The Role of Traditional Micro Institutions, in Income Inequality in Iran

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Abstract: Purpose: Some traditional Iranian micro institutions and also some Shariah micro institutions are working informally along with formal institutions in Iran. This paper is developed to investigate the performance of institutions in question. Although, their shares in whole economy are small, these Iranian-Islamic Micro Institutions, IMI, do play their own role on changing the related economic variables, including inequality and income distribution in Iran. A specific purpose of this paper is testing the above relationships. Design/methodology/approach: In this paper firstly, and by using library studies, we explain 3 constituents of IMI. Secondly, and in order to project the impacts of variables in question on the income distribution in Iran, we gather the required data. Sources of our data include central bank of Iran, CBI, Awgaf organization and charity affairs of Iran, AOI, and Statistic Centre of Iran. Thirdly, and for statistical analyzing, and statistical inferences, we employ econometric models. Finally we use vector autoregressive method (VAR), to investigate the relationship between variables, based on time series data (for 1974-2009 periods). Findings: The results of this paper show that: 1- the performance of Iranian-Islamic Micro institutions, IMI including two Shariah payment subsystems and a traditional Waqf institution, reduce the inequality and improve the distributions of income.2-comparing the impact of IMI with Iranian government size the government size worsens the inequality of income. In other word, the bigger the government size the, worse the income inequality, but the more Waqf revenue and Shariah payments, the better income distribution.3-In Iran, these three informal institutions, surprisingly, in some dimensions, compete with formal institutions. Mean while, the deeper the belief of the people, the more efficient the

above impact would be. Research limitations/implications: The performance of IMI. at one hand can reinforce Iranian private sector, and partly alleviate the poverty at the other. One of Shariah payment subsystems in Iran obliges the Muslim people to pay 20% of their yearly saving to finance the well-being of poor people. Applying this special payment in entire economy would have significant impact on alleviating the poverty and achieving a reasonable distribution of income, wealth and welfare. Also reinforcing the Waqf funds in Iran would enhance the efficiency of private sector, a main goal targeted for its well known 20 year outlook documentation (2005-2025). Originality/value: This study ,in both analyzing the micro institutions in Iran ,and specially in using VAR model, and employing two separate models for traditional Iranian Waqf and Sharian payment subsystems, have ,we think, its own novelty in Iran and even in some other Muslim countries as well.

Key words: Income distribution, Shariah payment institutions, Waqf fund, Iranian economy, income inequality

1. Introduction

The importance of performances of private and informal micro institutions, microenterprises and the like are considerable and meaningful in entire economic systems. Meanwhile by institution here we mean, more or less, the very definition of Doglous North (1990, 3). That is, a set of roles, formal or informal that actors generally follow whether for normative, cognitive or material reasons. Or as institutionalist Walton Hamilton (1932, 84) stipulates, institution is a way of thought or action which is embedded in the habits of a group or the customs of a people. Historically speaking, the majority of people were trying to provide their necessities by their own efforts and relying on other (especially government) was construed as unjustifiable activity. Nowadays, modern and postmodern world, the significance of this phenomenon has increased remarkably. For instance, in era of good governance, the more the informal and independent private enterprise, the more sustainability the society is expected. One basic condition of successfulness of management in new globalized world is collaborating independent private institutions with well defined government (Choudhury 2002, Dadgar 2007, ADB 1997). Consequently, the more the micro institutions or microenterprises a society has, the more sustainability is expected thereof. We define micro institutions as any informal enterprise, belonging to an individual, limited families, neighbours etc, who proceed independently and self-sufficiently as much as they can. Accordingly, one can find some similarity between micro enterprises and micro institutions in our study. We rely on two substantive aspects of institutions as such: one is their role in sustainability of society and self sufficiency of private sector (not burdening on

public sector). Second is the role of those institutions in declining inequality or improving the income distribution of society. Implicitly our hypothesis in this paper has based on two elements: 1- the performance of the micro institutions declines the inequality in Iran. 2- In contrast, the size of government does have negative impact on the above variables. That is the bigger the government, the worse the distribution circumstances in Iran in period in question (1978-2009). Although the ups and downs of government involvement in economy have been, remarkable meaningful consensuses of economists believe to reinforce the role of private sector and suggest that government should monitor and not involve directly in economy. Globalization, progress in technology and other new phenomena in 21 century are consistent in this connection as well. Thus, paying a new attention to the informal and micro institutions like Waqf and other constituents of IMI is significantly, in its place. For, these micro institutions can help to accumulate both physical-financial and human-social capital. Accordingly, they can also enhance productivity and ultimately reinforce the economic growth and development. They can help to fill some dimensions of development gaps and serve to alleviate the poverty and reduce the inequality too. We are discussing the role of 3 Iranian Islamic micro institutions, IMI. These include two Shariah payment subsystems (SP1, SP2)¹, and one Iranian traditional Waqfinstitution.

Waqf has had a long record in culture and civilization of the human and nation's history. Instances of it can be in Egypt's pharaohs (Creclius 1971). In ancient Greek and Iran, there are signs of library Waqf and educational centres (Isin and Lefebvre 2005). Before Islam, Waqf can be seen in charity activities in divine Prophets Life and traditions. Abraham was one of the first founders of charity and the relief efforts (Bremer, 2004). At the moment, in the North America, many of religious and charity foundation are belonged to properties benefits. And thousands charity foundations are just active in America. Waqf in some western countries is known as a Islamic custodianship (Kuran, 2001, 843, Salarzahi, et al, 2010). A major characteristic of Waqf in Islamic culture is that it is a voluntarily charity activities based on the feelings of friendship. Revenue of which can be spent on a variety of grounds including educational institutions, orphan home, establishing parks and other similar activities. Thus Islamic Waqf includes both religious and non-religious ones including philanthropic and family Waqf (Kahf, 2003, 1, Sadeq 2002, 134). Experimental findings have also confirmed that no significant action is depending on income, education and employment base. The higher the people's income is the more benevolent opportunities will increase. Major benefices in Islamic countries have been established by rich people. Education level and employment are in parallel with the level of citizen's income which has influence on significant actions (Sami 2006, Krafess 2005, Jennifer 2004). Clinics and health centres are examples of the charity activities based on sources of benefices. In

¹ For simplicity we use SP1 for first Shariah payment and SP2 for second Shariah payment

addition to these, Waqf can be more effective in eliminating poverty programs and realizing comprehensive methods. In the past benefices had been used to construction and equipping the shrine, maintenance and established training centres and the fields of health and treatment, preparing food for poor, but now Waqf is used for city protection, pay taxes of neighbours, supply of drinking water for public and etc. In recent years cash Waqf in many Islamic societies is more common as well (Cizakca, 1995, 324).

In Iran in parallel with other Islamic countries there are many examples of benefices and properties' that are allocated for public affairs. Social entrepreneurship culture in Iran, has managed the value of friendship, divine revelation and seeking Islam to mingle. Construction, utilization and management of hospitals and clinics on Charitable Contributions by the well-meaning and dedicating them to the needed and deserved patients and free medical services or the low tax in comparison with the private sector hospitals is another example of charity culture and tradition, among the Iranian Muslims(Latifi et al 2008). For example, the specialized Razavi hospital of Mashhad is prominent symbol of benevolent will and inspired by the lessons of Islamic school in support of human dignity in the finest and most tangible kind of way which is Waqf (Razavi, 2008). The considerable point in usage of Waqf in development and social welfare is that the Waqf lonely and without commercial and state participation cannot effect considerably on social development. In addition, government can make the tax exemptions granted to benefices, facilities and other policies for encouraging people to participate in the Construction process, so provides development of the country. It can ease Waqf laws and regulations management and benefices in the form of organizations and charity institutions that uses the capacities of the participation of the well-meaning and volunteer groups for the development and welfare. In multi- dimensional models of development, Waqf is one of the significant Islamic activities with characteristics of piety and provides kind of friendship and social justice for promotion of innovation and entrepreneurship dynamism and social development (Brown & Holloway, 2007). It is interesting that in Iran, 33% of school buildings have been financed by Waqf and other Shariah payment system. In this country also a considerable number of super professional hospitals have been made up by those micro institutions in question (Razavi 2009).

2. Two other micro institutions

In addition to Waqf, Iranian Muslim people informally are engaged in two kinds of Shariah payment systems. These Shariah payment subsystems (SP1 and SP2) are two economic and social institutions as well. The performance of these two Shariah payment systems is apparently similar to taxing system in conventional economics. In fact, Iranian formal and official taxing system is inefficient; because the public

sector projects and her other expenditures are largely financed by oil revenue. This of course is a basic shortcoming in Iranian economy and needs a separate research (Dadgar and Nazari 2007). The shortcoming in question is construed as a main reason for current development gap in Iranian economy. Thus existence of 3 informal micro institutions, "IMI" in this country also can partly compensate the shortcomings in formal taxing system. At the same time there are some differences between SP1, SP2 from "IMI' and formal taxing system. One is that, the revenues in "IMI" framework is used entirely in private sector grounds or some public utility ones (hospitals, schools, worship places, public roads, universities typically). Second difference is that, Muslim people are involving in these payment system due to operating their own internal and religious belief and not required by government or other official centres. Finally in Shariah teachings it is emphasized that the revenue of "IMI" is mainly devoted to poor people and using in other affairs is provided to achieving a minimum well being of poor people. Of course some parts of the revenues are used for reinforcing public utility affairs which majority of it's by-product again is used for poor people. Building charity hospital, charity schools and the like can be mentioned typically. Meanwhile, the intention of donors of those revenues is not necessarily selfish, rather it is social, and they may demand some spiritual reward from God and other related metaphysical powers. Also two Shariah payment subsystems for Muslim persons are compulsory in principle, but donating Waqf is requested strictly but it is not compulsory in nature. Emphasizing on one more point is helpful in this regards. This is the similarity and differences between Iranian, Shariah payment subsystems at one hand and well defined Zakat at the other. One difference is related to rate of payment. That is the main part of Iranian Shariah payment as we mentioned is 20% of total saving of households, where as Zakat rate in majority of Muslim countries is 2.5% of total revenue of economic activity. Meanwhile, revenue of Shariah payment systems in Iranian case is completely private owned, but in a remarkable number of other Muslim countries, it is taken over by government. In addition in Iranian case the second component of Shariah payment, is attributed to the some specific assets mainly in agriculture and gold and silver based wealth. Where as in other Muslim countries it is general and includes all revenues in different sectors (agriculture, business industry, mining and the like). There is some similarity between IMI and famous micro- enterprises as well. IMI, like microenterprises in conventional world are among informal sector. So they generally compromise small scale producing and distributing activities. These are independent family owned and are relatively labour intensive. IMI provide income and other necessities including shelter for poor people. At least potentially speaking it is recognized that IMI like microenterprise form an essential element in the promotion of growth and improvement in the well being of the poor people. They can play a basic role in the economy of the poor households. IMI can

provide some kind of consumption credit for poor people (which are an urgent necessity among majority of poor). IMI like microenterprise firstly can help to alleviate the poverty. Secondly; they can provide some financial facilities to run small projects, which in turn may assist to reduce unemployment as well. IMI of course do have some limitations and problems which need a careful attention. One is that, although traditionally speaking IMI are informal in nature (and that aspect is basic reason of their success), official and formal organizations including Iranian Waqf organization intervene the usual activities of IMI. The obvious result of this reduction of the confidence of private sector. Also some official decision is government units misspend the Waqf revenue. A second problem is mixing the government obligation with Shariah obligation which confuses both Shariah payers and Waqf donors. We can attribute these shortcomings to the misusing of some government units from Shariah principles. For, qualified and knowledgeable Islamic scientists and original Shariah teachings indicate their collection privately, and their using for well being of poor (Quran 9/60). However, political authorities, disregarding the obvious message of original Shariah text, try to misuse some of the IMI, which is an essential difficulty in this regard.

3. Dimensions of Iranian-Islamic micro institutions "IMI"

Three Iranian-Islamic micro institutions have their own characteristics and special dimensions. Some of their dimensions are like conventional microenterprises, but some others are not. For instance, in addition to social welfare distributive and alleviating roles, IMI, do have spiritual roles as well. Thus ethical and belief oriented aspect, can potentially work as a momentum baking for enhancing efficacy of those micro institutions in question. Meanwhile two institutions from IMI do play in both micro financing and micro enterprising activities and the third one in addition play as a development financing operation as well. By their two fold dimensional character, IMI can expand and contract along with economic growth and development, they can affect on income inequality, reinforcing entrepreneurship and the like. From 2 Shariah payment subsystems (SP1 and Sp2), one can be defined in quantitative framework as 20% of Net yearly private savings. If THI is used to show annual total household income, THE, annual total household expenditure thereby, that is net annual household saving, NHS, would be:

NHS=THI-THE (1) consequently: SP₁=20%NHS

that is: 20% NHS is the required Shariah payment. Second compartment of Shariah subsystem in Iranian case, SP2, is a specific percent of total value of agricultural products and some mineral products (specially gold and silver). Although the above rate is generally constant but is different among agricultural and mineral products.

Of course applying this payment is conditioned to reaching a minimum product. In other word, there is, some exempt of payment thereof. If? is the vector of rates of agricultural products, AP,? the vector of rates of mineral products, MP, APe for agricultural payment exempt, and MPe for mineral payment exempt we would have:

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Sp_2=\alpha(AP-AP_e)+\beta(MP-MP_e) (2)
So, the trend of Shariah total payments, ST_{,-}is: ST_{,-}SP_1+SP_2=20\%NHS+\alpha(AP-AP_e)+\beta(MP-MP_e) (3)
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Since SP₂ in Iran, is similar to Zakat payment in other Muslim countries, we can use Zakat as a reasonable proxy for SP₂. One specific point in connection with the ST₁ is the role of "Ijtihad" on that. Ijtihad is a Shariah technology which can give a dynamic aspect to related variables. For instance, although traditionally the SP₂ is attributed to some agricultural and mineral products, Islamic scientists by assistance of Ijtihad extend the domain of SP₂ even to all possible wealth sources (Montazeri, 1404h). Of course, there is a huge gap between actual Zakat collection in Muslim countries and its optimum capacity. Table 1, indicate, Zakat collection as a percentage of GDP of some selected countries.

Table 1: Zakat collections as a percentage of GDP

Zakat Collections (as percentage of	Country
0.02	Egypt
0.02	Jordan
0.02	Indonesia
0.08	Kuwait
0.3	Pakistan
0.01	Saudi Arabia
0.08	Malaysia
0.03	Iran

Source: Wiranata, et al 2010

Although the actual collection of SP1 and SP2 are not at their capacity levels, some evidence indicates their distributive role and their balancing function in social welfare framework (Sadr 1980, 717). To understand the actual place of Shariah total payment payments (STt= SP1+SP2) in Iran, we can compare their share with that of conventional government tax payment (CTt) in this country. Table 2 has shown this comparison as a percent of GDP

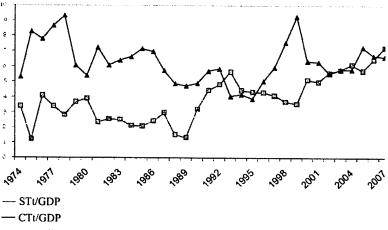
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Table 2-: Shariah payment and conventional tax, percent of GDP

Year	ST, GOP	CT.	Year	ST ₁	CT _L
1974	3.41	5.33	1992	4.84	5.85
1975	1.23	8.29	1993	5.67	4.06
1976	4.10	7.81	1994	4.45	4.17
1977	3.41	8.68	1995	4.35	3.89
1978	2.91	9.34	1996	4.32	5.04
1979	3.70	6.07	1997	4.12	5.94
1960	3.91	5.4	1998	3.72	7.57
1981	2.34	7.24	1999	3.57	9.27
1982	2.55	6.09	2000	5.13	6.35
1983	2.52	6.4	2001	5.00	6.29
1984	2.13	6.63	2002	5.60	5.54
1965	2.08	7.17	2003	5.77	5.79
1986	2.42	6.99	2004	6.13	5.ε
1987	2.97	5.75	2005	5.72	7.26
1988	1.53	4.88	2006	6.46	6.71
1989	1.35	4.74	2007	7.24	6.64
1990	3.21	4.91	2008	8.48	6.1
1991	4.46	5.71	2009		

Source: calculation of Authors

We see that, other thing being equal, the informal Iranian Shariah payment trend (ST_i) compete remarkably with that of formal and government based taxing. Figure 1 shows the trend of both CT_i and St_i .



Fogure 1 - shariah payment and conventional taxpayment relative to GDP

One basic reason of smallness of Shariah payment in Iran is obviously attributed to the situation and performance of private sector in this country. The better the private sector condition, the more products and income they would have and the more Shariah payments as well. Because as we already mentioned both constituents of total Shariah total payments ST, are function of earned income and production. Although ST, is not included in Government revenue, it is spent in some area similar to that of government tax. These include social welfare, helping poor people and public utilities. Consequently when we observe that the ratio of total payment TP, that is, TPt= CT, + ST, to GDP, it is considerably higher than ratio of conventional tax CTs to GDP (Figure 2, indicates the trend in question).

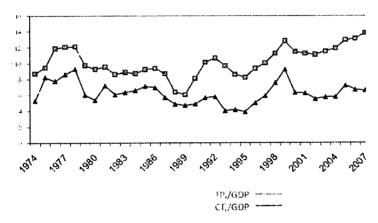


Figure 2-total payment and conventional tax as percentage of GDP

Accordingly, informal Shariah payment micro institutions indirectly, could reinforce the scope of formal tax in Iran as well (Ahmad 2004, 2008 Darakhshan 1994).

4. Iranian traditional Wagfinstitution

Alongside with Shariah payment subsystems, the third component of IMI is traditional Waqf and Waqf fund in Iranian society. Although, Waqf has been invented in Iranian civilization before Islam, it has been Islamized in some dimensions. Islamic teachings have reorganized Waqf and have added some new dimensions to it (Riahi 1999, Mohaghegh, 1377h, Aminian 2002, 21). They also try to put Waqf in place of some Islamic terms in Quran and Sunnah (including Enfagh). For, Islamic original texts and followers of prophet are strictly emphasizing on donating charity (Quran, 4/95, 2/262, 3/92). They also apply technology of Ijtihad to give a dynamic aspect to Waqf including legitimizing Waqf in money (Dadgar and Saadatfar 2007, Najafi 1981, Faiz 1995, Hasheminasab 1998). Prophet himself and his follower in early Islamic era usually participated in Waqf eagerly (Hemiari 1383h, Cizakca 1998, Ornat 2005). Historical documentations show that family of prophet and his governors of different states and every wealthier people were devoting some parts of their wealth as Waqf (Kolaini 1391H,). But, Iranian

civilization was engaging in Waqf before Islam. For instance Zoroastrians, as Old Iranian people financed the expenditure of poor people by helping of Waqf revenue (Omidiani 1995, 98, Diakonov 1985, 156), Also revenue of Wagf was used to build the bridge, water foundation, building schools and roads. Iranian tradition regarding Waqf, was so strong and comprehensive, that after collapsing its government by Muslim country (about 532 BC), they were institutionalized as Islamic tradition as well. Qualified Iranian prime minster "Nezamol Molk" managed a considerable number of schools and universities by Waqf (Sadeghi 2006, Riahi, 2003). During Mongol administration another knowledgeable Iranian authority "Rashidodin Fazlulah" was managing more than two main universities by Waqf revenue (Momeni 1993, 51). Some Iranian authorities were applying tax exemption policies to encourage Waqf donation. Even great Safavid king devoted all his wealth as Waqf for public utilities. Zand another Iranian king established a separate ministry for organizing the Waqf affairs (Shafici 2004, 64).

One interesting reality about Waqf in Iranian -Islamic tradition is its comprehensive including building house for homeless people, Worship places, schools, scientific and research centres, establishing library, protection of historical and cultural places, organizing hospital, fixing and repairing roads, making bridges ,helping poor travellers, helping widows, providing the facilities for wedding ceremony of poor youth, establishing centres for curing special illnesses, providing centres to cure sick animals, providing at least one sufficient diet for unemployed people, protection national parks and any other refreshing places, repairing cemeteries, establishing industrial and manufactory centres to reduce unemployment and increasing economic growth, launching hotels, motels and hostels, for poor travellers and so on and so forth (Safar 2007, Motaghedi 1998), So we witness that this informal micro traditional institution, has played a considerable role in both micro and macro levels. Number of Waqf units realized for 2007 in Iran was 108528 (Table 3 and 4 indicate the Waqf revenues and its uses in 1983-2009 periods).

Table 3- Waqf revenue and amount of its utilization (million dollars)

Year	Obtained revenue	used revenue	Year	Obtained revenue	used revenue
1983	0.24	0.20	1997	6.49	5.29
1984	0.31	0.22	1998	7.75	5.95
1985	0.36	0.30	1999	10.83	7.81
1986	0.38	0.29	2000	12.69	10.39
1987	0.49	0.36	2001	15 45	13.31
1988	0.59	0.14	2902	23.23	17.37
1989	0.84	0.65	2003	31,49	31,49
1990	1.10	0.86	2004	36.15	29.66
1991	1.33	0.99	2005	45.24	34.92
1992	1.55	1.42	2006	58.87	41.03
1993	1.93	1,49	2007	90.70	64.05
1994	2.97	2.07	2008	142.71	-
1995	4.40	3.06	2009	228.34	
1996	6.51	4.46			

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Table 4- expenditures (out of	Waqf revenue) in traditional and religious centres
	(million dollars)

Year	Contractual expenditures	Cultural expenditures	Mandatory expenditures	Others	Total expenditures
1981	0.054	0.011	0.030	0.011	0.107
1982	0.086	0.019	0.040	0.018	0.164
1983	0.087	0.011	0.042	0.017	0.158
1984	0.136	0.016	0.062	0.034	0.249
1985	0.111	0.011	0.050	0.045	0.217
1986	0.088	0.015	0.058	0.035	0.196
1987	0.144	0.023	0.096	0.047	0.311
1988	0.234	0.063	0.112	0.002	0.411
1989	0.263	0.088	0.148	0.002	0.501
1990	0.039	0.154	0.234	0.014	0.796
1991	0.464	0.212	0.261	0.025	0.962
1992	0.511	0.085	0.330	0 162	1.089
1993	0.670	0.081	0.418	0.232	1.401
1994	0.902	0.098	0.560	0.197	1.758
1995	1.206	0.169	0.668	0.249	2.292
1996	2.042	0.286	1.214	0.308	3.849
1997	2.575	0.334	1.636	0.708	5.253
1998	3.219	0.802	1.936	0.067	6.625
1999	4.687	0.560	2.985	0.062	8.858
2000	5.361	0.694	3.324	1.009	10.388
2001	7.734	0.893	4.215	0.857	13.699
2002	8.339	1.082	5.362	1	15.787
2003	11.06305	1.850	6.668	2.050	21.631
2004	12.68313	8.005	1.965	7.210	29.862
2005	12.79147	9.693	4.180	8 058	34.923
2006	13 46097	12.832	5.077	9.855	41.025
2007	25.51022	17.879	6 352	14.304	64.045

Finally, tables 5, shows the trend of growth of Waqf activities in 2004-2007 period.

Table 5- growth trend of Waqf activities in Iran (million dollars)

	Type of cost	2004	2005	2006	2007
1	Cultural	8	9.89	12.63	17.88
2	Construal	12.68	12.79	13.46	25.51
3	Social	1.61	2.18	2.14	3.42
4	Mandatory	1.96	4.18	5.08	6.35
5	Medical	0.77	0.75	1.57	2.10
6	Other	4.83	5.14	6.15	8.78
7	Total	29.86	34.92	41.03	64.05

Source: IAQO (2008)

Mentioning one much more important point here may be in its best place. That is, although this traditional micro institution historically has very well informal and private framework among Iranian people, its efficiency has declined after government intervention in it. Thus we confirm by certain evidences that the basic difficulty that our informal micro institutions in Iran are facing, is the involvement

of government in Waqf units, which is in turn, crowding out the private sector thereof. Of course Old Iranian authorities, were monitoring (and not managing) the micro institutions. Current Iranian government (especially 2005-2011) is taking over the micro institutions and is creating new inefficiencies in this regard. Lack of professional planning for extending Waqf units, in-transparent report of government authorities and the like are among the other shortcomings of current IMI. Extension of Waqfunits requires trust and confidence which has declined after huge government institution. Nevertheless, reinforcing participating of private sector in Waqf affairs and other IMI cases is in direction of the Iranian economic outlook of development for 2025, basic goal of which is reinforcing the private sector, boosting completion, changing the direct involvement of government to efficient supervision and the like (TOD 2009). Applying a dynamic view point regarding IMI and allowing Iitihad to work in this connection is helpful. Some Iranian jurists are simple minded based on their stand point, IMI must be nationalized and they do not agree with updating IMI with new progress in new economy. To enhance the efficiency of IMI, however, it is urgent to have a systematic- dynamic view point to resolve its shortcomings and employ new techniques for its promotion.

5. Model building and analysis the results

We use time series model building for investigating the impact of Iranian Islamic Micro institutions, IMI on distribution of income. We also want to show the relation between government size and the income distribution. Meanwhile we prefer to use vector auto regression model, VAR, in which we can consider all variable endogenously (Sims 1980), suitable for our investigation. The mathematical form of model for our study could be:

$$Y_{r} = A + \sum_{i=1}^{\ell} B_{i} Y_{r-i} + E_{r}$$
 (3)

Within which Y_1 indicates the vector of endogenous variables of the model, A, the vector of constants (intercept), and 1 the performance of lag. Thus our model for Shariah total payment ST_1 (that is $SP_1 + SP_2$), and Waqfare (4) and (5), respectively

$$Y_{t} = \begin{bmatrix} LDE_{t} \\ LGGDP_{t} \\ LST_{t} \end{bmatrix} \quad A = \begin{bmatrix} \alpha_{1} \\ \alpha_{2} \\ \alpha_{3} \end{bmatrix}, B_{t} = \begin{bmatrix} \beta_{11} & \beta_{12} & \beta_{1k} \\ \beta_{2y} & \beta_{2y} & \beta_{2y} \\ \beta_{1y} & \beta_{1y} & \beta_{1y} \end{bmatrix} E_{t} = \begin{bmatrix} \delta_{1t} \\ \epsilon_{2t} \\ \epsilon_{2t} \end{bmatrix} \Omega = \begin{bmatrix} \sigma_{11}^{2} & \sigma_{12} & \sigma_{13} \\ \sigma_{21} & \sigma_{22} & \sigma_{23} \\ \sigma_{31} & \sigma_{32} & \sigma_{33}^{2} \end{bmatrix}$$
(4)

$$Y_{t} = \begin{bmatrix} LDE_{t} \\ LGGDP_{t} \\ LWAQF_{t} \end{bmatrix}, A = \begin{bmatrix} \alpha_{1} \\ \alpha_{2} \\ \alpha_{3} \end{bmatrix} B_{t} = \begin{bmatrix} \beta_{1x} & \beta_{1x} & \beta_{1x} \\ \beta_{1y} & \beta_{2x} & \beta_{2x} \\ \beta_{3u} & \beta_{3y} & \beta_{3y} \end{bmatrix} E_{t} = \begin{bmatrix} \varepsilon_{0} \\ \varepsilon_{2x} \\ \varepsilon_{3y} \end{bmatrix}, \Omega = \begin{bmatrix} \sigma_{1x}^{2} & \sigma_{1x} & \sigma_{2x} \\ \sigma_{2x} & \sigma_{2x}^{2} & \sigma_{2x} \\ \sigma_{3y} & \sigma_{3x} & \sigma_{3x} \end{bmatrix}$$
(5)

Also the matrices format of the VAR would be like equations (6) and (7):

$$\begin{bmatrix} LDE_{t} \\ LGGDP_{t} \\ LST_{t} \end{bmatrix} = \begin{bmatrix} \alpha_{1} \\ \alpha_{2} \\ \alpha_{3} \end{bmatrix} + \begin{bmatrix} \beta_{1y} & \beta_{1y} & \beta_{1y} \\ \beta_{2y} & \beta_{2y} & \beta_{2y} \\ \beta_{1y} & \beta_{1y} & \beta_{yy} \end{bmatrix} \begin{bmatrix} LDE_{t,x} \\ LGGDP_{t,x} \\ LST_{t,x} \end{bmatrix} + \begin{bmatrix} \varepsilon_{1y} \\ \varepsilon_{2y} \\ \varepsilon_{3y} \end{bmatrix}$$

$$(6)$$

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$$\begin{bmatrix} LDE_{t} \\ LGGDP_{t} \\ LWAQF_{t} \end{bmatrix} = \begin{bmatrix} \alpha_{1} \\ \alpha_{2} \\ \alpha_{3} \end{bmatrix} + \begin{bmatrix} LDE_{t-i} \\ LGGDP_{t-i} \\ LWAQF_{t-i} \end{bmatrix} \begin{bmatrix} \beta_{11} & \beta_{12} & \beta_{13} \\ \beta_{21} & \beta_{22} & \beta_{23} \\ \beta_{31} & \beta_{32} & \beta_{33} \end{bmatrix} + \begin{bmatrix} \varepsilon_{1t} \\ \varepsilon_{2t} \\ \varepsilon_{3t} \end{bmatrix}$$
(7)

All variables are endogenous, they are: LDE, the share of 10% wealthiest to 10% poorest, as income distribution or inequality index; LGGDP, the natural logarithm of government size (government expenditures/GDP); LSTs the natural logarithm of Shariah total payment; and finally LWAQF the natural logarithm of realized Waqf revenue. Data are in time series framework for 1974-2009 period; equations (4 and 5) are estimated for two components of IMI. (Waqf and STt). LDE variable is obtained according to the statistics of central bank of Iran. Collected Waqf revenues are based on statistics of Iranian Waqf organization. For estimating VAR models, it is necessary to test the stationary situation of the variables. After using augmented Dickey fuller and Phillips Peron test, we were assured for the stationary position of all variables of the model (table 6 indicates the results).

Table 6: Phillips-Peron and DF/ADF tests for unit roots and time trend

		Phillips Peron			ADF tests			
	Le	vel	First di	ferenced	1	.evel	First cit	erenced
Variables	With	With Intercept and trend	With intercept	With interc ept and trend	With	With intercept and trend	With	With intercept and trend
LDE	-2.58	-3.42	·6.42*	-6.78*	-2.64	-3.47	-6.52°	-6.61
I.ST	0.59	-2.62	-4.10°	-4 17**	0.35	- 3.27	-4.17*	-4.22**
LWAQF	2.079	-1.43	-3.18**	-3.53**	1.49	-1.96	-3.47**	-3.81**
LGGDP	· 1.90	-2.40	-4.54°	·4.63*	-1.82	-2.32	·3.75*	-4.06°

testing Granger's causality with equation (8) and (9) we found out that IMI affect on income distribution and not vice versa.

$$LDE_{t} = \sum_{i=1}^{n} \alpha_{i} LST_{t-i} + \sum_{j=1}^{n} \beta_{j} LDE_{t-j} + \varepsilon_{1t}$$
 (8)

$$Lwaqf = \sum_{i=1}^{n} \lambda_{i} LDE_{t-i} + \sum_{j=1}^{n} \delta_{j} LST_{t-j} + \varepsilon_{2i}$$
 (9)

It is interesting that our estimation shows that the bigger the government size, the worse the situation of income distribution. Because the more involvement of government in Iran, the less participation of private sector and the less prevalence of IMI as well. In reverse the smaller the government intervention, the less crowing out of private sector and the more the IMI. Some other studies confirm the result of our

paper strongly and show that Iranian big government specially during current administration (2005-2011) has caused weakening the private sector and has led to economic crisis in other dimensions of economy as a whole (Dadgar and Naderi 2010). Table 7, shows the result of causality tests of models in our paper.

Table 7: Summary of causality tests on Models

Direction	Chi-sq. (χ^{1})	P-Value	Conclusion
$LDE \rightarrow LST$	0.152073	[9.6966]	Unii directional causality numing from LST to LDE
$LST \rightarrow LDE$	6.296281	[0.0121]**	our directions constantly form to the tipe
$LDE \rightarrow LGGDP$	0.021491	[2.8855]	
$LGGDP \rightarrow LDE$	3.321654	(0.0684)**	Uni-directional causality running from LGGDP to LDE
$LST \rightarrow LGGDF$	4.164367	[5.9408]**	
$LGGDP \rightarrow LST$	0.814063	[0.3669]	Uni-directional causality running from LST to LC/SDP
$LDE \rightarrow LWAQF$	Q.S61665	[0.4536]	
$LWAQE \rightarrow LDE$	12.41992	[6:000:4].	Uni-directional causality running from LWAQF to LDE

Notes: * **, ***, induste rejection of the null of non-causality at the 19%, 5% and 10% significance levely respectively.

As table (8) and (9) shows 1- the impact of government size on inequality is positive and significant 2- the impact of IMI (both IMI, or Shariah payment and IMI, or Waqf), on inequality are negative and significant. Consequently IMI lead to reduction in inequality, but big government will increase the inequality.

Table 8. Estimates of VAR model for IMI, (Stt)

Sample (adjusted): 197	5 2009		
	LOE	LGGDP	LST
LDE(-1)	0.322777	0.472118	0.134703
	[2.04731]**	[2.99692]**	[0.22178]
LGGDP(-1)	0.272254	0.702038	-0.353736
	[2.68937]**	[6.94035]*	[-0.90701]
LST(-1)	-0.027409	0.020414	1.003924
	[-2.19794]**	[1.63829]***	[20.8966]*
С	1.354072	-0.642837	0.919337
	[2.99012]**	[-1.42066]	[0.52696]
-squared	0.770402	0.872840	0.968812
lj. R-squared	0.747442	0.860123	0.965694
statistic	33.55441	68.64078	310.6391

Note: The t-statistics are reported in the parenthesis.

^{*, **} and *** indicate significance at the level of 1%, 5% and 10%, respectively

For simplicity we can decompose IMI to IMI, (Shariah payments) and IMI, (Waqf revenue), it is obvious that IMI, – ST, as well.

Table 9 - Estimates of VAR model for IMI2 (Waqf)

Sample (adjusted): 19	375 2009		
	LDE	LGGDP	LWAOF
LDE(-1)	0.268792	0.424991	0.176108
	1 62538]***	[2.46503]**	0 60166)
LGGDP(-1)	0 250769	0.711323	0.050729
A	[2 50155]**	[6.60568]*	0 28589]
LWAQF(-1)	0.037141	0.014452	1.036309
	-2 39380j**	[0.89347]	37.7366]*
c	1 494484	-0 JB9186	0.653985
	3.14879]*	[-0.80674]	[-0.77849]
R-squared	g 776181	0 865054	0 992256
Adj R-squared	g 753799	0.851556	0.991481
F-statistic	34 67901	64 10358	1281.255

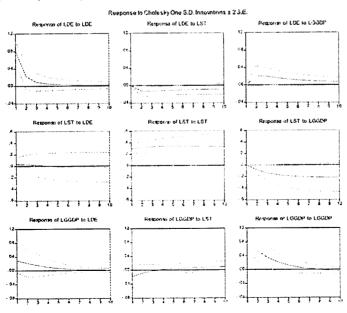
Note: The t-statistics are reported in the parenthesis.

*, ** and *** indicate significance at the level of 1%, 5% and 10%, respectively.

6. Shock analysis, variance decomposition and concluding remark

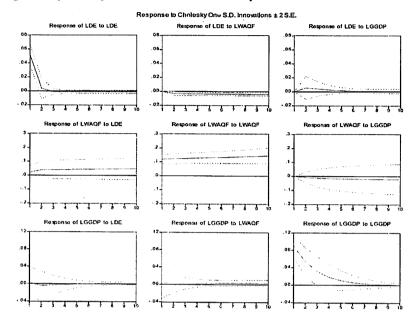
1. As figure 3 (considering impulse function and variance decomposing) indicates the impacts of our main variables (IMI and government size) on inequality are both meaningful and significant. Of course we have investigated the impacts in question for 10 years. It shows that any shock in IMI or government size has its own significant impact on inequality from second through 10th years.

Figure3,Impulse Response Functions-ModelforIMI,



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Figure 4 Impulse Response Functions -Model for IMI,



2. Also as tables 10 and 11 show, according to the variance decomposition in tenth year, 16.89% of fluctuation of income distribution or inequality is explained by government size variable and 10.97% percent by IM11

Table 10- Variance Decomposition - Model for IMI1

	Va	riance Decomposit	ion of LDE:	
Period	S.E.	LDE	LST	LGGDP
1	0.079628	100.0000	0.000000	0.000000
2	0.086088	92.20426	2.095610	5.700125
3	0.089780	85.78104	4.121712	10.09725
4	0.092209	81.62751	5.688058	12.68443
5	0.093897	78.85712	6.926012	14.21687
6	0.095148	76.86964	7.951876	15.17848
7	0.096134	75.34198	8.835799	15.82222
8	0.096953	74.10001	9.619402	16.28059
9	0.097661	73.04591	10.32831	16.62578
10	0.098293	72.12216	10.97900	16.89884

Table 11. Variance Decomposition - Model for IMI2

Variance D S.E. .051340 .051828 .052108	100.0000 98.55097 97.53898	0.000000 0.380945	0.000000 1.068084
.051340	100.0000 98.55097	0.000000 0.380945	0.000000
.051828	98.55097	0.380945	
			1.068084
.052108	97.53898		
		0.847176	1.613841
.052319	96.82215	1.334131	1.843721
.052502	96.21933	1.836553	1.944119
052674	95.65451	2.354347	1.991143
052846	95.09753	2.887742	2.014733
053021	94.53581	3.436952	2.027242
053201	93.96369	4.002176	2.034135
052200	93.37839	4.583593	2.038018
	053021	053021 94.53581 053201 93.96369	053021 94.53581 3.436952 053201 93.96369 4.002176

- 3. Thus one main result of this paper could be maintained as the positive relationship between government size in Iran in 1974-2009 period, and inequality of in this country. Second key result is that there is a negative relationship between the performance of Iranian Islamic micro institution "IMI" and inequality.
- 4. One other finding is that informal and private traditional micro enterprises in mid run, can help to improving the distribution of income thereby can assist social solidarity and sustainability in the long run. Also unjustified involvement of government in informal microenterprises would worsen the economic situations in macro level as well (Akhtar et al 2009, Obaidullah2008).
- 5. We have analyzed the performance of 3 elements in IMI two of them are Shariah payment (IMI₁,) and the third one traditional Waqf institution (IMI₂). Although there are some similarities between IMI₁ elements and conventional taxes, but there are meaningful differences as well. One is that the donors of IMI₁, in addition to contribute in a social welfare, they also are intending to do their religious duties. So they expect to receive a spiritual reword from part of GOD as well. Secondly, the rate of IMI₁ is constant, it is simply understood and the private sector themselves collect and distribute

- them as well. Working of such informal payments is less costly for economy as a whole. Finally, the using of these payments has targeted largely for resolution of problems of people or improving public utilities in society.
- 6. Findings of this study could be used as a lesson for Iranian government particularly and other governments in Muslim countries generally that is, Old Iranian governments helped and reinforced the IMI activities, and this led to improving and promoting those activities (Abdoh 2005). Historically speaking, Iranian governments before Islam and early Islamic era, have positive roles in this regard. Those governments did not intervene directly in IMI areas, but they were helping the informal evolved people, by easing the regulation and building infrastructures for improving IMI. One serious difficulty of IMI in current Iranian government (especially 2005-2011 priods) is the taking over the IMI and nationalizing them. This, we argue is one reason of considerable inefficiencies in these special industries. Thus the actual performance of IMI is not compatible with their potential capacities.
- 7. Disregarding the technology of Ijtihad and dominance of a static view point on managing IMI is another obstacle which does have its own responsibility in current inefficiencies of these microenterprise institutions. It is interesting that according to Shariah, the benefit and the using of IMI is not restricted to Muslim people, but could be used for any non-Muslim poor people as well (Tahir et al 2006, 27). Waqf as one element of IMI does have comprehensive dimensions including protection of property, safeguarding inheritance, capital accumulation and redistribution. Following some studies it also can be construed as the third sector in modern economies (Tebani 2010), for it is not completely in the domain of either private of public sector.
- 8. A basic point here is that IMI₁, in Iranian and Islamic teachings is a compulsory and required activity whereas, IMI₂ is not required but it is a voluntary act of charity (Arif 1991, Ali 2009). Charity including Waqf and voluntary Shariah payments are encouraged by Quran, which requires people to manage their affairs for themselves and for their poor relatives, home-town, neighbours, and the like. In other world, God would like people be independent and even help others and not be subsidized by others. Quran stipulates that: verily God will not chance the condition of a people as long as they do not change their state themselves (Quran 13/11). More importantly in another verse Quran allusively request people to lend to God or give charity to God which means helping poor people (Quran 2/245). In conventional economics, although some economists have accepted the altruistic behaviour, like charity giving, and some mainstream economists

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- accepts that this altruistic behaviour generates from a desire to improve well being of others (Becker 1974, 1083), they are however silent about the factors that increase the likelihood of altruistic behaviour. Or they may consider these behaviour as given and not affecting ones. In the case of IMI, however we observe a set of ethical and religious values teach their follower to be altruistic. Thus, religious and traditional values shape people's behaviour in such a way that they take care the well being of the other (Badkan 2002).
- 9. Reinforcing the micro institutions and microenterprises is in the nature of Islamic teachings. For instance according to Islamic law, one can bequeath about 33% of his/her property for charity after death. This is a special ground to invest in Waqf or other similar charity activities. According to Shariah. this kind of activities at one hand, have their own rewards from behalf of the God and at the other hand it can enhance, social welfare of poor, help to redistribute income and wealth and the like. Not surprisingly, real activities including Waqf do have its sufficient harmony with Islamic financial systems as well (Siddigi 2004, Ahmad 2007). Reasonable compliance of Shariah law and charity activity is itself reinforcing factor in principle. Specially using cash Waqf in history of Muslim countries in micro financing has had its meaningful economic and social roles (Cizakca 2004, Khan 2008, and Patel 2004). Thereby the efficiency of traditional micro institution in Iranian case will be enhanced by applying Shariah rules to its conditions and its type of using. Also applying the technology of Ijtihad can help to resolve some probable shortcomings of IMI. For instance, based this dynamic methodology Muslim communities can invest in non-Muslim countries under the local legal system of those non-Muslim nations.
- 10. Finally, IMI actually speaking have proved to be an effective set of micro institutions, but they have not worked in their full capacities. Their efficiencies can be much more than current situation. Due to obvious reasons including public taking over, thereby mismanagement of government and, dominance of non dynamic jurist thought, there is a huge gap between actuality of performance of IMI and their potentiality. Resolving these shortcomings will improve the actual situation of IMI as well.

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