods.
- (4) Capital does not depreciate and is the limitational input.
- (5) There are two groups of people, one capitalist(entrepreneur) and the other labor and both save.
- (6) There is a closed economy with no government and no tax.
- (7) Pricing is based on mark-up method, and
- (8) Certainty conditions prevail.

Furthermore, inputs receive their MP's in capitalistic state but labor receives a minimum wage plus a fixed portion of the profit in the Islamic state. Rate of interest is 10% for both periods in capitalistic state. Most important con-clusions derived from this analysis are:

- (1) Inflation in Capitalistic State (C.S.) and stable prices in Islamic State(I.S.).
- (2) Unemployment in C.S. but zero unemployment in I.S.
- (3) Real saving and investment both higher in I.S. from that in C.S.
- (4) Labor's income, saving, and consumption higher in I.S. than in C.S.,and
- (5) Surprisingly, real income growth rate higher in I.S. compared to that of C.S.

This type of analysis is quite capable of expansion to include more complex issues such as different rate of change in technology, different birth rate, different efficiencies both in private and public sector, etc. in order to partially provide answer to some existing problems of Islamic countries.

The most important implications of this study is that following the development path of capitalistic system by Islamic state there is no guarantee to fill the wealth, capital, efficiency, and the like differences between these two system unless there are quite considerable common essential grounds between the leader and the follower.