

Durham E-Theses

*ESSAYS IN ISLAMIC POLITICAL AND MORAL
ECONOMY: EXPLORATIONS IN
MICROECONOMIC FOUNDATIONS OF ISLAMIC
ECONOMICS*

ALIJA AVDUKIC

How to cite:

AVDUKIC, ALIJA (2016) ESSAYS IN ISLAMIC POLITICAL AND MORAL ECONOMY: EXPLORATIONS IN MICROECONOMIC FOUNDATIONS OF ISLAMIC ECONOMICS. Doctoral thesis, Durham University.

Use policy

The full-text may be used and/or reproduced, and given to third parties in any format or medium, without prior permission or charge, for personal research or study, educational, or not-for-profit purposes provided that:

- a full bibliographic reference is made to the original source
- a <https://etheses.durham.ac.uk/id/eprint/11896/> is made to the metadata record in Durham E-Theses
- the full-text is not changed in any way

The full-text must not be sold in any format or medium without the formal permission of the copyright holders.

Please consult the [full Durham E-Theses policy](#) for further details.



**ESSAYS IN ISLAMIC POLITICAL AND MORAL ECONOMY:
EXPLORATIONS IN MICROECONOMIC FOUNDATIONS OF
ISLAMIC ECONOMICS**

by

Alija Avdukic

**Doctoral thesis submitted in fulfilment of the requirement for the
Degree of Doctor of Philosophy at Durham University Business
School, Durham University, United Kingdom**

March 2016

*Dedicated to my beloved sisters Nerkisa and Saha
for having established a comprehensive set of essential foundations for my life...*

Essays in Islamic Political and Moral Economy: Explorations in Microeconomic Foundations of Islamic Economics

by
Alija Avdukic

Abstract:

Considering that Islamic finance and banking studies have come into dominance in recent years, there are hardly any studies conducted in Islamic economics and political economy. While financial studies and practices require strong theoretical foundation, this is missing in the case of Islamic finance and banking. Due to the lack of theoretical developments, the working mechanism of Islamic finance is very much neo-classical economics despite the fact that its ontological base is 'Islamic'. This creates tension between theoretical aspirations of Islamic economics and the realities as observed of Islamic finance. This research, therefore, is an attempt for expanding research in Islamic economics or as termed in his study in Islamic Political and Moral Economy to substantiate the theoretical underpinnings of this sub-discipline, whereby a theoretical foundation can be provided for Islamic finance and banking. This study therefore argues that 'political and moral' economy nature establishes the distinguishing nature of Islamic discourse in economics and finance, as the normative world of Islam aims to shape individual behaviour and economic operations by suggesting a different set of political economy which can be located within moral economy tradition.

In doing so, this research identified five important topics in economics with the objective of developing a theoretical frame for each of these within Islamic norms and their articulation in economics and finance. These topics are: re-configuring Islamic economics as Islamic Political Economy through identifying its components related to public choice as emphasised by Islamic ontology and epistemology; framing Islamic economics as Islamic Moral Economy; mapping the Islamic economics within the family of heterodox economics; reconsidering the social welfare function within Islamic political economy; conceptualisation of utility function in Islamic moral economy. By interpreting the Islamic norms through economics, moral as well as *fiqhi* perspectives, this study essentialises 'Islamic substantive morality' in developing such theoretical frames as distinguishing nature of this sub-discipline away from 'rationalism' of 'economics and finance' in general. In addition, this study strongly argues that Islamic economics should be constructed as a 'political economy construct', as Islamic norms determines the nature of economic and financial activity and behaviour which suggests an embeddedness and integratitiveness by necessitating an integrative analysis of individual, society, state, and environment and their articulations rather than secluding economic analysis to rational choices and individual preferences. Thus, Islamic Political Economy frame is suggested as the theoretical frame, and Islamic Moral Economy is generated to provide the necessary theoretical substance for this frame. In doing so, the sub-discipline of Islamic economics is provided an essential theoretical base beyond pragmatic and prescriptive definitions.

Finally, this research also presents an empirical paper aiming to test the socio-economic performance of Islamic finance in relation to Islamic Moral Economy, which found that against the expected Islamic moral economy attributes, Islamic finance and banking has developed a different trajectory which does not intersects with the substantial morality Islamic Political and Moral Economy essentialises. This study argues that such a 'social failure' or 'transformational failure', despite the transactional success, can partly be explained by underdeveloped theoretical frame aimed at by Islamic economics.

This research is constructed as a theoretically grounded research, which aims to contribute to the body of knowledge in relation to Islamic economics, political and moral economy, as the theoretical knowledge development in these fields remains weak.

ACKNOWLEDGEMENT

In the name of Allah; the Most Gracious, Most Benevolent, and Most Merciful.

For sure, this work would have never been completed without His Mercy and Guidance. Hours, days and months I have spent to grasp, comprehend the concepts and develop ideas on my PhD research whose substance, in many respects, became clearer in unexpected moments. I really am most grateful to you my Lord.

I am also thankful to my family in the UK, Germany and Bosnia for their constant prayers and supports, especially for my parents Sevala Avdukic and Nusret Avdukic in Bosnia, my sisters Nerkisa and Saha, my nieces Esma and Kanita in Germany. To Esada and Ahmed in Leicester, thank you for your trust, continuous support and prayers.

I sincerely extend my gratitude to Professor Mehmet Asutay, my PhD supervisor, mentor, and friend who has not only groomed me into an academic over the past few years, but has also taught me that PhD is not solely about obtaining an academic degree; it entails a spirit and process through which an individual can nurture his/her intellectual as well as personal developments in order to make a positive and significant impact wherever he/she might be in. Indeed, his guidance, supervision and more importantly his trust have enabled me to improve and develop ideas during my PhD research. I also thank you for the innumerable helps and inspirations you have given to me, inside as well as outside my academic life. May Allah (*swt*) grant you His best reward as you deserve it.

I also want to thank Professor Habib Ahmad for his helpful discussions and comments during my PhD journey on the multiple occasions.

A PhD, without any doubt, signifies the pinnacle of one's formal education. In this respect, I would like to thank all of my teachers and lecturers from kindergarten up to the university. At last, I could pull it off. Thank you to all.

Finally, I would like to express my deepest gratitude, with love and affection, to my wife, Lejla Cato. Her patience and sacrifice, more importantly her love and understanding has changed my life and given me inspiration to understand life in a better way; for which I shall remain eternally grateful. My dear, having you in my life is truly a great blessing from Allah (*swt*).

DECLARATION

I hereby confirm that this thesis is a result of my original work. None of the materials in this thesis has previously been submitted for any other degrees in this or any other university.

Alija Avdukic
15th March 2016
Durham

COPYRIGHT

The copyright of this thesis solely rests with the author. No quotation from it should be published without the author's written consent. Should consent be granted by the author, the information derived from this thesis shall be properly acknowledged.

Alija Avdukic
15th March 2016
Durham

TABLE OF CONTENTS

Dedication	ii
Abstract	iii
Acknowledgement	iv
Declaration	v
Copyright	v
Table of Contents	vi
List of Figures	xv
List of Tables	xvii

Chapter 1: INTRODUCTION

1.1 INTRODUCTION	1
1.2. AIMS, OBJECTIVES AND RESEARCH QUESTIONS	5
1.2.1. The Aims of Essays	6
1.2.2. Defining the Objectives of the Research	12
1.2.3. Research Questions	13
1.3. RATIONALE AND MOTIVATION	13
1.4. THE SIGNIFICANT CONTRIBUTION OF THE RESEARCH	15
1.5. RESEARCH METHODOLOGY	15
1.6. OVERVIEW OF THE RESEARCH	19

Part 1: Framing Islamic Economics: Islamic Political and Moral Economy

Chapter 2: LOCATING ISLAMIC ECONOMICS IN POLITICAL ECONOMY TRADITION

2.1. INTRODUCTION	23
2.2. DEFINING POLITICAL ECONOMY	25
2.3. ORIGIN OF POLITICAL ECONOMY	29
2.4. TYPES OF POLITICAL ECONOMY	32
2.4.1. Classical Political Economy	32
2.4.2. Marxian Political Economy	35
2.4.3. The Neoclassical Political Economy	38
2.4.3.1. Extension of Neoclassical Economics: Chicago School (Regulative)	40
2.4.3.2. Virginia School: The emergence of Public Choice and the New Political Economy	41

2.4.3.3 Austria School: Institutional dynamics	42
2.4.4. Keynesian Political Economy	44
2.5. TRANSFORMATION OF POLITICAL ECONOMY AND EMERGENCE OF ECONOMICS AS A SCIENCE	45
2.6. SHORTCOMINGS OF ECONOMICS AS A SCIENCE	48
2.7. RE-DISCOVERING POLITICAL ECONOMICS: PUBLIC CHOICE AND NEW POLITICAL ECONOMICS	52
2.8. RATIONALISING AND JUSTIFYING ISLAMIC POLITICAL ECONOMY: WITHERING AWAY ISLAMIC ECONOMICS	56
2.9. DEFINING ISLAMIC POLITICAL ECONOMY BEYOND ECONOMICS: SYSTEM AND FEATURES OF A SYSTEM	60
2.9.1. Defining and Describing Islamic Economics	61
2.9.2. Framework Paradigm	68
2.9.3. Foundational Axioms	69
2.9.4. Value System	71
2.9.5. Operational Principles and Mechanism	71
2.9.6. Specific Methodology	72
2.9.7. Functional Institutions	72
2.9.8. Modes of Production in Islamic Political Economy	75
2.9.10. Reflections in Rationalising Islamic Political Economy	80
2.10. COMPARING POLITICAL ECONOMIES: CAPITALIST, SOCIALIST AND ISLAMIC POLITICAL ECONOMIES	81
2.11. CONCLUSION	86
Chapter 3: FRAMING ISLAMIC ECONOMICS AS ISLAMIC MORAL ECONOMY	
3.1. INTRODUCTION	89
3.2. DEFINING MORAL ECONOMY	91
3.3. FEATURES OF MORAL ECONOMY	94
3.4. EMBEDDEDNESS AS PART OF SUBSTANTIVIST MORAL ECONOMY: ESSENTIALISING SOCIAL FORMATION IN ECONOMIC AND FINANCIAL FORMATION AND BEHAVIOUR	105
3.5. HISTORICAL ROOTS OF MORAL ECONOMY	113
3.6. CONSTRUCTING ISLAMIC MORAL ECONOMY	116
3.6.1. Further Explorations in the Embeddedness in Constructing and Framing Islamic Moral Economy	123
3.6.2. Comparing ‘Moral Economy’, Islamic Moral Economy and Market Economy	125
3.7. FORMS OF ISLAMIC MORAL ECONOMY: <i>HISBAH</i> AND <i>AHILIK</i> INSTITUTIONS	130

3.7.1. <i>Hisbah</i> Institution: Market Regulation to Ensure Moral Outcomes	132
3.7.2. <i>Ahlik</i> Institution: Individual Development and Market Regulation Link to Ensure <i>Tazkiyah</i> and Market Morality	135
3.7.3. Reflecting on <i>Hisbah</i> and <i>Ahlik</i> in the Context of IME	140
3.8. ISLAMIC ECONOMICS MOVEMENT FOR CONSTRUCTING MORALITY OF ISLAM	140
3.9. CONCLUSION	144

Part 2: Mapping Islamic Economics in Knowledge Sphere

Chapter 4: HETERODOXY AND ISLAMIC ECONOMICS: LOCATING ISLAMIC ECONOMICS IN ECONOMICS ORIENTED KNOWLEDGE MAP

4.1. INTRODUCTION	147
4.2. HETERODOX ECONOMICS AS A DEPARTURE FROM MAINSTREAM	149
4.3. UNDERLYING THE NATURE OF HETERODOX ECONOMIC THEORIES	155
4.4. THE DOMAIN OF HETERODOX ECONOMICS	162
4.5. SEARCHING A PLACE FOR ISLAMIC ECONOMICS IN HETERODOX MAP OF KNOWLEDGE	172
4.6. CONCLUSION	180

Part 3: Constructing Islamic Economics Concepts

Chapter 5: AN ATTEMPT IN CONSTRUCTING ISLAMIC SOCIAL WELFARE FUNCTION IN ISLAMIC MORAL ECONOMY

5.1. INTRODUCTION	183
5.2. OVERVIEW OF CONVENTIONAL AND ISLAMIC SOCIAL WELFARE FUNCTION THEORIES	188
5.3. MAIN PHILOSOPHICAL DIVISION OF SOCIAL WELFARE	195
5.4. AN ATTEMPT IN CONSTRUCTING AN ISLAMIC SOCIAL WELFARE FUNCTION	201
5.4.1. Constructing Islamic Social Welfare Function: <i>Fiqhi</i> Approach	202
5.4.1.1. Shari'ah as an indicator of Islamic Welfare Functions	203
5.4.1.2. <i>Maqasid al-Shariah</i> approach for constructing the Social Welfare Functions: bringing consequentialist morality into the analysis	207
5.4.1.3. Said's Model of Social Choice: an attempt in <i>Fiqhi</i> domain	211
5.4.2. <i>Fiqhi</i> Welfare Decisions and Ancombe's Paradox	215
5.5. ETHICAL COMPLIMENTARITY TO <i>FIQHI</i> CONSIDERATION	220
5.6. SUPPLEMENTING MORALITY IN DEVELOPING ISLAMIC SOCIAL WELFARE FUNCTION: THE AXIOMATIC APPROACH	227

5.6.1. The Axiomatic Proposition	228
5.6.1.1 <i>Tawheed</i> (Unity of God)	231
5.6.1.2. <i>Amanah</i> (Trust)	233
5.6.1.3 <i>Adl</i> (Justice)	234
5.6.1.4. <i>Ihsan</i> (Benevolence)	236
5.6.1.5. <i>Ukhuwwah</i> (Universal Solidarity)	237
5.6.1.6. <i>Islah</i> (Improvement and Correction; Reform)	239
5.6.1.7. <i>Ikhtiyar</i> (Free-will)	241
5.6.1.8. <i>Rububiyyah</i> (Divine Arrangements for Nourishment)	243
5.6.1.9. <i>Tazkiyah</i> (Purification)	244
5.6.1.10. <i>Taqwa</i> (Righteousness Inspired by Fear of God)	245
5.6.1.11. <i>Akhirah</i> (The Knowledge of the Divine Judgment)	245
5.6.1.12. <i>Rid'a</i> (Satisfaction)	246
5.6.1.13. <i>Haqq</i> (Right)	246
5.6.1.14. <i>Shu'ra</i> (Consensus)	246
5.6.2. Summary of Axioms of Islamic Welfare Functions	247
5.7. AUGMENTING FIQHI WITH AXIOMATIC APPROACH IN DEVELOPING ISWF: TWO LAYERS MODEL	249
5.8. CONCLUSION	261
Chapter 6: EXPLORING AND CONSTRUCTING UTILITY IN ISLAMIC MORAL ECONOMY	
6.1. INTRODUCTION	265
6.2. CONCEPTUAL DEFINITION OF UTILITY AND CONSTRUCTION OF UTILITY FUNCTION: A NEOCLASSICAL APPROACH	266
6.2.1 Economic Foundation of Utility	269
6.3. EVOLUTION OF UNDERSTANDING OF UTILITY IN ISLAMIC POLITICAL ECONOMY	271
6.4. CONCEPT OF UTILITY IN ISLAMIC MORAL ECONOMY	277
6.5. ISLAMIC INSTITUTIONS FOR EMPOWERING HOLISTIC UTILITY	293
6.6. ISLAMIC UTILITY FUNCTION FOR LEADING TO FALAH	297
6.7. FORMULATING THE NATURE OF ISLAMIC UTILITY FUNCTION	303
6.8. THE METHODOLOGY OF CONSTRUCTING ISLAMIC UTILITY FUNCTION	312
6.9. CONCLUSION	315

Part 4: Islamic Finance in Islamic Moral Economy Context: An Empirical Attempt

Chapter 7: TESTING THE MORAL AND POLITICAL ECONOMY NATURE OF ISLAMIC FINANCE: AN EMPIRICAL ANALYSIS	
7.1. INTRODUCTION	318
7.2. ISLAMIC MORAL ECONOMY FOUNDATIONS OF ISLAMIC BANKING AND FINANCE: PROBLEMATISATION	321
7.3. EXPLORING ISLAMIC FINANCE AND DEVELOPMENTALIST ISSUES NEXUS	325
7.4. INVESTIGATING SOCIAL AND MORAL RISKS BEYOND FINANCIAL RISKS TO LOCATE THE PROGRESS OF ISLAMIC FINANCE IN RELATION TO ASPIRATION OF ISLAMIC MORAL ECONOMY: CONCEPTUAL DEFINITION AND METHODOLOGY	328
7.4.1. Credibility Risk in Islamic Banks	329
7.4.2. Legitimacy Risks Faced by Islamic Banks	330
7.4.3. <i>Shari'ah</i> Risk	331
7.4.4. Trust Risk Faced by Islamic Banks	334
7.4.5. Sustainability Risk of Islamic Banks	334
7.5. EMPIRICAL ANALYSIS FOR SOCIAL AND MORAL RISKS GENERATED BY ISLAMIC FINANCE	337
7.5.1. Testing the Moral Economy Nature of Islamic Finance Through Developmentalist and Redistributive Impact: An Empirical Analysis	337
7.5.1.1. Empirical process	340
7.5.1.2. Searching for the nexus between income inequality and Islamic financial development: The GINI Index related findings	341
7.5.1.3. The relationship between Human Development Index and Islamic financial development	344
7.5.1.4. Summary and conclusion on development impact of Islamic financial expansion	347
7.5.2. Testing Real Economy Relations: From Embeddedness to Disembeddedness and Financialisation	349
7.5.2.1. Contribution of Islamic finance to stability of financial markets: Can Islamic finance make markets stronger and safer?	349
7.5.2.2. Assessing Islamic banking sector's ties to the real economy	363
7.5.2.3. Contribution of Islamic finance to economic growth	374
7.5.2.4. Contribution of Islamic finance to the economic growth and development through sectorial financing	378
7.5.3. Testing Legitimacy, Sustainability and CSR Practices of Islamic Banks	386
7.6. CONCLUSION	391
Chapter 8: CONCLUSION	
8.1. OVERVIEW AND REFLECTIONS ON THE FINDINGS	395

8.2. CRITICAL REFLECTIONS ON FRAMING AND MAPPING ISLAMIC ECONOMICS	401
8.2.1 Implications of the Research for Islamic Political Economy	402
8.2.2 Implications for Research in <i>Shari'ah</i>	403
8.2.3 Implications of the Research in Islamic Moral Economy Turn for Islamic Finance	404
8.3 LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH	406
8.4 EPILOGUE	408
BIBLIOGRAPHY	409

LIST OF FIGURES

Figure 2. 1: The Circular Flow - Exogenous Government Model	50
Figure 2. 2: The Circular Flow - Exogenous Government Model	51
Figure 2. 3: Integrated Politico-Economic Framework, or Politicised Circular Flow	52
Figure 2. 4: Islamic Political Economy Framework-Actualised	81
Figure 2.5: Comparing Political Economies through their Actualisation	85
Figure 2.6: Integrated Islamic Political Economy	86
Figure 4.1: Expanding the Circle of Heterodox Economics	176
Figure 5.1: <i>Ijma'a</i> and the Rule of the Three Fourth	218
Figure 5.2: Interaction of Two Layers (Axiomatic and <i>Fiqhi</i>)	254
Figure 5.3: <i>Shur'a</i> Mechanism for Decision Making in Two Layers-Model	257
Figure 6.1: Episteme of Utility	271
Figure 6.2: Strengthening Positive Axioms through M&E (A) & (B) Factors	287
Figure 6.3: Capacity Compared to the Development Factors for Individual 'X'	288
Figure 6.4: Types of Good Deeds in Context of Islamic Moral Economy	291
Figure 6.5: Maximising Islamic Utility	302
Figure 6.6: Islamic Utility Maximisation in Relation to Capacity	303
Figure 6.7: Islamic Disutility Accumulation	303
Figure 6.8: The Developmentalist Stages for Reaching Islamic Utility	304
Figure 7.1: MSCI Index Performance for Islamic and Conventional Markets	350
Figure 7.2: Returns for MSCI Conventional and MSCI Islamic Indices	355
Figure 7.3: Volatility for MSCI Conventional and MSCI Islamic Indices	358
Figure 7.4: Contrasting GDP, Financial Market of Countries and MSCI Islamic	365
Figure 7.5a: Dow Jones Islamic Market World Index (10 Years Performance)	369
Figure 7.5b: Dow Jones Islamic Market World Index (5 Years Performance)	370
Figure 7.5c: Dow Jones Islamic Market World Index (3 Years Performance)	370
Figure 7.5d: Dow Jones Islamic Market World Index (1 Year Performance)	370
Figure 7.5e: Dow Jones Islamic Market Global Equity Commodity Index (10 Years)	371
Figure 7.5f: Dow Jones Global Equity Commodity Index (10 Years)	371
Figure 7.5g: Dow Jones Islamic Market Global Equity Commodity Index (5 Years)	371
Figure 7.5h: Dow Jones Global Equity Commodity Index (5 Years)	372
Figure 7.5i: Dow Jones Islamic Market Global Equity Commodity Index (3 Years)	372
Figure 7.5j: Dow Jones Global Equity Commodity Index (3 Years)	372
Figure 7.5k: Dow Jones Islamic Market Global Equity Commodity Index (1 Year)	373
Figure 7.5l: Dow Jones Global Equity Commodity Index (1 Year)	373
Figure 7.6: GDP and Islamic Assets Growth	374
Figure 7.7: Financing Sectors of Islamic Banks and Industry Formation	380

LIST OF TABLES

Table 3.1: Dimensions of Embeddedness	106
Table 3.2: Responses of Islamic Economics to the Dimensions of Embeddedness in Generating IME	124
Table 3.3: Comparative Overview of Market, Moral and Islamic Economics	126
Table 3.4: Comparative Overview of Aims of Market, Moral and Islamic Economics	128
Table 3.5: Methodological Approach of Market, Moral and Islamic Economics	130
Table 4.1. Commonality and Differences among Economic Schools	173
Table 5.1. Anscombe's Paradox in <i>Shari'ah</i> Rulin	219
Table 5.2 Implications of Axioms for Constructing ISWF	248
Table 5.3. Matrix of Shari'ah Imposed Linear Orderings	251
Table 6.1. The Foundational Axioms of Islam Economics in Utility Construction	282
Table 7.1. Spearman Correlation Matrix	341
Table 7.2. Unit Root Test for the Variables	341
Table 7.3. The Findings on Income Inequality and Islamic Financial Development	342
Table 7.4. The Findings on Income Inequality and Islamic Financial Development	343
Table 7.5 The Findings on Human Development and Islamic Financial Development	345
Table 7.6. The Findings on Human Development and Islamic Financial Development	346
Table 7.7: Correlation Coefficient Statistics MSCI and MSCI Islamic Indexes for Selected Countries	354
Table 7.8: Correlation Coefficient Statistics for GDP, Financial Market of Selected Countries and MSCI Islamic	362
Table 7.9: Correlation Coefficient Statistics for GDP, Financial Market of Selected Countries and MSCI Islamic	368
Table 7.10: Correlation Coefficient Statistics for GDP Growth and Growth of Islamic Assets	378
Table 7.11: IBF-Regional and Global Growth Totals (\$ M)	379
Table 7.12: Distribution of PLS and Debt Financing Methods in Selected Countries	384

LIST OF ABBREVIATIONS

BSM	Bank Syariah Mandiri
CSR	Corporate Social Responsibility
EDU	Governance Expenditure on Education
EIIB	European Islamic Investment bank
ESG	Ethical, Social and Governance
GCC	The Gulf Cooperation Council
GDP	Gross Domestic Product
GINI	Gini Coefficient
GOV	Governance Performance
H	<i>Haram</i> (prohibited)
HDI	Human Development Index
HEALTH	Government Expenditure on Health
IBAS	Islamic Banking Asset Size
IBF	Islamic Banking and Finance
IBFIs	Islamic Banks and Financial Institutions
IBs	Islamic Banks
IME	Islamic Moral Economy
IPE	Islamic Political Economy
ISW	Islamic Social Welfare
ISWF	Islamic Social Welfare Function
M	<i>Makruh</i> (undesirable)
M&E	Momentum and Energy
Ma	<i>Mandub</i> (recommended)
Mu	<i>Mubah</i> (permissible)
NB	A non-quantifiable benchmark
PD	Prisoner Dilemma
PLS	Profit and Loss Sharing
SDGs	Sustainable Development Goals
SWF	Social Welfare Function
TF	Total Islamic Financing
U	The bundle of all human actions
W	<i>Wajib</i> (mandatory)

Chapter 1

INTRODUCTION

1.1 INTRODUCTION

Islamic economics emerged as a response to the failure of the conventional economics worldview in the form of capitalist and socialist economic systems as articulated in developmentalist failures. One of the reasons of this failure is attributed to the isolated and partial analysis of conventional economic theory, which aims to analyse the economic behaviour in isolation from the larger environment. In other words, neo-classical economics does not consider institutions, society and human nature as endogenous variables. Therefore, since 1970s with the rise of new political economy, a response within conventional economics raised against such an isolated analysis with the objective of developing an economic analysis by endogenising the social reality in its entirety.

Islamic economics emerged in modern times with the same objective of developing a full economic analysis by putting the human centred development at the core of the process. In their novel attempt, the founding fathers named this sub-discipline as 'Islamic economics'. However, deconstruction of Islamic economics implies that the Islamic nature of the economic analysis is closer to 'political economy' rather than isolated analysis of the science of economics as a paradigm with substance provided by Islamic moral economy or IME. Islamic Political Economy or IPE can be defined as the science of studying economy in an interactive-integrative-evolutionary-process by interlinking the economy with institutions, policy, society and science, while the social formation within which IPE operates is defined and framed by IME.

Considering that in recent years, several criticisms raised against the performance of Islamic banking and finance or IBF, which is the main emerged institution of Islamic economics, this study argues that the perceived social failure can be explained by the underdevelopment of

the theoretical framework of Islamic economics. By expanding the analysis into Islamic political economy, theoretical development can be enhanced in relation to economic analysis in Islam; and with the development of theoretical development, Islamic finance could be brought back to the aspirational live to achieve the expected results of the Islamic moral economy.

This research, hence, stems from the debate in the literature that the Islamic banks and financial institutions are no longer attached to the aspirational worldview of Islamic moral economy (IME). Among others, as argued by Choudhury (1992a, 1992b, 2001, 2007), Siddiqui (2004), El-Gamal (2006), Asutay (2007a, 2007b, 2012, 2013), Hassan (2007), and Shinsuke (2007, 1010), there is an observed gap between the ideals of IME and the realities of IBF operations. This research will revisit their contributions in rationalising this research; as they claim that the major reason for the observed divergence is the shortcomings and even lack of sound (Islamic) theoretical frame relating to the conceptual foundations of Islamic economics.

In the authentic sense as developed by the founding fathers, IBF is considered as an instrument of human-centred developmentalism within the normative world of Islamic. This normativeness, relates to Islamic moral economy and its articulations, as termed by this study which emphasises an 'embedded economic relations' in the sense that economy and economic behaviour is located within the social formation and social structure of Islam, which includes moral and welfare principles such as justice, social equity, mutuality and solidarity, charity and co-operation in the sense that non-economic factors also determining economic and financial behaviour. In relation to such theoretical and aspirational construct, investigating the current practice of IBF identifies the observed gap between ideals and realities.

The experience has shown that IBF has grown as part of conventional financial system in the global capitalist economy as hybrid products and instruments. While global capitalist hegemony can be considered as an answers which prevents any alternative functioning to develop into a counter hegemony, the question as to what went wrong with IBF relates to shortcomings of properly defined theoretical frame beyond Islamising the practice of IBF through *fiqh*.

The practice of IBF shows that beyond internalising such aspirational world of IME, IBF has solely focused on removal of interest in terms of ensuring form related *Shari'ah* compliancy. However, there is other ethical and social justice and development expectations as identified by IME, which goes beyond the rational legalism of *fiqh* but needs to delve into substantivist morality. This brings us to the theoretical forms of IME, which is even not half completed to be able to provide a theoretical base for IBF to operate; and therefore, it is very normal that IBF has sought a theoretical frame in the form of neo-classical economics, which led it to the prioritisation of efficiency, disembodiedness, commodification and fictitious commodities as opposed to equity, embeddedness, de-commodification and non-fictitious commodity nature of IME.

Another economic challenge as Asutay (2009) mentioned is the fact that little of large amounts of wealth associated with Islamic banking have reached the most needy in the Muslim societies. Thus, the funds generated by Islamic banks circulate amongst large corporate interests in oil rich states. It is therefore no surprise that the emergence of IBF sector coincides with the oil-shocks and the emergent oil money in the Gulf in 1970s and sustained with the liquidity created with the funds generated from oil revenues in the recent years as well. Therefore, Islamic banks seem not to have considered the ethical or developmentalist need, but aims to remain as commercial banks, as opposed to the initial experience of being social banks, such as the case with the 1963 experiment with Mith Gharm Social Bank of Egypt.

Growing criticism against the process of re-engineering financial products to make them *Shari'ah* compliant relates also to the pragmatism realities of IBF rather than authentic product development in line with IME ideals, as such pragmatism is focused on the actual validity of the *fiqh* (jurisprudence) contracts and the expansion of the transactional base of the society. El-Gamal (2006), has expressed unease at the fact that *Shari'ah* scholars who authenticate such contracts are themselves employed by the industry, while others have claimed that such contracts are designed to circumvent *Shari'ah* laws and so violate broader principles or *maqasid* associated with the prohibition of *riba* (interest). The consensus of critics in this category is that *fiqh* is restrictive, outdated and unable to meet the challenges of the modern capitalist-dominated world economy; and therefore, remains only as a technical approach to economic issues rather than considering policy dimensions which can

provide the essential solution for the development problems of Muslim societies and communities (Zaman and Asutay 2009: 77-78).

After identifying the social failure of IBF as the base from which the research question of this research emerges, in order to overcome observed coherent and authenticated theoretical deficiency in the sub-discipline of Islamic economics, this research aims to develop some theoretical explorations in the microeconomic world of Islamic economics as well as for the frame and substances of this sub-discipline. As argued by this study, one of the reasons of the observed divergence between the ideals of IME and the practice of IBF is due to the lack of theoretical formulation to provide an objective function for IBF by which to define itself. Therefore, this research is a novel attempt to contribute to the formulation of the theoretical knowledge in Islamic political economy (IPE) and IME, as the theoretical research and development is no longer attempted in the field due to the entire attention having been given to IBF related research. A quick review of the literature would indicate the scarcity of the theoretical work in this field. This study therefore, from the beginning to the end aims to fill some of the observed gaps theoretical areas whereby it aspires to pick up where the theory making was left in early 1980s after the initial contribution of the founding fathers.

It should be noted that in an attempt to lay the foundation for something new, the founding fathers of Islamic economics were influenced by the neoclassical concepts by mainly adding to them Islamic ethical dimension. However, this has not made Islamic economics as a distinct scientific paradigm. If we are to talk of a scientific paradigm and want to present Islamic economics as a distinct scientific (sub)discipline, then we need an alternative framework for positive analysis of economic behaviour of individuals and use that framework to demonstrate the scientific nature of Islamic economics. This framework should be comprehensive enough so that it not only allows analysing all positive economic aspects of the human life, but also enables the incorporation of Islamic ethics in the analysis to study the impact of these ethics on individual and society. Our framework should be able to help us in not only in analysing economic behaviour more scientifically but also help us to explain the economics of the normative concepts like *israf* (wastage), *tabzir* (squandering), *tayyibat* of goods, poverty, rights of others in individual property rights *etc.* In a nutshell, the Islamic economic framework should offer the needed paradigmatic shift in economics

where morality (such as in the sense of utility function and welfare policy), aims at producing the Islamic ethical type, which generates the equitable wealth distribution in the society. This research, hence, should be considered as an attempt to contribute to theoretical construct in the formation of Islamic economics, which takes the debate in theory construction left in 1980s to forward in the face of increasing IBF activity and the associated social failure issues by further developing the incomplete project in Islamic political economy

1.2. AIMS, OBJECTIVES AND RESEARCH QUESTIONS

This research is aimed at exploring and developing theoretical foundations in Islamic economics in the form of essays by focusing on microfoundations and frames. In addition, the last essay empirically tests the performance of IBF in relation to substantive morality claims of Islamic economics.

As stated earlier, the theoretical studies in Islamic economics is nearly non-existent since the early 1980s due to the attention channelled to IBF related research, which has shown to be a viable alternative financialisation metaphor for the old question of moving capital within the existing financial paradigm. However, Islamic economics claims to create an alternative theoretical formulation in the sense of a system, which is evident in the intellectual debate developed in the post-colonial period, which aimed at developing a particular identity formation. This research, hence, aims to revisit the idea of alternative economic system research through the Islamic economics by contributing to the theoretical underpinnings of this paradigm based on a religious worldview.

In doing so, this research is conceptualised as consisting of six independent yet interlinked essays, each of which is presented within its own individual aims and objectives. Each of these aims to contribute to the theoretical underpinnings and test moral economy theory through the operation of IBF industry in selected countries. However, the individual chapters provide an opportunity to generate a grand narrative on the nature of political and moral economy of Islam.

1.2.1. The Aims of The Essays

Essay One: *Locating Islamic Economics in Political Economy Tradition*

The first essay in this study aims to construct Islamic economics as an Islamic political economy system based on the interactive relationship between different spheres of life including but beyond economics, polity (*Shura*), institutional framework and ecological order (market subsystem). Thus, the first essay aims to go beyond the narrow boundaries of Islamic economics construct by expanding its theoretical base through a systemic approach based on ontological and epistemological resources of Islam by overcoming the straightjacket imposed by the narrow spheres of *fiqh* or jurisprudence.

This essay argues that the initial frame of this sub-discipline as Islamic economics does not reflect the theoretical construct of Islamic normativeness; as ‘economics’ as a science treats religion exogenously, while normative world of Islam remains at the heart of the Islamic economics. Importantly, ‘economics’ considers rational behaviour and explains economics issues within this rationality, while Islamic normativeness relates to a particular social formation overcoming such boundaries by providing an interactive and intersection of various segments in real life beyond economics. Thus, a broader framework which fits to the social formation of Islam is essential in the form of political economy to develop a systemic response to partial analysis offered by economics. In this, a move from Islamic economics to IPE is considered as essential.

This paper, hence, aims to explore the nature of Islamic economics with the objective of whether it carries the features of a political economy as an order in conformity with Islamic tenets aimed at improving the well-being of individuals and welfare of a society or closer to the science of economics. Thus, the aim is to demonstrate the missing epistemological essences in Islamic economics and make clear that Islamic economic theory should rest on the ontological and epistemological foundations of Islam as a knowledge-based model of political economy within the social formation and structures of Islam.

In doing so, this paper argues that a similar experience has been seen in the conventional economic theory, which was born as a political economy with a multi-disciplinary

approach to the economic aspect of problems in human life. This is evidenced with the writing of founding fathers of economics, which had the title of ‘political economy’. However, later with the marginalist approach in the late 19th century, the confined and partial analysis based discipline of economics came into effect. Since 1970s, however, the insufficiency of such an analysis paved the way for the re-emergence of political economy in the form of new political economics by endogenising politics, society, anthropology *etc.* into larger analysis in understanding the economic behaviours of individuals, institutions and societies. Thus, an important part of this paper discusses such a transformation from ‘political economy’ to ‘economics’ and from ‘economics’ to ‘political economy’ as observed in the conventional economics. This is used to understand that trajectory of Islamic economics by arguing that Islamic economics, by nature, should have been constructed as ‘political economy’. The paper therefore conceptualises such an integrative understanding of IPE.

This first essay, hence, builds on the initial but incomplete work by the founding papers by engaging with the construction of IPE by defining its constituents, value and the moral system whereby this study overcomes the observed gap by developing the initial contribution by Naqvi (1981, 1994, 2003), Choudhury (1992a, 1992b, 2001, 2007) and Asutay (2007a; 2007b) by further developing the incomplete project in IPE.

Essay Two: Framing Islamic Economics as Moral Economy: Substance of Islamic Political Economy

Essay Two aims to construct Islamic economics as a moral economy to produce Islamic moral economy by identifying the implications and consequences of Islamic substantive morality in leading to Islamic moral economy.

The founding fathers of Islamic economics responded to the challenges faced by capitalism and socialism by attempting to construct an economic theory that is based on Islamic ontological base, values and practices. This new economic model and theory attempt remains an unfinished project due mainly to the emergence and prioritising of Islamic finance. However, this research argues that rather than developing the Islamic system of economics on neo-classical economics, Islamic economics should be constructed on a political economy frame leading to IPE and should be substantiated in its contents as a

moral economy. Because, its overall end-goal seeks to reintegrate human well-being and social justice and develop a ‘moral economy’ within a particular social formation based on substantive morality of Islam. In other words, Islamic economics aims at embedding economic and financial relations and activities within the social formation of Islam. Thus, this apprehension also stresses emphatically on the spiritual aspect in terms of the welfare of society in addition to the material well-being and refers to embeddedness in terms of economics being submerged into value system and normative world by having also non-economic factors defining economic behaviour. Consequently, Islamic economics, by definition, is a moral economy in its essence and therefore as a substance of IPE it should be constructed as IME.

In defining and exploring aspects of Islamic economics to substantiate IME, the articulation of moral economy within Islamic economics through ontological and epistemological base of Islam and through historical practice and contemporary experience of economics and finance in the Islamic and Muslim context is consulted.

It is noted that Islamic finance is considered as a subsystem of IME. However, its formative form was unable to get rid of the trappings of conventional financial institutions by mimicking and mirroring conventional finance through giving up embedded or substantivist finance orientation as proposed by IME. Thus, IME provides the substance through which evaluation of IBF is possible in claiming its social failure.

Essay Three: Heterodoxy and Islamic Economics: Locating Islamic Economics in Economics Oriented Knowledge Map

This paper, hence, aims to locate the knowledge of Islamic economics within the existing body of knowledge related to field of economics science. In other words, this paper aims to situate Islamic economic in the map of the existing economics knowledge. In developing the argument, the nature of heterodox economics, as well as the departing point in contrast to mainstream economics is defined and explained which can help to reach a common point with defined borders under which different traditions fall, which can therefore include Islamic economics.

The emergence of heterodox economics in 1960s coincides with the emergence of Islamic economics due to the inadequacy of orthodox economics in explaining or predicting real-

world events. In other words, heterodox economics departed from orthodoxy through identifying the shortcomings in theoretical construct and methodological explanation due to the inadequacy of orthodox economics, which is based on rationality, scarcity and individualism in explaining or predicting real-world events. This essay argues that these categories of criticism and responses raised by various heterodox traditions resemble the positions of IPE and IME.

This paper in locating the Islamic economics knowledge in the knowledge universe with heterodox economics family with its distinctive ontology and methodology rather than hybrid knowledge of neoclassical methodology and the conventional economics tradition, it argues that Islamic economics knowledge still remains distinct from heterodox economics despite sharing some ground in relation to their oppositional position to orthodox or conventional economics. In this, the deterministic and distinguishing factor has been the ontological normativeness and Islamic social formation.

Essay Four: An Attempt in Constructing Islamic Social Welfare Function in Islamic Moral Economy

This essay aims to explore and analyse the possibility and nature of social welfare function within the redefined frame of IPE and its substance of IME to lead to the emergence of Islamic Social Welfare Function (ISWF) whereby this study aims to draw some conclusions as to whether the social expectations imposed on IBF and other sectors can be justified.

This essay, hence, shifts the focus on microeconomics foundations of IPE and IME after establishing the frame and substance of Islamic economics knowledge. In doing so, it extends the debate through theory construction into social welfare function and public choices within IPE and IME.

It is essentialised that IBF should fulfil social expectations; however, the nature and functional formulation of such social expectations has not been defined within IPE and IME. Therefore, it is ambiguous for IBF institutions as to which social welfare function they need to maximise beyond the mentioned social good instruments; for example, *zakah*, and other social giving; as it seems that the call for IBF to fulfil social objectives is not instrumental but rather relates to substantive morality. Thus, one of the reasons of the observed divergence between the aspirations of IME and the practice of IBF is because as part of the Islamic social

contract, the theoretical formulation in defining the social welfare is not developed to identify the sharing roles and rights as well as obligations among the extended stakeholders in the society. Thus, there is a broad gap in the literature, which has practical consequences for the functioning of Islamic finance.

While Arrow's theorem indicates that social welfare function is impossible to achieve within the social contract of orthodox economics, IPE and IME prioritises and insists on social welfare and its possibility due to Islamic social formation. Therefore, possibility of social welfare function in the contemporary realities within the IPE should be examined.

It should be noted that in the initial writings by the founding fathers of Islamic economics, and mainly in the writings of Choudhury, Mannan and Naqvi, initial ideas related to social welfare function within Islamic economics construct are found. However, since 1980s, there has not been any attempt to develop this further. This is also true for the public choice dimensions of IPE, as there is so far only one study (Said, 2002) on the subject.

This essay is expected to contribute to the development of the knowledge by expanding the existing construct and modelling the building block, and therefore it should be considered as an important contribution to the theoretical framework of IPE and IME.

Essay Five: Exploring and Constructing Utility in Islamic Moral Economy

The last theoretical essay in this research aims at contributing to the construction of the micro development of Islamic political economy, firstly, by exploring and developing the concept and model of 'utility function' in Islam with the objective of responding to the observed gap and shortcomings in theoretical frameworks of Islamic economics. As the basis of any economic system is related to the definition of value and utility and hence utility function; such conceptual clarity, however, is missing in Islamic economics, which requires a theoretical attempt to develop knowledge relating to all these concepts.

It should be noted that founding fathers (Kahf, 1992; Chapra, 1992 and 2000; Khan, 1992, 2013; al-Zarqa, 1992; Naqvi, 1997 among others) attempted to conceptualize Islamic utility function. However, their attempts remained limited, and to some extent, were also influenced by the neoclassical concepts of utility and value, as, in most of the cases, under the Islamisation of knowledge paradigm, they only added an Islamic ethical

dimension in Islamising the existing forms and concept of neo-classical utility function. Hence an attempt is made in this essay to construct Islamic utility function as part of a unique Islamic paradigm of economics, which includes not only positivistic understanding but also normative aspects derived from Islamic ontological sources.

This study, therefore, aims to fill this gap by attempting to construct value and utility as Islamic concepts by exploring and identifying their constitutes. It is argued by this study that instead of having one dimensional utility function, (as suggested by neo-classical economics) a three-dimensional utility function emerges from the ontological nature of IPE and IME.

Similar to the previous essay on ISWF, this essay is also considered as essential, as the lack of such theoretical developments in Islamic moral economy advanced by these essays has resulted in the observed shortcomings with respect to the building blocks of an economic system. Without defining 'utility' and 'utility function', it is not possible to identify the distinguishing nature of IPE and IME.

In rationalising the importance of such a theoretical attempt on utility and utility function, it should be noted that each economic system, being a political economy, defined value and utility through its ontology and epistemology leading to alternative paradigm in economic systems, such as the case with capitalism and communism. This is the case with Islamic political economy in origin, which, through the foundational axioms and philosophy based on Islamic ontology and epistemology suggests a particular way to understand and conceptualise value and utility. However, constructing such a theoretical understanding has not been attempted so far. This should be also considered as one of the reasons as to why IBF has not been able to respond to the imposed social expectations, as they do not work within a defined definition of value and utility. Thus, this study attempts to define and conceptualise utility and value within IPE and IME with the objective of opening the way for the development of a robust theory making.

Essay Six: Testing the Moral and Political Economy Nature of Islamic Finance: An Empirical Analysis

After establishing the nature of IPE frame and IME as the substance of such a frame, and exploring two essential theoretical issue and develop their theoretical constriction, the last essay in this research aims to explore and analyse the performance of IBF within the

developed theoretical construct with the objective of substantiating the ‘social failure discourse’. This empirical analysis aims to evaluate IBF performance in relation to the requirements of IPE and IME by referring to embeddedness, commodification and fictitious commodities through economic and social criteria. Thus, IBF performance is examined by analysing its economic, financial, developmentalist, social contribution and governance spheres through the definition of ‘social risk categories’ (beyond financial risks). In addition, it aims to examine and explore the role of financialisation in this convergence. The resultant dis-embedded Islamic finance may no longer represent an alternative system; and hence resulting in various social risks including legitimacy risk, credibility risk and sustainability risks indicating the potential difficulties of sustainability of Islamic finance as in its authentic paradigm.

The findings suggest that IBF has been successful in terms of expanding transactional base of the society, however, it has failed in the transformational impact such as contributing to the delivery of developmentalism, social and governance issues. Therefore, a divergence between the IPE frame and IME substance and IBF performance is a reality.

It should be emphasised that this study acknowledges that ‘size’ of IBF is an important issue in evaluating such impacts; however, the trajectory of development has been disembeddedness.

1.2.2. Defining the Objectives of the Research

As can be seen from the defined aims of the study, this study is constructed through six related essays.

In order to fulfil these aims, the following objectives have been developed:

- (i) to develop an in-depth understanding of the relevant concepts through neo-classical economy;
- (ii) to develop an in-depth understanding of Islamic formulations of the mentioned concepts through Islamic ontology and its epistemological articulation but also through the classical Islamic body of knowledge;

- (iii) to develop a critical approach to the construction of the Islamic theoretical frameworks through a discursive method;
- (iv) to attempt to construct the theoretical frameworks of the mentioned concepts through the Islamic building blocks of each of the concepts;
- (v) to empirically analyse the performance of IBF in the light of proposed theory of IPE and IME.

Thus, the objectives necessitate that conventional or neo-classical knowledge should be understood before attempting to construct the mentioned concepts, such as Islamic political economy, Islamic moral economy, social welfare function and public choice, together with utility function and value, within the IPE and IME framework.

1.2.3. Research Questions

In fulfilling the aims and objectives of this study, the following research questions have been proposed:

- (i) Can Islamic economics be considered within the political economy and moral economy frameworks? If yes, what are the constituents of such frameworks?
- (ii) What is the relationship between Islamic economics and heterodox economics in terms of knowledge universe? Is it possible to locate Islamic economics within the heterodox economics family?
- (iii) Is social welfare function impossible in Islamic political economy? If not, what are the building blocks of the Islamic social welfare function?
- (iv) Are concepts such as value and utility different in IPE and IME? If yes, what are the Islamic constituents of these concepts?
- (v) How do the IBFs perform as regards to Islamic moral economy expectations?

1.3. RATIONALE AND MOTIVATION

It is claimed that IBF institutions have failed to achieve the expectations of Islamic economics in promoting the human-centric development as experienced by the Western

countries. Many financial mechanisms and models of Islamic financial institutions have been implemented in the Muslim world as well as in the West with financial success in growth of assets but with very little or no social success. Muslim world is still lagging behind on all basic indicators of development as compared to the industrialised democracies despite having abundant natural resources. This has led in Eurocentric discourse to blame Islam for underdevelopment in the Muslim world even though an Islamic economic strategy has not been developed nor implemented in an historical as well as contemporary context.

In contrast to such claims, Islam promotes the ethics of hard work and considers idleness or squandering of time in pursuit of unproductive work as the manifestation of lack of faith, but also essentialises growth through purification (*tazkiyyah*) and development (*imar*) for sustaining the individual and society. The Qur’anic verses, for example, “Disperse through the land and seek of the bounty of Allah” (Qur’an, 62:10), and “Allah has permitted trade and forbidden usury” (Qur’an, 2:275), instructs human beings to persistently work for the betterment of this life and the hereafter.

The emergence of Islamic economics in post-colonial period should be considered as a response to develop an authentic economic system of Islam in search of Islamic identity search with the objective of developing a human centered developmentalism by considering individual *falah* or happiness as end in itself. The main institutional development of such theoretic ambition has been the emergence of IBF initially in 1960s as ‘social banking experiment and later since 1970s as commercial banks.

Since then in addition to the developments of commercial Islamic banks, Islamic financial and capital markets have also developed contributing to the transactional expansion in the countries they operate. However, in relation to the original construct articulated in Islamic economics aspirations, over the last years, IBF is criticised for failing to live up with such expectations.

It is argued that in response to accommodating different cultural and religious needs of Muslims and helping to promote much needed economic and societal development by working within Islamic social and economic theory, in reality, IBF has gradually converged towards conventional finance. Hence, it has failed to fulfil the institutional and policy aspirations of IPE and IME.

While there are many practical reasons, this study argues that such a failure is also due to lack of theoretical underpinning in Islamic economic system, which Islamic finance needs to adhere. In other words, IBF has not been provided with a particular theoretical construct to shape its operations beyond the utilization of available classical contracts developed over the centuries. Such lack of theoretical underpinnings based on Islamic ontological sources and episteme, and, also, the need to redefine Islamic economics and IPE as a frame and IME as a substance of that frame has provided the rationale to undertake this research.

This research, hence, attempts to present a conceptual understanding of Islamic economics, and it is hoped that this can lead to knowledge development and sound behavioural and institutional developments in relations to economic and financial spheres.

1.4. THE SIGNIFICANT CONTRIBUTION OF THE RESEARCH

Islamic economics emerged as a response to development failures in the Muslim world with a promise to provide economic development in the Muslim countries. However, the exponential growth of IBF and developmental failures still faced by majority of Muslim countries around the globe indicate that the IBF industry does not necessary share the aspirations of IME. As argued shortcomings in theory construction in terms of informing individual behaviour and institutional operation through Islamic construct is considered one of the reasons of major failures in the Muslim world and in relation to the social failure of IBF.

This study, hence, aims to contribute to fill the observed gap in developing a theoretical framework of IPE by defining its form, and of IME through identifying its substance. In addition, this study locates the subject of Islamic economics within the more appropriate field of heterodox economics. Furthermore, as part of constructivist attempt, this study conceptualises theory of microeconomic foundations by defining the concept of utility and social welfare function based within IPE and IME. Further, empirical analysis explores the performance of IBF industry in relation to IPE and IME beyond mere financial and managerial performance.

The contribution of this study, hence, lies in frame forming and theory construction. In this, frame forming refers to conceptualising Islamic economics as IPE and IME, and

grounded theory construction is ISWF and utility and value construct. Thus, this study contributes to the incomplete attempt of forming Islamic economics, or as this study prefers to frame IPE and IME.

1.5. RESEARCH METHODOLOGY

The criteria behind the selection of research methodology that guides the research activity depends on the philosophical issues related to question of beliefs about the nature of reality and humanity or the sources of knowing (ontology), the theory of knowledge that informs the research or the nature of knowing (epistemology) and how that knowledge may be acquired (methodology) (Tuli, 2010). A consideration for appropriate epistemology, ontology, and methodology must be the vital element of any discourse about the nature of social science research as these aspects give shape to the definition to an inquiry performed as a research (Popkewitz *et al.*, 1979).

The aim of research is to focus on understanding the meaning that the events have for phenomenon under investigation (Tuli, 2010), whereas, methodology is a research strategy that transform ontological and epistemological standards into guidelines that shows how research is to be conducted (Sarantakos, 2005) by identifying principles, procedures, and practices that govern research (Marczyk *et al.*, 2005).

Among various philosophical positions and frames, interpretive constructivist epistemology and subjectivist ontology contained in the qualitative methodology, which assumes that meanings are embedded in people's experiences which is mediated through the researcher's own perceptions (Merriam, 2001). An interpretivist-constructivist approach relates to epistemological position in social science, which views the world as constructed, interpreted, and experienced by people in their interactions with each other and with wider social systems (Bogdan *et al.*, 2007; Lincoln *et al.*, 2007; Maxwell, 2012; Merriam, 2001).

Following this and considering the nature of inquiry, this research is based on interpretive approach with the purpose of understanding a particular phenomenon within the existing body of knowledge and also within the aspirational world of IPE and IME. In other words, the framing and grounded theory attempt in this study is located within Islamic ontology and epistemology. However, rather than suggesting a unified understanding of the meaning

of Islamic ontology and epistemology, this research rather benefits from different methodological propositions.

Following interpretivist approach, ontological subjectivism in social science research assumes that reality is the product of social processes (Neuman, 2012), which does not regard reality as being out there in the world irrespective of people; rather view reality as human construct (Mutch, 2005). Thus, interpretive research using qualitative research methodologies investigate, interpret, and describe social realities (Bassey, 1995; Cohen *et al.*, 2003) and report them descriptively in words.

In relation to this research, hence, while ontologically ‘the truth’ is revealed through Qur’an and the Prophetic tradition; however, it is the human understanding through his/her own social construct which makes meaning out of the ‘revealed knowledge’, and therefore through research, an aspect of ‘the truth’ is sought for and reached, which is expected to be the articulation of the ‘the truth’ according to the social construct of the researcher.

While social constructivism constitutes the philosophy of this research, this study should be considered as discourse analysis oriented theory building in the mentioned areas with the objective of providing a theoretical framework for the various aspects of IPE and IME.

The discourse analysis based research refers “not to the quantifying of qualitative data but ... [a] process of interpretation” (Strauss and Corbin, 1998: 11) implying a social constructivist approach (Backman and Kyngas, 1999) by “us[ing] both induction and deduction” (Eriksson and Kovalainen, 2008: 156) and “involves various aspects of inquiry (induction, deduction, even verification)” (Eriksson and Kovalainen, 2008: 156). Thus, discourses are defined as (Kress, 1989: 7):

... systematically-organised sets of statements which give expression to the meanings and values of an institution... A discourse provides a set of possible statements about a given area, and organizes and gives structure to the manner in which a particular topic, object, process is to be talked about.

In this study, hence, Islamically generated discourses in the form of ontological, epistemological and classical knowledge are considered as sets of statements to give meaning and values to develop Islamic Political Economy and Islamic Moral Economy.

In line with the aims of this study and the development of concepts involved in this research, while the principles and norms are taken as revealed through divine knowledge, the notion of Islamic economics, finance, political economy and moral economy is a socially constructed through the interpretation of the revealed knowledge by the discourses located in the ontology, epistemology and classical knowledge in the face of contemporary needs. Thus, involving these paradigms implies moving away from constructing the knowledge within positivist paradigm into the construction of the content through religious or Islamic knowledge base and its normative worldview.

The contribution of the postmodern Discourse Analysis is the application of critical thought to social situations and the unveiling of hidden (or not so hidden) politics within the socially dominant as well as all other discourses (interpretations of the world, belief systems, etc.). Discourse Analysis can be applied to any text, that is, to any problem or situation. Since Discourse Analysis is basically an interpretative and deconstructing reading, there are no specific guidelines to follow. One could, however, make use of the theories of Jacques Derrida, Michel Foucault, Julia Kristeva, or Fredric Jameson, as well as of other critical and postmodern thinkers.

Again, the purpose of Discourse Analysis is not to provide definite answers, but to expand our personal horizons and make us realize our own shortcomings and unacknowledged agendas/motivations - as well as that of others. In short, critical analysis reveals what is going on behind the backs of our heads and those of others and which determines our actions.

The research methodology is of vital importance for research because it demonstrates how to attain the ultimate goal of the study. The term 'methodology' refers in general, to the approach taken to the research process, while 'method' refers in particular to the various means in which data is collected and analysed.

This research mainly has two methodological approaches: a discourse or discursive approach, and a descriptive and analytical approach with empiricism. It should, therefore, be framed within qualitatively interpretative methodology, which mainly is based on ontologically subjectivist and epistemologically constructivist philosophical positioning.

In social sciences, it is possible to distinguish between two types of approach in research

methodology: quantitative and qualitative. This research will be based on the qualitative methodology due to conducting a discourse analysis based on social constructivism in an attempt to construct the micro foundations of the IPE and IME through exploring, examining, interpreting and re-interpreting available material. Therefore, the discursive analysis is used in this research as the main method of analysis, since the research is mainly theoretical and critical discourse analysis in nature. It is used as part of qualitative research methodology to identify specific characteristics in textual form. Furthermore, textual analysis is used to critically analyse the text as part of the deconstruction of discourses articulated in the larger field.

This research, hence, is an attempt to understand and therefore construct IPE and IME and their conceptual articulations through 'meaning-making'. In this effort of 'meaning-making' out of ontological sources, the epistemological nature of the Islamic-religious experience and knowledge informs the researcher, again, through his social construct as to how to relate to the ontology and reality.

With regards to research design, this study adopts an exploratory study design that is based on a critical discursive analysis to better comprehend and analyse the identified research questions.

Regarding the research strategy, since this research is based on qualitative methodology, an inductive research process is used, which begins with examining the existing material in addition to Islamic ontological and epistemological sources in an attempt to frame IPE and IME and construct the theories related to certain concepts within these new frames. Thus, in the construction of frames and of the mentioned concepts, due to the necessity of theory construction oriented discourse analysis, an inductive process will also be used.

With regards to research method, where the motive is mainly exploration, qualitative method mainly constitutes the research method in the form of secondary material. The secondary data were obtained from various sources including the use of additional research materials such as journals and articles, and importantly from hermeneutics of Islamic sources and historically constructed classical knowledge. Furthermore, secondary sources in the form of statistical analysis is also used to substantiate the argument.

The research also benefits from the quantitative method in the form of statistical data in

discussing the social failure of IBF. For this, financial data related to various financing activities, and, also, financial instruments were assembled from the annual reports of the Islamic banks for selected countries. Statistical methods have been used to identify trends and, also, establish correlations. This statistical analysis, presented in the empirical essay, substantiates the ‘meaning-making’ effort in this research by providing the evidence to the main argument.

It can, therefore, be claimed that the research presented in this study benefits from triangulation by combining qualitative and quantitative methods of data collection and data analysis.

1.6. OVERVIEW OF THE RESEARCH

With this brief introduction chapter, this research is presented in eight chapters to fulfil the aims and objectives of the study. It should be noted that due to the nature of debate and constricts, there are some unavoidable overlapping of discussion and cross-referencing. A short overview of the chapters are provided as follows:

Chapter 2 – *Locating Islamic Economics in Political Economy Tradition* - reviews the existing literature of different political economy schools and approaches that contribute in shaping the current economic theories since the publication of the ‘Wealth of Nations’ by Adam Smith up to the re-emergence of political economy. The purpose of this essay is to articulate how Islamic economics should be framed as IPE by demonstrating that it suggests an Islamic social formation, a particular ‘modes of production’ and a particular ‘interactive system’ within the normative system and values of Islam.

Chapter 3 – *Framing Islamic Economics as Moral Economy: Substance of Islamic Political Economy* - discusses the theory, methodology and the main features of moral economy to argue that Islamic economics should be framed as IME to provide the necessary substance for IPE by relating to the theory, its features and methodology comparatively. In addition, embeddedness nature is explored in detail to identify substantivist and submergence nature of Islamic economics in arguing for IPE. Finally, in an attempt to demonstrate the moral economy nature of Islamic economy, it presents two institutional forms of historical institution in IME, *ahilik* and *hisbah*.

Chapter 4 – *Heterodoxy and Islamic Economics: Locating Islamic Economics in Economics Oriented Knowledge Map* – presents the schools of heterodox economics, their emergence and common grounds that they share against orthodox economics. It explains that Islamic economics shares many common grounds with heterodox economics but also expands the boundaries and scope of heterodox schools by bringing Islamic ontology into the economics related knowledge universe. Thus, this chapter attempts to locate the IPE and IME within the map of knowledge universe in relation to economics.

Chapter 5 – *An Attempt in Constructing Islamic Social Welfare Function in Islamic Moral Economy* – explores and explains the building blocks of the welfare functions within the existing literature and particularly referring to Arrow’s impossibility theorem. It also critically discusses existing contribution on the debate through *fiqhi* based approach. The research in this chapter, therefore, attempts to expand the construct of social welfare function beyond *fiqh* within IPE and IME by substantiating it with the ethical and *maqasid* consideration whereby Islamic ethical augmented social welfare function, namely ISWF, is argued for and is constructed. Finally, the chapter concludes with two-layer model of ISWF based on *fiqh* and ethicality propositions.

Chapter 6 – *Exploring and Constructing Utility in Islamic Political and Moral Economy* - attempts to explore the concept of utility from the orthodox economic literature but also Islamic knowledge. In order to understand the salient features and foundations of utility and value within IPE and IME, Islamic ontology and epistemology are explored by defining and constructing the constituents of Islamic utility through three dimensionalities.

Chapter 7 – *Testing the Moral and Political Economy Nature of Islamic Finance: An Empirical Analysis* – being the last chapter in this research locates principles of IBF within IME and discussed their articulations. This is followed by evaluating the social and development oriented role of IBFs within the selected countries. In other words, this chapter offers a descriptive quantitative analysis of financing activities on the asset side of balance sheet and sectorial distribution of financing activities of Islamic assets and their impact on the various dimensions of economy in relation to IME developed benchmarks, such as embeddedness and social risk.. In addition, this chapter also uses some other studies on the social performance to substantiate the argument on the Islamic moral economy performance.

Chapter 8 – ‘Conclusion’ - presents a summary, conclusion and recommendation.

Chapter 2

REFORMULATING ISLAMIC ECONOMICS IN POLITICAL ECONOMY FRAMEWORK

2.1. INTRODUCTION

Due to ideologies and many historical influential events, different school of economics have raised and dealt with economic problems according to their theoretical, politico-economic frameworks. Fathers of economics had studied economic behaviours in relation to the larger framework by incorporating social, moral, cultural, political and religious aspects. However, the process of disciplinary specialisation with the marginalist movement has resulted in a partial analysis by removing the intersection between economics, philosophy, sociology, anthropology and politics, among others, and impoverished our understanding of economic behaviour and society. As a result, the neo-classical approaches of economic analysis in general and the macroeconomic analysis in particular tend to isolate economic behaviour from the socio-political and institutional settings in which the economy operates.

Recent research and events, such as the financial and economic crises, have proved that economic analysis cannot be isolated from social and political spheres; consequently, incorporating socio-political factors into the economic environment has become necessary for getting a more precise analysis or developing a complete analysis of economic issues. Public choice theory or new political economics, therefore, helps to develop a better understanding on the complex socio-political-economic interaction since its emergence in the later 1960s whereby it contributed to the re-emergence of the political economy, which is considered to be the root of modern economics.

As part of the modernism project, neo-classical economics represents an eurocentric, hegemonic dominance in economic understanding by assuming and by imposing that all

individuals in the world behave rationally regardless of their environment, different cultural backgrounds and values (Mehmet, 2002). Thus, as a project, it assumes that all other ways of doing economics will converge towards this hegemony by giving up their own value and cultural system. Therefore, neo-classical economics is an efficient model in understanding a social reality of economics as a science. This has meant a homogenous understanding of economics has dominated the economic analysis since the beginning of the twentieth century.

Thus, as part of being a modern science, 'economics' is constructed upon a positivist philosophy by exogenising and even abolishing values and ethics from its analysis resulting in the disappearance of the normative side of economics. However, since the late 1960s, economics as a science has gone through a transformation through various branches which identified themselves as part of heterodoxy as opposed to the modernist paradigm articulated by neo-classical economy, namely the homogeneity in understanding the economic worldview has been challenged. One of these heterodox families that could be considered is Islamic economics, which re-emerged in the post-colonial period with the emergence of the Islamic identity search with the new nation states. Thus, the emergence of Islamic economics coincides with the emergence of other heterodox as well as neo-classical schools, each of which challenged a particular aspect of neo-classical economics. However, unlike all the schools of thoughts, Islamic economics is a product of Islamic ontology and hence revealed knowledge, which essentially makes it a distinct economic system (Asutay, 2007a).

This research, however, argues that 'economics' in Islamic economics does not do justice to the alternative systemic nature of this new paradigm, which is based on Islamic ontology in the sense of Islamic normativeness, which shapes the nature of the Islamic paradigm, concept and methodology of Islamic economics. Hence, due to Islam suggesting a particular social formation, which is an actual theory of a particular paradigm and hence a different modes of production within substantivism and embeddedness, this paper argues that rather than confining Islamic imagination of economy into 'economics', it should be conceptualised and constructed as Islamic Political Economy (IPE henceforth), which suggests a comprehensive and integrated economic analysis within the Islamic social formation (Asutay, 2007a). This paper suggest that IPE should be considered as the frame of

the substance of Islamic economics, and substance is defined by Islamic Moral Economy, which is discussed in the following chapter.

This research starts with defining political economy and its origin. The available types of political economy, transformation of political economy and emergence of economics as a science are then discussed followed by the shortcomings of economics which paves a way for re-discovering political economy through public choice theory and new political economy. After this Islamic political economy is introduced, its definition and systemic understanding, which tries to broaden the horizons of Islamic economics. Finally, the paper concludes with a comparative analysis of capitalism, Marxism and Islamic economic systems and outlining the main differences and unique approaches of Islamic economics with the objective of supporting the argument that Islamic economics should be considered and constructed as 'Islamic Political Economy'.

2.2. DEFINING POLITICAL ECONOMY

The origins of modern political economy as a distinct system of knowledge, a branch of moral or political science, can be traced back to the seventeenth century. It was conceived initially, as Staniland (1985:11) explains: "the art of domestic management, from which, by extension the earliest meaning of *political economy* developed, referring to the art of managing a country's economy". The primary of political economy, as a policy oriented position, was to provide national administrators and their responsible agents with the necessary knowledge needed to design and implement efficient economic policies (Deane, 1989:v). The father of modern economics, Adam Smith, therefore, defined political economy as a branch of the science of a statesman or legislator helping governments set conditions to stimulate economic growth with objectives of providing plentiful revenue or subsistence for the people and supplying the state or commonwealth with revenue sufficient for public services (Babe, 2009:13). As can be seen, in its original context, it means more than economics. Therefore, from Adam Smith to John Stuart Mill and Karl Marx the economy was treated as part of its wider social and historical milieu, with political economy as a sort of unified social science (Fine and Milonakis, 2009:2).

Looking at political economy from a wider vision of social totality, Tabb (1999:15) defines political economy "as the study of the mechanisms used or usable by society to operate

social economy... comprised of the tools, institutions and human energies that produce goods and services". In other words, social choices in production and distribution are constrained by cultural economy of attitudes, norms and values embedded in historically specific institution and governance structure. This directly refers to the cultural, or in our case religious, relativity of the political economy frame in the form of social formation of each society. Lange, therefore, formally defines political economy as "the study of the social laws governing the production and distribution of the material means of satisfying human needs" (As quoted in Tabb, 1999: 15). Imagination of Islamic economics as a political economy hence can be rationalised through such a nature of political economy, as the intended meaning of Islamic economics refers to social formation and social laws of Islam determining economic choices and behaviours.

In referring to the nature of the system, political economy can literally be defined as "the complexity of interaction between political and economic behaviour" (Borooah, 1985: 20). In other words, in a formal sense "political economy studies the interdependence between the economy and the polity of a country or countries" (Frey, 1978: vii; Frohlich and Oppenheimer, 1978). Jones and Barry (1983: 4) extend this definition by including a normative perspective by stating "the central issues [of political economy] are those concerning the relationship between the state, or its government, and the economy; what that relationship *is*, both generally and in particular cases; and, most critically, what that relationship *ought to be*... It is concerned with measuring the costs and benefits entailed by particular policies or particular structures of public policy" (emphasis is original). This is a clear indication of political economy analysis in the sense of interconnecting relevant institutions in effecting economy's work, individual behaviour and economic choices and resource allocation.

Looking at different definitions of political economy, Webster's Third New International Dictionary provides a selective classification for these various meanings:

- (i) "an 18th century branch of the art of government concerned with directing governmental policies toward the promotion of the wealth of the government and community as a whole";
- (ii) (a) "19th century social science comprising the modern science of economics but

concerned principally with governmental as contrasted with commercial or personal economics” implying that political economy became the distinctive appellation for a special branch of economics.

(b) “a modern social science dealing with the interrelationship of political and economic processes” (Cropsey, 1960:31).

The newly emerged political economy after World War II has had a mission to bridge the gap between these two disciplines. Therefore, the *new* political economy with its interdisciplinary identity falls under ‘ii.b’, which is a study of the interaction of public authorities with a market, which endogenises institutions, standard setters and regulators as well as the state in the economic analysis.

The *new* political economy implies a return to *oikos*, the Greek form which we derive ecumenical (all in this together), economics (material providing), and ecology (interdependence of all the creation)” (Tabb, 1999: 15). In other words, it emanates into an integrated and sophisticated system of analysing economic behaviour. As this definition evidences, Islamic economics, by definition, has to be political economy or IPE by the fact that IPE relates to the ‘interdependence of all the creation’ as *tawhidi* frame or complementarity and unitarity refers to.

According to Caporaso and Levine (1992: 31), the distinguishing characteristics of such a new political economy are: “political and economic processes and institutions are interlinked and should be studied as a complex and interrelated whole rather than as separate spheres”, and “secondly that a proper understanding of the politics requires giving special explanatory weight to economic structures and processes”. While these characteristics provide a yardstick against which any claim of *political economy* can be gauged, it refers to the meaning of *new* political economy. They imply that political economy “consists of structures, events, developments and patterns in which human decisions play a central role” (Nurmi, 2006:3). This again rationalises as to why Islamic economics should be constructed and imagined as an IPE, which essentialises social formation as a structure and brings human centred economic analysis by essentialising human as an end rather than means.

Asutay (2010:30) further adds that political economy overcomes the division between

economic theory and policy economics by endogenising institutions and social interactions, which govern society. So as to have an integrated understanding of the economy of a society, these instruments and institutions must be endogenised in the economic analysis, which again refers to complementarity understanding of Islamic ontological base. It is self-evident that economic and political process cannot be separated, as for example, the state has coercive power over the market or the economy through regulation, taxation, and economy policy. This is the scope of the traditional political economy, which has now re-emerged as political economics, or the new political economy, which also necessitates that Islamic economics, should, by definition, be considered as an IPE.

Due to its defined framework, political economy has normative implications as well. “The driving idea behind normative political economy is the belief that societies can change their economic institutions – not without premeditation and discussion, of course, but certainly in response to persuasive objections to the prevailing mechanisms and compelling mechanisms and compelling arguments for different ones” (Ward, 1972: 180). Therefore, normative nature of political economy also refers and rationalises as to why IPE should be the main paradigm beyond ‘economics’ of Islamic economics or the narrow definition of Islamic economics.

In conclusion, the words of Vig (1985: 6) summarise political economy as “both normative and empirical”. Second, it is policy-oriented but not simply a branch of policy analysis. Third, it incorporates both structural and behavioural levels of analysis. Finally, it emphasises the importance of the international as well as national political-economic structures. In summary, new political economy consists of both explanation-understanding (positive) and rationalization-legitimation (normative). Thus, all these features also provide additional rationale for the paradigm of IPE in explaining as the nature of Islamic understanding of economy and economic behaviour. Hence, as will further rationalised in this paper, Islamic economics conceptualisation was a falsified attempt, as the intention of Islamic economics movement would have better served with the construction of IPE. This ill-construct of Islamic economics could be due to the fact that the founding fathers of Islamic economics remained under the influence of ‘neo-classical’ economics, as heterodox economies and new political economy was rather new in their imaginary years. In addition, they were endeavouring to develop a modern response, which forced them to express

Islamic imaginary of economic morality through neo-classical tools, in which 'Islamisation of knowledge' played an important role.

2.3. ORIGIN OF POLITICAL ECONOMY

The standard histories of economic thought generally start with Plato and Aristotle even though Schumpeter refers to Kung Fu Tse (or Confucius 551-478 B.C.) and Meng Tzu (372-288 B.C.) even before (Deane, 1978:1). From their work, it is possible to compile a comprehensive system of economic policy, methods of monetary management and methods of exchange control that seems to presuppose a certain amount of analysis (Schumpeter, 1954:53).

Theoretical evolution of political economy to shape the existing framework could be observed within four distinctive epochs, as Deane (1978) suggests:

(i) *Classical Greek Period*: in this period economics was subsumed under the study of politics, itself part of a broad ethical and philosophical inquiry (Myrdal, 1954:56), focusing on the ethical problems of the aristocratic slave-based city-state.

(ii) *Mediaeval Scholastic Period*: economic ideas are found in the theological treaties of a clerical monopoly. "Economic was a means to realize specific moral ends" (Staniland, 1985:11), where the focus of interest was on the moral discussion of the practice of usury or a just price, rather than political and acquisitive motives of the way the exchange economy actually worked or ought to work, were regarded as disreputable.

The economic ideas in these two epochs are mainly of historical and antiquarian interest. The modern economic theorists did not gain any direct stimulus or inspiration from the techniques of analysis and policy conclusion, because the economic approach was perceived as peripheral to political or theological interests of scholarship.

(iii) *Mercantilist Period*: this was an economic doctrine considering nationalist-monarchical states taking control of regulating trade through ways ensuring the prosperity and security as well as increasing national wealth and power (Deane, 1978:1-2). According to Heckscher (1936:349), the mercantilists were decidedly amoral, only caring about "the welfare of the state" which "came before the welfare of the individual".

Economists of this period, as Clark (1998: 23) explains, sought to develop guidelines and offer policy recommendation for government efforts to stimulate commerce. The government role was seen in opening new areas of trade, offering protection from competition, and providing control over product quality. Thus the role of the statesman was like the good father of a family, or benevolent dictator, to provide everything necessary for supplying the wants of the society and its members and to regulate the employment of the latter with a view to this end (Kelley as quoted in Staniland 1985:12)

In period from the fourteenth to eighteenth centuries, the impact of commerce, the rise of a new market economy gradually eroded constraints put by church, state, and the community (Clark, 1998:22), which coincides with Polaynian argument of end of 'moral economies' and the rise of a self-regulated market economy. However, new markets were still relatively undeveloped which required active involvement by government in the economy for securing a necessary condition for economic prosperity. Changes in production and trade had significant influence in forming political economy of that time.

The scientific inquiries of the Renaissance scholars, such as Newton, Bacon, Galileo, and Copernicus left the most important influence on the methodological development of political economy (Redman, 1997:9). Galileo, by proving Copernicus' theory of a heliocentric universe, had laid the foundations of the new scientific methodology. Deane (1985:5) summarizes features of this methodology, as clearly distinguishing between the real, objective, methodologically observable world and the subjective, relative world of opinion and illusion, and focus on explaining how the universe operates rather than why. According to Redman (1997:13), Newton believed that the intellect is more subjected to error than the senses, and that's why empiricism was favoured to rationalism.

By revealing the universal laws that govern nature and society, Renaissance and Reform scholars argued that science would liberate mankind from both material deprivation and social oppression. Although the scientific method was initially applied to the external environment, it soon turned towards the analysis of human existence, first to understand the physical functioning of the body, and then to investigate the operation of the mind. (Clark, 1998:22).

It was Hume, who first applied Newton's methods of analysis and synthesis to the moral science. Later it became a standard methodological tool of the many British classical economists (Redman, 1997:44).

Another impetus for change came from the three revolutionary developments initiated after Martin Luther's death. The first was Reformation where he was expressing the social consensus of an economically static era condemning usury and unfair charges. At the same time, he advised that regulation laid down by government should be respected (Deane, 1989:2). The second was a revolution in the scientific world, which started with Copernicus. And the third was opening up of the New World. This was a shift the centre of gravity of the European economy towards its north-western region and to set off a vigorous and cumulative expression of international trade (Deane, 1989:3). These three developments had radical implications for the ethical, political and epistemological attitudes of those who wrote on economic questions.

(iv) *Modern Period*: From the 18th century until now, beginning with Adam Smith and even earlier French physiocrats, the origins of a systematic study of political economy and economics as a distinctive discipline, a special technique of analysis, a science began (Deane, 1978:1-2). It started with "advances in the understanding human behaviour" (Clark 1998:22) what led enlightenment philosopher to anticipate a science of society. In other words, "the seventeenth century had been dominated by physics, the eighteenth was absorbed in the science of man" (Redman, 1997:102).

As market horizons broadened at national and international level, the government was not perceived as a "beneficent director of economic activities, but as a major obstacle to the pursuit of wealth" (Clark: 1998:23). Emerging hostility toward governments was based on changing economic and political conditions. In its early stages of development, a flourishing market economy required that producers have ready access to resources in the form of easily purchasable commodities. In addition, both producers and consumers must be free to pursue their interests relatively unencumbered by social customs and political authority. (Clark, 1998:23).

The formation of markets for resources proceeded along three lines. First, the elimination of many single-family farms created a market for cheap and mobile labour. Second, the

accumulation of wealth through piracy, looting, and early successes in commerce created a mass of financial capital available for borrowing. Third, the confiscation and subsequent sale of church property and public land that had previously been reserved for common use created a market for land (Clark, 1998:23).

With all these changes in place, the market became a dynamic engine for the production of wealth, far overshadowing the power of government to dispense privileges and grant protection. The future was clearly discernible; the market would become the dominant institution for organizing society.

This section, thus, summarised the trajectory of political economy and its shift towards 'economics', while the next section discusses the types of political economy.

2.4. TYPES OF POLITICAL ECONOMY

The starting point in analysing different schools of political economy is the consideration that the creation, content, and impact of social theory is an ideological and cultural as well as a philosophical matter. The modern disciplines overlap and influence each other in analysing the social reality through different perspectives. Different schools analyse and take into account existing relationships in order to illuminate those connections, which are discussed in the following sections.

2.4.1. Classical Political Economy

The term 'political economy' was first used by classical economists of the eighteenth and nineteenth centuries; however, the period covered by classical political economy cannot be stated exactly. A restricted definition would extend from Adam Smith's *Wealth of Nations* in 1776 to John S. Mill's *Principles of Political Economy* in 1848 (Caporaso and Leane, 2005:33).

The classical era was distinguished by the absence of a natural intellectual barrier between natural philosophy, logic, ethics, and moral philosophy (Redman, 1997:109). In that period, as explained by Emerson (1990:32-33), the methods of physics and chemistry were widely admired and imitated by the moral philosophers; and almost all moral philosophers were interested in natural philosophy. Their interest in methods of physics and chemistry helped in divorcing morals from religion (Redman, 1997:109). Royal Society, established in 1662,

fostered natural philosophy and improved the material condition of man (Metvov, 1970), as political economy was founded to promote human happiness through the correct implementation of its principles (Chitnis, 1986:25). In such an emerged system, “ethics was final arbiter in matters of social organization and behavior” (Redman, 1997:113).

Adam Smith provided the infant science of political economy with its first generally accepted system of theories, concepts, analytical techniques, and its first paradigm or disciplinary matrix (Deane, 1989:6). Political economy was thought as a distinct and severable component of moral philosophy, the other parts being natural theology, jurisprudence, and ethics. According to some, *The Wealth of Nation* and *Moral Sentiments* were meant by Smith to be interdependent in the sense that *Moral Sentiments* sets out the ethical framework for a market economy, while *The Wealth of Nations* describes the operations of such an economy (Babe, 2009:13-14).

Perhaps the most conspicuous value in Smith’s system is social progress. The propensity to truck, barter, and exchange becomes the “engine of progress” in *The Wealth of Nations* and makes the idea of progress central to Smithian economics (Spiegel 1976: 482). The desire for betterment is an impulse that sets society in motion. People are driven to creativity, which, in turn, becomes a tool of advancement (Rebman, 1997:235). In all Smith's works, the goals of order and the improvement of the human beings go hand in hand (Staniland, 1985:12).

Classical political economy in its integrated analysis considered a small state in charge of classical functions, which related to public finance. The roots of public finance came from the same soil as did classical economics and developed as integral part thereof. It can be observed in the state’s duties stipulated in *Wealth of Nation*: the protection of society against foreign invasion and of each member against injustice from others, erecting and maintaining those public institutions and those public works which, though they may be in the highest degree advantages to a great society are, however, of such a nature that the profits could never repay the expense to any individual or small number of individuals, and which therefore cannot be expected that any individual or small number of individuals should erect, and basic education of the poor is needed as well since “the state derives no inconsiderable advantage from their instruction” (Smith, 1776:211). The legal system, protection, education is again noted by Mill, following Smith, and intervention is extended

to a variety of cases in which important public services are to be performed (Musgrave, 1996:249).

The provision of public services was considered of great importance but regarding the welfare state and its concern with distribution classical economists did not call upon state to redistribute, but to create wealth (Babe, 2009:14). Smith largely accepted Locke's dictum that entitlement to earnings is given by natural law (Musgrave, 1996:250). "Whenever there is great property there is great inequality" and civil government must protect "that valuable property, which is acquired by the labour of many years" (Smith, 1977:199). A limited support of the poor was called for, but beyond this, the distribution of income was left to the market to determine (Musgrave, 1996:250).

In their approach, the fathers of classical political economy, Smith, Malthus, Ricardo, Senior and Say, combined both optimistic and pessimistic visions of a market economy (Clark, 1984:25). In their optimism, they believed that the separability and independence of the economy and the primacy of the economic sphere (the market) would generate both wealth and individual freedom without need for supervision by church or state (Clark, 1984:25). The primacy of economic sphere, according to Eliot (1994:514), is presented as theory of self-regulating market economy (epitomized by Smith' metaphor of the invisible hand). Afterwards, Smith's invisible hand has become a *cliché*, so much so that any case made for the market, from neoclassicals to neo-Austrians, can be perceived to be his case and to be invested with his trademark (Milonakis and Fine, 2009:48). In short, the theory of market self-regulation is arguably the central achievements of the classical approach to political economy with the policy of *laissez-faire* (Caporaso and Levine, 1992:46). Their argument for market self-regulation treated the market system as a reality *sui generis*, connected to, but not a subsidiary organ of, the state. This idea was very much an innovation of classical political economy (Caporaso and Levine, 2005:3).

On the other hand, pessimistic view was repeatedly suggested that the market could not work its magic indefinitely, which is defined as the market failure. Market failure defines the divergence of market outcomes from the expected outcomes of the market under first best solution. According to Caporaso and Levine (1992:41) market failure results from the workings of the market taken by itself and not from effort by government to regulate the market. The failure of market hence makes it essential that political economy

conceptualization should be the main framework; as with the market failure state intervention has become essential part of the economy beyond the classical functions to correct the failures including income distribution and social justice. This solely justifies as to why state and polity should be part of the general analysis in order to produce a sound economic analysis. Further efforts in overcoming the market failure resulted in further institutions moving into the economy to moderate the consequences of the market system and hence the importance of political economy framework.

In short, the methodological framework of classical political economy could be summarized as:

- (i) Starting point is the separability and independence of the economy and the primacy of the economic sphere;
- (ii) Behavioural postulate is the right of each person's freedom to pursue their own interest, limited only by respect of the freedom of others (Tabb, 1999:35);
- (iii) Market economy provides link between private interest and public good in by itself regulated market. The market efficiency is achieved through the division of labour limited by extend of the market in order to increase efficiency. However, the role of state had not been ignored as supervisor in the interest of the public (Tabb, 1999:36).

Several schools emerged from the classical political economy, only the main ones are discussed in the sections follow.

2.4.2. Marxian Political Economy

Marxian political economy started with Karl Marx, who carried forward the classical project of political economy. He constructed an impressive theoretical analysis of capitalism by weaving together classical political economy and the ideas of G.W.F. Hegel to develop a communal vision of the utopian socialism (Clark, 1998:27). From classical political economy, he inherited the labour theory of value, his collectivist mode of reasoning, and class as a unit of analysis. He built his political economy upon a critique of his classical predecessors especially Smith and Ricardo (Howard and King: 1985:40); from German philosophy, he adopted Hegel's dialectics and Feuerbach's materialism; and finally with the

help of the work of the French socialists, he built upon their critique and rejection of the optimism of classical liberalism, their emphasis on social justice, and their support for alternative forms of collective/social ownership (Milonakis and Fine, 2009: 33).

Marx, following in the footsteps of Smith and Mill, conceives the object of political economy in the broadest possible terms to include both social and historical elements. In this way, he forges a link between economics and other social sciences. Indeed, it could be argued that his political economy represents a sort of united social science, which corresponds to Islamic understanding of analysing a social reality albeit with different substance.

Marxian economic analysis has, therefore, deep roots in a sophisticated body of social theory. Its “materialist conception of history, which subsequently became the guiding principle of his work, constitutes the heart of his social science (Howard and King, 1985:1) Therefore, Marxian political economy explains and investigate all economic phenomena based upon the historically specific social relations of the relevant mode of production or historical materialism (Tabb, 1999:24). In Marx’s attempt, according to Caporaso and Levine (2005:3), he shows how powerful political forces originate in the dynamics of the capitalist economic process and how that process spawned political struggles of historic dimensions.

The central point for understanding Marxian economy is the social relationship of commodity-producing systems that interpenetrate with things and in consequence generate a fetishist perspective (Howard and King, 1985:43). In other words, it is the social relations of production that govern the way in which material objects enter the economic process. Economy and society become inseparable and an integrated unity, and the social character of economic relations.

For the Max, the key to his holist analysis is the mode of production or specific combination of socioeconomic forces (technology and division of labour), while the basic units of analysis are not individuals but social classes (Skocpol, 1979:55). Indeed, “individuals are dealt with here only in so far as they are personifications of economic categories, the bearers of particular class relations and interests” (Marx, 1976: 92 cited by Milonakis and Fine, 2009:38)

It significantly important to note that the Marxian economy, as an economic system developed parallel to liberal capitalism, has always remained a *political economy*, because politics in terms of state involvement remained at the core of economic decision-making as well as theory building is based on a unified social science understanding. When Lenin stated that “[p]olitics cannot help but determine economics [and] [t]his is the ABC of Marxism” (reported by Bunce, 1980: 966), he was reflecting on the political economics nature of Marxism. The critique raised by Marxian economists against capitalist market economy has always reflected this perspective.

Marx advanced a critique of the classical claims of market self-regulation to justify state-regulated capitalism, but with the intent of demonstrating that capitalism was not viable in the long run. While continuing the classical idea of the economy as a distinctive arena of society, Marx advanced a distinct conception of the relation between the political and economic (Caporaso and Levine, 2005:3-4).

In short, the methodological framework of Marxian political could be summarised as:

- (i) The point of departure is the description of the historic process of class domination. It is argued that it is society classes in the framework of new proletarianization, or disappearance of what one calls the bourgeoisie. Marx envisaged socialism as a form of society, which would not only be economically superior to bourgeois society but also morally, because it would add to the formal equality of bourgeois society material equality and thereby introduce freedom (Worsley, 2002:109);
- (ii) Behavioural postulate: Capital accumulation based on the alienation and explanation of labour (Tabb, 1999:89). In addition, it is postulated that humans have certain biological needs and a capacity for reason, but their social and natural environments significantly affect their consciousness and behaviour. The social context provided by language, traditions, values, and modes of interaction is so essential to human development that individuals cannot fully realize their talents and capacities except in association with other persons;
- (iii) Market declaration that the market ‘buying and selling’ (by private owners) had to be replaced with planning by the associated (and collectively owning) producers, if alienation was to be transcended (Aarons, 2009:23).

2.4.3. The Neoclassical Political Economy

The new mainstream position, developed in the late 19th and early 20th centuries and still *de rigueur* today, is neoclassical economics. Neoclassical economics is not just a modern updated version of classical political economy, as it starts with the rise of marginalist economics, which “succeeded in advancing a theory of value grounded in the intensity of subjective feelings (subjective utility theory) and developing the marginal calculus as a powerful conceptual and methodological tool” (Caporaso and Levine, 1992:79). The founders of neoclassical economics, such as Menger, Wieser, Jevons, Walras, Marshall and Pigou changed the focus of political economy from the classical concern with distribution, growth and the labour theory of value to a neoclassical orientation that dealt solely with the behaviour of individual consumers and firms operating in competitive market (Clark, 1998:32).

Neoclassical economists assumed the idealist form of a pure economy regardless of the social form or mode of production. In such a pure economy, everybody pursued his self-centred interests to maximize the objective function (Ghosh, 1995:20). Therefore, neoclassicism is essentially a subjectivist or individualist approach where man is seen as a technocrat acting rationally in various spheres of life, economic, political, legal, social and ethical. Each domain is governed by specific laws which co-ordinate the behaviour of individuals. Society is considered as a collection of individuals who are linked through a network of implicit and explicit contracts (Bortis, 2010:74). In addition, there is no comprehensive view of man and society: man and society are not considered as entities.

Neoclassical economic theory is built upon exchange, and production is an application of exchange. It is a natural process or social process of transforming inputs into outputs which are exchanged freely in the market (Ghosh, 1995:22). In neo-classical theory, the imperfections of market have been removed to achieve free and competitive market. The production and consumption of cultural goods and services are treated solely as commodities, produced and purchased in the marketplace to satisfy *preexisting* tastes and preferences, not as factors which through use might alter consumer wants and desires (Babe, 2009:15).

The core of neoclassical economics is equilibrium theory, which states that the mechanism of free competition, and hence the *supremacy of market*, is supposed to ensure not only the just distribution of income but also an optimal allocation of resources, stability and full employment (Ghosh, 1995:22). It is argued that deviation from equilibrium can create instability and unemployment.

The neoclassical theory applies the utilitarian philosophy to the problem of the nature and purpose of market economy (Caporaso and Levine, 2005:4). Classical labour theory of values and Marxian transformation of values into prices was replaced by a new approach based on marginal utility (Ghos, 1995:20-21). It proposes that value derives not from labour, but from consumer 'tastes and preferences'. In this neoclassical approach, *everyone* after all is a 'consumer', and therefore consumer sovereignty becomes enshrined as the discipline's new axial presupposition and principle (Babe, 2009:14). The same principle of margin was extended to the deformation of factor prices (Ghosh, 1995:21).

In their methodology, neoclassical economists, sought to construct a theory that matched the scientific rigor of physics. To achieve pure economic science, they applied mathematics as an analytical method "to set forth the principles governing the behaviour of individuals in their role as economic agents and the ordination of this behaviour by market mechanism" (Bortis, 2010:62). Therefore, economics became essentially a mathematical-deductive system in stark contrast to classical political economy, which was fully engaged with the cultural, political, and economic environment (Babe, 2009:15) as opposed to the partial analysis of neo-classical economics.

The methodological framework of neo-classical economic system can be summarized as follow:

- (i) The point of departure is *methodological individualism*. The individuals are understood as choosing agents, who "would engage in mutually beneficial exchanges until they gained the most satisfaction possible from the resources at their disposal" in perfectly competitive market. (Clark, 1998:32).
- (ii) Behavioural postulate: *self-interest oriented individuals* who seek their own interests, in a rational way, and try to maximize his/her own utility; In other words, self-interested individual operates in an environment where many potential objects of satisfaction are

in the commodity form, and where, in Macpherson's (1975:5) words, the aim of action is "the competitive maximization of utilities".

(iii) Market exchange: Clearly, market exchange and efficient allocation are central to neoclassical economics (Caporaso and Levine, 1992:96).

Hence, neo-classical economics is based on one-dimensional utility function, which leads to *homoeconomicus* – the economic individual in a market place.

The neoclassical approach defines the relation of politics to economics on the basis of the idea of market failure, defining market failure with reference to individual preferences and the efficient use of resources. For the neoclassical thinker, 'economics' refers to private transactions in pursuit of utility maximization, 'politics' to the use of public authority in the same cause (Caporaso and Levine, 2005:4).

2.4.3.1. Extension of Neoclassical Economics: Chicago School of Regulation

Although by 1900, neoclassicism had replaced classical political economy as the economic orthodoxy, political economy in various guises persisted. One such contender is the Chicago School, also known as *the new or positive political economy*, which aspires to reclaim the name of its classical predecessor even while extending neoclassical methods into myriad new applications (Babe, 2009:15). "New political economy wants to apply assumptions, language, and logic of neoclassical economics to political behaviour itself, and in deed to the entire range of public and private decision making" (Staniland, 1985:2). In addition, Chicago economists tried to extend the economic model into the study of non-traditional areas such as the economics of crime, marriage, suicide, adoption, and so on (Alvey, 1999:66).

According to the Chicago theorists, most if not all areas of life "are subject to the analysis of maximizing or calculations of advantage", making neoclassicism eminently suited for such extensions (Samuels, 1993:11). However, certain areas do remain out of bounds for these 'new' political economics. As noted by Samuels (1993: 12), conservative political economists do not deploy neoclassical theory and its understanding of the self-interested use of state power to investigate the origin of private property. Likely because such study could undermine the basic neoclassical postulate that property is inviolable (Babe, 2009:16).

Moreover, they do not address persuasion and other factors influencing tastes and preferences, because that type of investigation would undermine the axioms of consumer sovereignty (Babe, 2009:16). Furthermore, the new political economists eschew assessing the distribution of wealth and income as that would require value judgments on their part, which would be contrary to their aim of providing ‘positive’ or value-neutral analysis (Babe, 2009:16).

Liberal political economy firmly believed in the reality and importance of collective phenomena, but its teaching firmly opposed intervention by public authorities in the basic economic process of production and distribution. Its analysis rested on essentially normative terms, such as value, welfare and utility, and drew heavily on the assumptions of natural law (Staniland, 1985: 13). Chicago school wants to apply assumptions, language, and logic of neoclassical economics to political behaviour itself, and in deed to the entire range of public and private decision making (Staniland, 1985:2).

2.4.3.2. Virginia School: The Emergence of Public Choice and the New Political Economy

The main contribution of Virginia Political Economy is the Public Choice theory, a sub-discipline, which falls between economic and political science; it aims to shedding light on complex socio-politico-economic phenomena by developing and applying appropriate theoretical models. As Buchanan (1984: 13) explains it takes the tools and methods of quite sophisticated analytical level in economics theory and applies these tools and methods to the political or governmental sector, to politics, to the public economy (1984:13). In other words, the “application of basic economic axioms –rationality and self-interest – to the phenomenon of politics” (Mitchell, 2001:5). It is viewed as pathology of politics and democracy, in which “microeconomic theory is applied to an analysis of governmental decision making” (Christainsen, 1988:12).

According to Buchanan and Tullock (1962: xxx), two related but separated areas of inquiry both of which fall within the corpus of public choice are: “economic theory of constitutions” and “theory of political institutions”. The first theory has historical antecedents in the theory of social contract and the second theory is predicted to work within a constitutional-legal structure (Buchanan, 1984:14).

Within recent years, the Virginia school of economics, associated with such scholars as Arrow, Downs, Buchanan, Tullock and Riker, has developed an approach, which sheds significant light on importance aspects of democratic political process. This approach, which represents an extension of simple utility maximising models of individual behaviour to collective decision-making provides an important basis for making positive predictions about the allocation of resources via governmental process, and for analysing the effects of alternative incentive schemes on public choice (Asutay, 2010:29).

Public choice theory is methodologically individualistic in which individuals maximize their utilities, which focuses on the problems of aggregating individual preferences to maximize a social welfare function (Mueller, 1984:23). Thus, public choice approach focused on (Muller, 1984:24):

- (i) making the same behavioural assumptions as general economics (rational, utilitarian 'man');
- (ii) depicting the preferences revelation process as analogous to the market (voters engage in exchange), and
- (iii) to ask the same question as traditional price theory (Do equilibria exist? Are they stable? Pareto efficient?)

In ordinary markets, individuals make choices without reference to others and the results or outcomes are simply totalled up, whereas in democracies individual voters cast individual ballots (secretly) and the collective decision is made according to some rule, usually simple majority (Mitchell, 2001:5). Thus, the interaction that constitute politics can be described as involving collective choices as opposed to individualist choices.

2.4.3.3 Austria School: Institutional dynamics

Austrian school shared with neoclassical economists many of the same values and tools of analysis. At the same time, Austrian economists were undoubtedly influenced by the political climate in their country during the late nineteenth century. In environment where Hapsburg Empire crumbled and the working class grew increasingly receptive to socialist ideas, a group of academic economists in Vienna, including Carl Menger, Friedrich von

Wieser (1851-1926), and Eugen von Böhm-Bawerk (1851-1914) sought to demonstrate the appeal of a free-market economy with virtually no government intervention (Clark, 1998:32).

The important contribution of Austrian economists is a way back from scientific models of irrelevance in the social sciences and a return to the 'life-world' of human existence. Boettke and Storr (2002:181) pointed that the society, the economy and the polity enter into their analysis putting an emphasis on the 'meaning', where actors attach to their actions and to social phenomena. Therefore, individuals are neither disembodied from the institutions that shape and influence individual choice nor are institutions dissociated from the web of meaning that give them life. In that context, it is argued that individual behaviour is affected by, influenced by, and even directed by social structures and relations but not determined by them (Boettke and Storr, 2002:166).

Austrians, particularly Menger, von Mises and Hayek represent economic sociology's natural allies within the disciplinary borders of economics. Indeed, not only do the Austrians avoid many of the pitfalls of their economic brethren (atomism, determinism, ahistoricism, reductionism, *etc.*), similar to Weber, they avoid some of the problems that plague the "new economic sociology" (particularly the problem of a "single-level" versus a "multiple-levels" conception of embeddedness) while delivering a sophisticated analysis of money and markets (Boettke and Storr, 2002:172-3).

In their methodological individualism, Austrian School do not deny the reality of institutions or the idea that actors may act under institutional constraints, or that this constraint may be experienced as an external compulsive force or imperative; nor did they hold to a social contract or design theory of institutions. Only two propositions are excluded. The first is that social life can be explained without reference to the causal consequences of the meaning individuals give to their actions. The second is that institutions act as organic, causally effective entities through the structural imposition of rules or constraints on unwilling actors, and irrespective of the actions of such actors (Holton and Turner 1989:42-43).

2.4.4. Keynesian Political Economy

The Great Depression which caused persistent unemployment and inflation worldwide, due to failure of classical model to remedy itself through market forces, was what started Keynes on the road to the Keynesian revolution (Caporaso and Levine, 2005:4). It was believed that classical political economy through wage adjustment rapidly would clear the labour market and solve the problem. However, Keynes' analysis presumed that market forces would not be an adequate automatic adjustment mechanism, and therefore government was given a central role in stabilizing the economy (Alt and Chrystal, 1983:59). Once again, government was given legacy to interfere with adequate fiscal policies to secure economic stability and end depression.

The context of the Great Depression was analysed on macro level in terms of aggregate expenditure, which was, therefore attributed to the lack of demand. It is argued that if more spending could be induced, more output would be forthcoming: since total output equals total income, more spending increase national income (Alt and Chrystal, 1983:59). Therefore, Keynesian revolution recommended that policy makers should manipulate government expenditures to achieve a desirable level of aggregate demand. The argument that government had to use fiscal policy tools to improve economic performance is probably Keynes' most important legacy.

Since Keynes emphasized argument of market failure on macroeconomics contrary to the neoclassical which based its argument of market failure on microeconomics (Caporaso and Levine, 2005:4), Keynes recommended instrumental policy orientation to provide stability of the macroeconomics through what is called a large plumbing system, namely a circular flow in which one sector provides another sector with factors of production and receives in reverse wages, salaries, rents, profits and interest (Tabb, 1999:134). Keynes in his model, hence, focused on aggregate effective demand and course of change in demand (Pressman, 2001:619). He believed, if aggregate demand in an economy is deficient due to decline in investment or exports, there will be decline in national income and rise in unemployment. Government can offset this by an active fiscal stabilization policy involving its instruments tax rates and government expenditure. Aggregate demand in the economy is increased by either lowering taxes or increasing government expenditure. By analysing these two most

important components of demand, Keynes developed the modern theories of consumer spending and business investment (Pressman, 2001:619).

According to Bortis (2010: 67), the Keynesian theory is constructed on a broader base by endogenising entire socio-economic and political system, which forms an ordered entity with the economic, social, political, and cultural sphere. Therefore, politicians had been given a “justified role in economics, and economic theory could no longer be closed to political variables” (Staniland, 1985:16). In this Keynesian imagination, society is not simply seen as a “collection of individuals but is something more than its parts” (Bortis, 2010:62).

Keynesian political economy, hence, can be summarised as:

- (i) It could be summarised that the methodological framework of Keynesian political economy is call for “a somewhat comprehensive socialization of investment” (Keynes, as quoted in Pressman, 2001:619). In other words, increase in governmental expenditures, as the only way to get economy moving.
- (ii) In terms of behavioural postulate, most economic activity results from rational economic motivations but also much economic activity is governed by *animal spirits*. People have non-economic motives, and they are not always rational in pursuit of their economic interests. These animal spirits are the main cause for why the economy fluctuates and also main cause of involuntary unemployment (Akerlof and Shilleras quoted in King, 2010:1).
- (iii) Market forces, according to Keynes, it not always possible to rely upon to keep a capitalist monetary economy at potential output and full employment in the face of fluctuations in effective demand without intervention demand management by government (Dimand, 2001:623).

2.5. TRANSFORMATION OF POLITICAL ECONOMY AND EMERGENCE OF ECONOMICS AS A SCIENCE

Political economy had adopted its distinguishing name in discussions of classical philosophers on economic and political issues. That is obvious in considering the titles of early treaties in economy. Adam Smith: *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776); J. B. Say: *Treaties on Political Economy* (1803); David Ricardo: *Principles of*

Political Economy (1817); Nassau Senior: *An Outline of the Science of Political Economy* (1836); and John Stuart Mill: *Principles of Political Economy* (1848) (Yandle, 1990:167). However, the label of political economy, which covered a melange of objective analysis and applications involving value judgments, has been dropped out of use (Robbins, 1981:7). It has lost its overlapping scope between politics and economics and has been narrowed in a search for laws that explain economic behaviour. This move enables economists to delegate to other social science specialists such troublesome issues as the distribution of income and wealth, the power structure and social justice (Siddiqi, 2001:17).

In its origin economics grew out of moral philosophy in the treaties of founding fathers. However, economics has become detached from moral science and then from moral itself, due mainly to the marginalist revolution in the second half of the 19th century, but also due to the cumulative effects of the age of rationalism, the enlightenment, and the attractiveness and power of newly emerging sciences, especially physics, halted the nature of political economy by giving birth to the *science* of economics (Yandle, 1990:167). This new paradigm had a new concept of value, and directed attention away from policy analysis to the creation of the foundation of microeconomics. Economic theory has been seen as a positive science, which has to analyse and to explain the mechanism of economic process and values and morals do not form the economist's research program (Alvey, 1999:53).

The major contribution in shaping modern economics was Jevons (1862), who set out to overthrow the prevailing economics of moral science in his methodological approach. His attempt was at a social physics: where the "physical science have their basis more or less obviously in general principles of mechanics" (Alvey, 1999:62). Further, Jevons stressed on the statistical base and the improvement in the techniques of economics for overcoming economic problems. The lack of a "perfect system of statistics... is the only...obstacle in the way of making economics an exact science" (Schabas as quoted in Alvey, 1999:62). Furthermore, he insisted, "economics if it is to be science at all, must be a mathematical science", and in that direction, must be moved (Alvey, 1999:62). In this methodological approach, techniques come to be central focus in economics due to emphasising upon physical science, statistics and mathematics, economic lost its connection with reality and its dimension as a moral science.

Later, Marshall supported Jevons' call for adoption a new name for discipline. Marshall as being the first neoclassical economist considered economics as a separate science with pure and applied aspects argue that "it is better described by the term *Economics* then by the term *Political Economy*" (Marshall as quoted in Alvey, 1999:63). That's why, his main book was called *Principles of Economics*, rather than *Principles of Political Economy* as the classical economists called their works. The name was changed for the discipline and a wider acceptance of the name followed, which was a consequence of the nature and substance of analysis was changed.

The new paradigm had to produce its own methodology as well. The controversy over methodology ended when "economics as a discipline followed Menger and Walras [by] abandoning historical and institutionalist approaches to the new disciplines" (Gamble, 1995: 519). In this new period, while Marshall, *Economics of Industry* in 1879, renamed political economy as 'economics' and introduced the name of *economics* formally into the literature, Walras, *Elements of Pure Economics* in (1873 [1954]), stripped the social science character of political economy in his attempts to create a pure science. After that the discipline had been reshaped as *economics science*; and the label Political Economy that implied judgments of value was not in use any more (Robbins, 1981:7).

Marshall justified his position by arguing that the political and social environment had changed and the discipline of economics had to follow this change. The reason for that change is that economics is not concerned with values and policy but facts (Alvey, 1999:64). Walras, on the other hand, went even further by defining this pure science as the study of relationships among *things* and not *people*, and thus, eliminated human relationships. Therefore, he stated that "the pure theory of economics ... resembles the physico-mathematical sciences in every respect" (1954: 71). The result of this development has been technical achievement in terms of creating sophisticated economic models by virtue of analytical techniques provided by the developments in econometrics. As a result, "*Homo Economicus* as Smith had known him had all but disappeared" (Bowles, 1993: 84; emphasis in original).

The change was facilitated by the practice of distinguishing sharply between the *science* in terms of theory or analysis and the *art* of political economy in terms of the discussion of current economic problems and policies (Coats as quoted in Siddiqi, 2001:17). The

dichotomy is based on the notion that a professional engineer being an objective scientific expert cannot afford to consider the demand of political economy and ethics. Economics has thus become a science distinguished from art, and positive distinguished from normative (Siddiqi, 2001:17).

The stripping away of institutional clothing left the major unanswered question. The unanswered question raised serious doubts about the power of economic models to predict or explain real world outcomes. Undiscouraged by that analysts focused on welfare economics, which had to do with informing politicians about efficiency. Instead of explaining the way the world works, welfare economists concern to show how it should work, assuming that politicians were supremely interested in efficiency as narrowly constructed in economic models (Yandle, 1990:167).

2.6. SHORTCOMINGS OF ECONOMICS AS A SCIENCE

If we all live on an island so beautiful that every time we felt hungry we need only go to the nearest tree and pick a ripe fruit or if the Lord provided us with quails and manna whenever we were hungry, we would not need economists and politicians. However, in the real world there is not enough land, labour or capital to enable each person to have as much as he wants of everything without depriving somebody else. That's for every society must arrive at some way of allocating scarce resources. There are four ways of doing so: altruism, anarchy, the market and the government (McLean, 1987:9). Economic theory mainly demonstrated market as efficient in allocating scarce resources according to relative efficiency (Ghosh, 1995:25). In that process other important players such as social relations and class relations have been neglected and considered as unrealistic. In other words, economic theory explained in term of market could not provide a theoretical basis for building up a coherent account of the broad movements of the real economy (Ghosh, 1995:23) leading to the disembodiedness, fictitious commodities and commodification. These have become the nature of economy and economic theory has engaged with these new features.

At the same time, modern economics focusing only on market mechanism for distributing resources, they neglected the ethical side. Therefore, one of humanist critique towards the mainstream is the lack of ethical concern in economics (Alvey, 1999:65). Accordingly, even

the economics of the day was wildly held to epitomize man's inhumanity to man, and "the demand for a more humanistic approach to economic and social problems, one that took full account of ethical considerations... was a recurrent theme in the literature of the period" (Alvey, 1999:65). Deviation of economics away from the moral science was evident. Its manifestation and condemnation is present even in present time.

Humanist critique focused on reasons causing deviation such as influence of positivistic methodological works of Robbins and Friedman. Robbins's approach to positive economics defined interpersonal comparisons of satisfaction as subjective and thus outside of the realm of economic science. This, according to Alvey (1999: 66) had negative effect not merely on welfare economics but on the nature of economics as a moral science. Friedman in his positivistic approach had seen economics as an "objective science, in precisely the same sense as any of physical sciences" (Friedman as quoted in Alvey, 1999:67). The result was a mathematical science of economics, which came to be seen as the logical alternative to a moral science of economics; and it is hardly surprising that in modern neoclassical works one almost never sees morality mentioned.

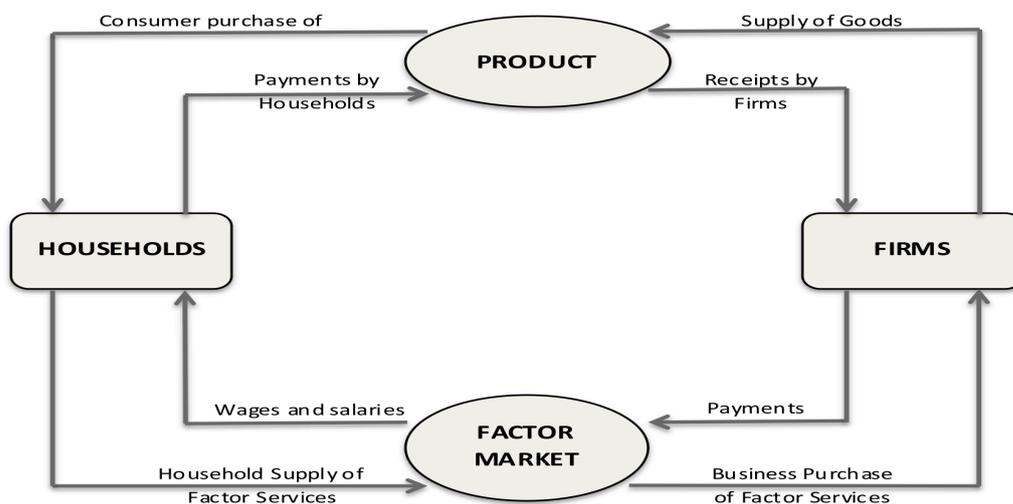
Another reason for drift of economics from the founding fathers' path was stripping away of moral concern and introduction of rational calculation, which has been easily translated into greed. There was a slippage from the assumption of utility maximization to wealth maximization and ultimately to explicit adoption of greed as the operational microeconomic assumption (Kreps, 1997:59). Therefore, Sen (1987: 7) rightly states that "the nature of economics has been substantially impoverished by the distance that has grown between economics and ethics".

Further important critique of raised against the neo-classical economics is related to its assumption of rational actor model, namely *homoeconomicus* that treats individual as a self-interested utility maximiser with preferences over a narrow range of personal consumption items with minimum cost (Romer and Gintis, 1998:1). They argued that a considerable body of empirical evidence contradicts this view, because people are not only motivated by self-utility maximization but also with duty and obligation. People have preferences over the well-being of others (they are both altruistic and vengeful), as they are concerned with issues of equity and dignity in interpersonal relations, their preferences are determined in part by the character of the economic institutions within which they operate, and their

well-being depends on the quality of their social relations and the extent to which they have developed their personal capacities, not only on the quantity and quality of the good and services at their disposal (Romer and Gints, 1998:1). Economic analysis and prediction related to a rational actor model is further complicated, where individuals make reciprocal exchanges; clan or family interests are as important, or maybe more important than individual self-interest. Other important considerations are the social norms, institutions and legal frameworks within which individuals operate (Moten and Evans, 2011:3).

Furthermore, Kirman argues that “the homoeconomicus is not an accurate or adequate description of human decision making (2010:509)”. A self-centered *homoeconomicus* model as depicted by economic theory is neither theoretically true nor empirically encountered at all times. Kirman (2010: 516) suggests that macroeconomic theory needs to incorporate the network of interacting individuals, the structure of their interactions, and the consequence of network activity. Moreover, economic theory should take into account the more realistic approach including government, social and cultural interactions, and religion in order to come up with appropriate explanations and solutions beneficial for decision makers as well as individuals.

Figure 2.1: The Circular Flow - Exogenous Government Model

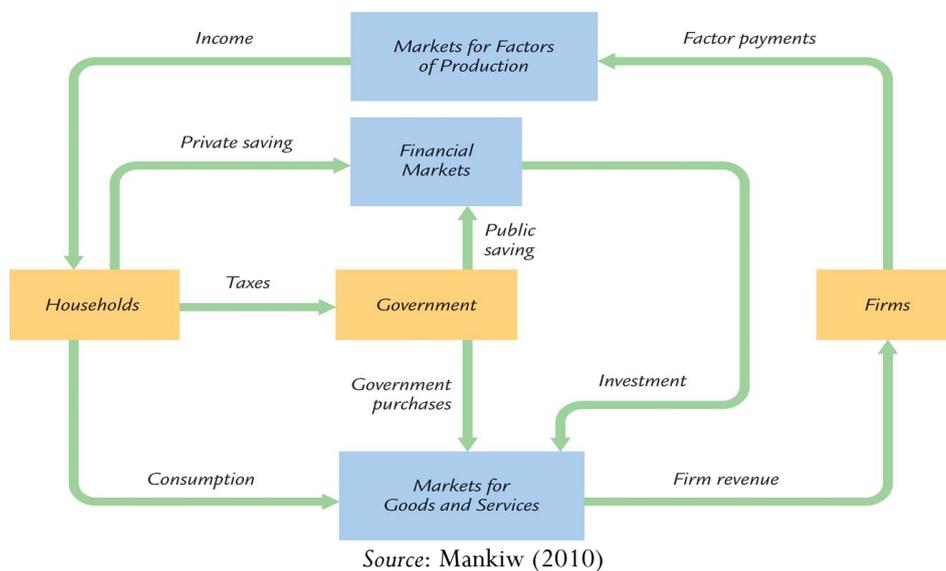


Within this model of the depicted economic activity, business cycle can be defined as a fluctuation in the level of economic activity (generally referred to as ‘gross national product’), which forms a regular pattern with an expansion of activity followed by a contraction followed again by further expansion. Such cycles occur about the secular or

long-run trend path of output. The partial analysis advanced by this figure clearly shows that alongside other important factors, governments and thus their economic actions, are taken as given and therefore is excluded from the analysis.

Recent developments in the theory of political economics and public choice, however, have raised important objections to this illustration. By *endogenising* government activity into the whole economic analysis, public choice attempted to re-illustrate the circular flow, which is depicted in Figure 2.2. In this new paradigm, government, its institutions, and its actors, namely politicians and bureaucrats, are endogenised into the model.

Figure 2.2: The Circular Flow - Endogenised Government Model

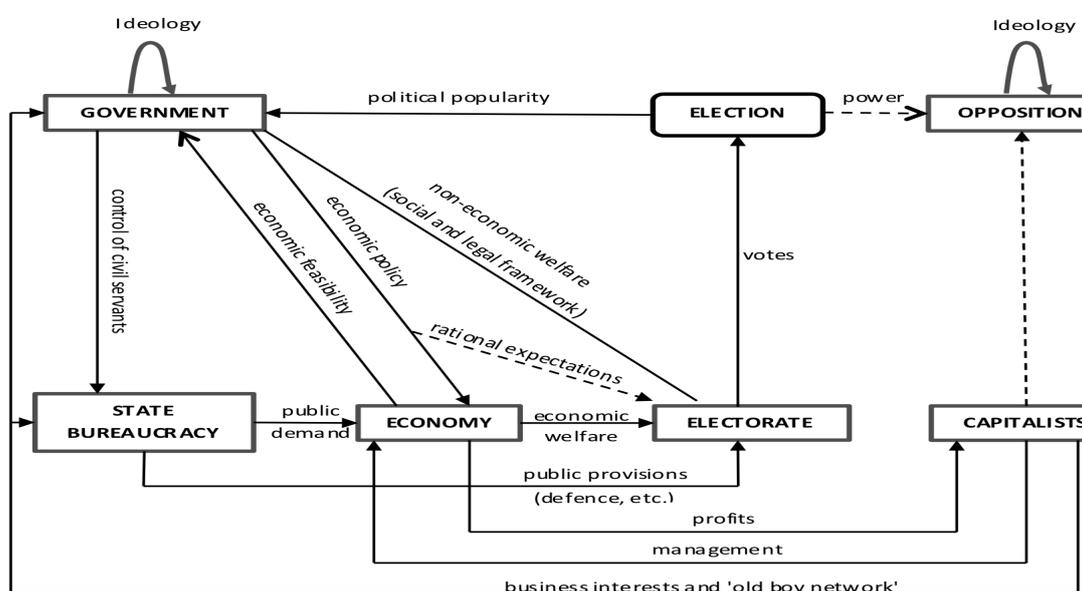


A simple comparison of Figure 2.1 with Figure 2.2 clearly demonstrates the difference between the two models: neo-classical economic analysis and the ‘political economics approach’. In this new framework, government and its institutions are *endogenised*, in various ways, into economic activity. As can be seen, economic policy has influences on the electorate, who have the power through election to vote or not vote for government. In this decision, the popularity of the government plays the determining role, which is defined by the state of the economy.

As illustrated in Figure 2.3, the political economic framework includes other variables of state apparatus and politics into the analysis of economic policy, such as bureaucracy, opposition parties in addition to government, their respective ideologies, and the business

sector.

Figure 2.3: Integrated Politico-Economic Framework, or Politicised Circular Flow



Source: Boroah and Van Der Ploeg (1983:5)

For many reasons, therefore, it is wrong to assume that a complex economy, with millions of agents with diverging interests, functions in a way that would be found in a Robinson Crusoe world. Hence, system presented in Figure 2.1 cannot do justice to the complexity and the historical uniqueness of events that may lead to phenomena like those that have come to be known as the global imbalances (UNCAD as quoted in Kirman, 2010:525).

This new paradigm, which is an extended version of neo-classical economy, clearly identifies the interaction between the economy and polity in analysing the economic policy within this framework and acknowledging the interaction between the economy and polity which are much closer to reality. This method of analysis can be extended to include the assumptions and working mechanism of other social sciences to develop a better picture.

2.7. RE-DISCOVERING POLITICAL ECONOMICS: PUBLIC CHOICE AND NEW POLITICAL ECONOMICS

The re-emergence of political economy as an academic and intellectual trend represents a 'rediscovery of 18th century method'. It is true that this *new* trend has brought together theoretical and methodological approaches, which kept apart after coming from the same sources of intellectual inquiry.

As the name itself suggests in its original sense political economy was an area of political debate and philosophy including economics. Deane (1989) informs us that the leading 16th and 17th century writers on economic matters were political activists or public officials who are involved in informing, criticising and or justifying the economic policies of government. Adam Smith analysed economics in a coherent, consistent and integrated understanding, and “located the discipline with the moral and political sciences as a ‘branch of the science of statesman or legislator’” (Deane, 1989: 68). One of the most important features of this discipline is that it is policy-oriented. As discussed above, it was not only Smith but also his contemporary scholars who had the same comprehensive and holistic approach to matters relating to economy. Therefore, in responding to the re-emergence of political economy with the ‘new political economics’, Buchanan (1983: 6) states that “To us, quite simply political economy meant nothing more than a return to the stance of the classical political economists”.

As discussed, it is important to state that Smith and his contemporaries believed in the self-regulatory power of markets through the *invisible hand* and the *self-interest* assumptions of individuals. Through such features, they believed that market order transforms private interest into public interest. Thus, “even under strictly *homoeconomicus* assumptions about behaviour, public interest is served by the market order” (Brennan and Buchanan, 1984: 392). Such contributions of the 18th century philosophers such as Smith, Malthus, Ricardo and Marx constitute the basis of the *new* political economy, as they all saw politics and economics in a broader sense as being inseparable.

Despite the marginalist revolution given birth to the science of economics, in the first half of the 20th century there were some attempts to bridge this divide. Keynes and Schumpeter were among those who attempted to introduce the existence of the state, or government, into economic analysis. In the 1930s it was clear that capitalist markets did not hold the general equilibrium posited by neoclassical economists. As mentioned, Keynes’ *General Theory of Employment, Interest and Money* (1936) provided a new analytical foundation for macroeconomic management by suggesting that “the public sector could prime the economic pump by using fiscal policy tools to stimulate aggregate demand seemed to be just what the doctor ordered” (Shughart and Razzolini, 2001: xxxv). This new solution introduced the government to macroeconomic management as one of the actors, whereby a

more realistic approach was developed.

Although Lord Robinson argues that Keynes established the basis for a new political economy and “economics once more became political economy” (Robinson, 1962: 76). However, in developing a critique against Keynes for bringing state back into the analysis and policy making, Buchanan and Wagner (1977) and Brennan and Buchanan (1980) maintain that Keynes never addressed the role of politics in the making of macroeconomic policy, and thus did not introduce politics and its actors into economic analysis in the sense of the modern political economy. Instead, they state that Keynes followed the mistake of neoclassical economists by giving a beneficent role for government intervention in the modern market economy. Despite this, Keynes’ policy option gave a chance for modern political economy to show *government failure*, because, “the idea that came out of the Keynesian revolution was that policymakers should manipulate government expenditures to achieve a desirable level of aggregate demand” (Alt, 1983: 60). This in the later years helped the formulation of the modern political economy as “once Keynesian economics had given politicians a justified role in economics, economic theory could no longer be closed to political variables” (Oppenheimer, 1980: 124).

Schumpeter’s attempt in expanding the economic analysis through state and other institutions should also be considered as an important contribution in laying the foundations of the modern political economy, as he placed important role to Weber’s conception of *Sozialökonomik* whereby he distinguished political economy from economics in his *History of Economic Analysis* (1954). He defines political economy as an exposition of a comprehensive set of economic policies, which he advocated on the strength of certain unifying normative principles, such as the principles of economic liberalism, socialism. Schumpeter (1954) believed that without considering the social, political and cultural conditions for economic policy, it was not possible to develop proper economic theories to tackle with the crisis.

The emergence of new political economy around Virginia schools, hence, extended the nature of economic analysis by endogenising several factors and institutions into the analysis with the objective of developing a comprehensive analysis within public choice and new political economics.

Public choice theory or the *economic theory of politics* is one of the variants of political economy, which emerged as an approach or sub-discipline in the post-World War II period. It “applies the thinking and methods of modern economics to political process” (Frey, 1983:10). It is a discipline which “falls halfway between economic and political science” (Buchanan, 1984:11). Mueller has offered the most relevant definition, circulated in literature on economic theory of politics: “Public choice is the economic study of nonmarket decision making. Or simply the application of economics to political science”(Mueller, 1989:1). Buchanan (1978: 3) provides a more institutional definition by stating that “public choice... is really the application and extension of economic theory to the realm of political or government choice.

In the words of Borooah (1996:43), “the origins of public choice lie in dissatisfaction with traditional assumption made by economists that, while private sector agents acted according to their self-interest, public bodies (particularly governments and their bureaucracies) acted solely out of a desire to maximise social welfare”. Thus, public choice school endogenises various actors beyond market actors and consumers into the analysis as depicted in Figure 2.2 and Figure 2.3, which is believed to produce a more comprehensive and relevant analysis.

It is important to state that despite the fact that public choice and the new political economics is a more realistic version of political economy analysis, it still remains very much with the methodological formulations of neo-classical economics. Therefore, still there is a room to expand the economic analysis within political economy tradition by recognising the differences in ontology producing different modes of productions and social formation in respect of each political economy. This is particularly the case with Islamic political economy (henceforth, IPE).

In conclusion, the major thrust of the modern political economy is the realisation that economic and political activities are not really governed by separate social systems but are integral parts of a common economic, political and social framework. Lastly, political economy is not a unified doctrine as it includes many variants with different analysis, theoretical approaches and ideological predispositions or value preferences. The advent of modern political economy provides an interdisciplinary perspective to match the interdependence of political, economic, and administrative aspects of modern nation states;

however, there is still need to expand economic analysis by bringing further variables, institutions and disciplinary methodologies into the analysis, as moral economy suggests. This rationalises the emergence and construction of IPE as discussed in the following section.

2.8. RATIONALISING AND JUSTIFYING ISLAMIC POLITICAL ECONOMY: WITHERING AWAY ISLAMIC ECONOMICS

It should be noted that the rationale for development a distinctive discipline of Islamic economics stems from the values and the sources of Islam. Unlike neo-classical and modernist position of universal values, no human endeavour is value-free, which implies that reality including economic reality is socially constructed. Thus, in everyday life, each action is produced and acted through a socially constructed manner, which explains the differences in each realm of life (Asutay, 2007:5), as the level of economic development, social and cultural factors, norms and values and the environment has impact (Bornstein 1979:7). This hence implies that “religion, ideology or any strongly held set of values, ideals and mores have an impact and influence which have to be taken into serious consideration (Normani and Rahnema 1994:43) which also rationalises the emergence and validity of Islamic economics, or IPE.

Thus, the values and religious believe have been scientifically proven to have strong impact in shaping the social reality, which also rationalise for different constructions of economic understanding. In supporting this, for example, J. S. Mill (1836 (1995): 55), the founder of political economy argued that “... in whatever science there are systematic differences of opinion ... the cause will be found to be, a difference in their conceptions of the philosophical method of the science, the parties who differ are guided, knowingly or unconsciously, by different views concerning the nature of the evidence appropriate to the subject. They differ not solely in what they believe themselves to see, but in the quarter whence they obtained the light by which they think they see it”. This clearly runs against the universality of economics as imposed by the neoclassicals.

When it comes to Islamic economics vis-à-vis other economic theories, the acceptance of revealed knowledge, the value systems, and axioms that it brings make it unique. It comes from “recognition spiritual, moral and social needs of human beings in addition to material needs” (Bani Amer, 2011:33). In other words, Islamic economics replaces the hedonic

perspective in defining human well-being with a spiritual, moral and social perceptions of Islam.

Islamic economics emerged as response to the failures of capitalist and socialist economic development in the Muslim world in the post-colonial period, as in the opinion of the founding fathers these economic strategies ignored the importance of human beings and its well-being. Their objective was therefore to develop an economic system understanding, which could develop a human-centric development strategy (Asutay, 2007:5). The aim of the new stratagem as (Kuran, 1997) explains; was strengthening Muslim solidarity and preserving a distinctive Muslim identity in modern time. In other words, the birth of Islamic economics was seen as a way of providing a distinctive and authentic Islamic identity (Asutay, 2010:3). Thus, the founding fathers, Khurshid Ahmad, Naqvi, Chapra, Siddiqui, amongst others aimed at developing an Islamic response to these failures by constructing a human-centred development model based on the ontology and epistemology of Islam.

The idea that Islam has a distinct political and economic system was a component of the demand for the creation of separate states for Muslims after the colonial period all over the world. At the time, there were two dominant economic systems, capitalism and communism/socialism. Both of these Western economic systems (or philosophies) shared the common goal of improving material welfare of human beings, and also agreed on importance of material conditions (and relative unimportance of the spirit, ideals, *etc.*) as determinants of history. Therefore, their objective was according to Asutay (2007: 5) to develop an economic system understanding, with distinctive values, norms, rules and institutions, which is considered to be ‘ideal of Islamic developmentalism’ in economy.

The new emerging “Islamic economics paradigm aimed at the creation of the Islamic system of economics with its distinct values, norm, rules and institutions with a politically oriented systemic understanding as ordained in Islamic order” (Asutay, 2007:5). This imagination based on the Islamic ontology as expressed in Qur’an and *sunnah* and *hadith* as well as classical knowledge developed over the centuries and Islamic law or *fiqh* rejects a separation between ethics and economics and construct an economic understanding within Islamic normative world. Accordingly, it makes economic pursuits of man subservient to ethical constrains, accords highest priority to the needs of the ‘needy and the deprived’ at all levels of economic development, makes explicit recommendations to end the exploitation of

human beings by human being and insist on preserving *al-adl* and *ihsan* (social balance or equilibrium in social and economic relations) and de-emphasizes the quest for material plenitudes that greed and avarice sustain (Naqvi, 1984:9). Therefore, economic system, institutions and laws of Islam are guided by moral principles and normative world of Islam, to produce economic system of Islam.

While economic system of Islam is attempted, the ontological sources does not define an Islamic economic system; however, fundamental principles and potential substance and contents of such a moral economy is defined in the Qur'an and in the tradition of the Prophet. Consequently, Muslims intellectuals and economists of each country and for each era of history face the challenge to construct and reconstruct a suitable economic system which is based on epistemological and ontological sources of Islam (Siddiqi, 2001:16). These sources mainly *Quran* and *Hadith* "determine the framework of the economic value system, the operational dimension of the economy and also the behavioural norms of the individual Muslims" (Asutay, 2007:5).

The discipline of Islamic economics relies on the axioms and foundational principle of Islam, which according to Muhammad Baqir al-Sadr (1961) and Sayed Abul A'la Mawdudi (1946; 1970; 1960a; 1960b) apply to all aspects of life including economics as well. They define the framework for economic activity to take place within intra-and intergenerational social justice, which reveal themselves in the methodological framework of the Islamic economic system (Asutay, 2007:15). The foundational axioms of the Islamic economic paradigm operationalise the aspirations of Islamic economists in aiming at the creation of human-centric economics. Ahmad (1980, 1994, 2003), Ariff (1989), Chapra (1992 and 2002), El-Ghazali (1994), Naqvi (1981, 1994), Siddiqi (1981), and Sirageldin (2002) presented an axiomatic approach in order to justify the existence of an Islamic economics by treating Islamic ethos as an ideal through which social and economic policies are assessed (Asutay, 2007:170).

Chapra (2007) proposed that Islamic economics should be distinct discipline. His claim is based on the belief that Islamic economics is directed towards the realization of a purpose that cannot be understood and realized using the analytical tools developed by conventional economics. As Asutay (2007: 5) observes Islamic economic system aimed at a world order, where ontological and epistemological sources namely *Quran* and *Hadith* determine the

framework of the economic value system, the operational dimension of the economy and also the economic and financial behavioural norms of the individual Muslims. According to Chapra (2007), the need for a separate theory becomes further acute because the set of variables needed for the economic analysis in Islamic paradigm are broader and the mechanism and methods for the allocation and distribution laid down in the paradigm are different.

On micro-level, Islamic economics define an objective function aiming to achieve *falah* (salvation) by aiming at *ihsan* (benevolence) through the notion of the individual's role as the *vicegerence* (of Allah) role on this earth. His success in this role depends among many other things, on the acquisition, allocation and disposition of the resources, which are *amanah* or trust, according to the consent of Allah. Thus, Islamic economics has been defined as "an approach to, and process of, interpreting and solving the economic problems of human beings based on the values, norms, laws and institutions found in, and derived from the resources of Islam" (Haneef, 2005, internet edition).

As mentioned above, founding father defined this new discipline as Islamic economics; however, as discussed in detail, economics as a science refers to scientific method and rationality as the main methodological form. In addition, economics as a science has divorced itself from other social sciences and also ignores larger institutions, culture and religion. Importantly, consider values and ethics only as exogenous variable at the maximum. Therefore, in examining the nature of Islamic economics, it is rather difficult to term and express it within the narrow boundaries of 'economics' by replicating the experience of classical economics. Considering the features, substance, value system and integrated analysis method and model suggested by Islamic economics, it is by definition a political economy, or IPE, which will help rescuing Islamic economics from falling the same trap as conventional economics did. Therefore, rather than going through the same experience as conventional economics did, we at the start should develop this discipline as an IPE so that the mentioned natures, features, structure and mechanism as defined by Islamic ontology and epistemology can be articulated. Otherwise, Islamic economics will not enrich our understanding of economy beyond neo-classical economics, while its aim forces us to consider IPE.

In conclusion, the 15th century's scholar Ibn Khaldun's framework provides a summary of

the interdisciplinary dynamic model for Islamic socio-politico-economic system (Chapra, 2000: 147-148):

“The strength of the sovereign (*al-mulk*) does not become consumed except by implementation of the *Shari’ah*;
The *Shari’ah* cannot be implemented except by a sovereign (*al-mulk*);
The sovereign cannot gain strength except through the people (*al-rijal*);
The people cannot be sustained except by wealth (*al-mal*);
Wealth cannot be acquired except through development (*al-‘imarah*);
Development cannot be attained except through justice (*al-‘adl*);
Justice is the criterion (*al-mizan*) by which God will evaluate mankind; and
The sovereign is charged with the responsibility of actualising justice”

As Ibn Khadun’s statement indicates Islam suggests a political economy as part of Islamic social formation. Furthermore, such normative principles of Islam demonstrate that Islam does not prescribe a particular economic system but provides the core elements and principals, which form the basic philosophy of a system or an economy. Islam provides primarily normative principles for economics and finance.

In an attempt to identify the political economy essence of Islamic economics, system analysis is considered in line with boarder and comprehensive nature as expressed in Figures 2.2. and 2.3, which is discussed in the following section.

2.9. DEFINING ISLAMIC POLITICAL ECONOMY BEYOND ECONOMICS: SYSTEM AND FEATURES OF A SYSTEM

The term ‘system’ according to Miller (1978) is a set of interacting units or subsystems with interrelationships or correlations among them with some degree of order. Each political economy has its own ‘system’ in articulating its own worldview leading to a particular ‘modes of production’.

Islam in this, Asutay (2007) states, represents the order, with the subsystems of economy, polity, society, state *etc.* Thus, totality of several systems, according to Choudhury and Malik (1992), in the Islamic order is linked together through the bond of ethical relationships. Since IPE is defined within the parameters of its own ethical system, “the ethical norms of Islam are fully integrated with economic motives in Islam, as these are not voluntary actions but, ontologically, part of the revealed knowledge; and therefore its dogmatic nature makes it necessary for they to be followed” (Asutay, 2007: 4). In IPE, the

Qur'an and Sunnah provides the set of derived principles, rules and laws, either recorded or traditionally practiced over years, to govern the production, consumption, exchange and distribution patterns in a society indicating that IPE is a system.

The working mechanism of IPE according to Asutay (2007) is managed by a set of philosophical foundation and principles and value systems based on the ethics and normative world of Islam with the overall objective of bringing “the economy closer to the objectives of the system represents the testable ground of the system” (Kahf, 1989: 43). Therefore, the components of a system, can be located within Islamic understanding of economics, however to distinguish IPE system from other systems, the fundamental elements needs to be focused and compared. According to Asutay (2007: 4) by following the systemisation, for constructing a system, and hence IPE as a system the followings are necessary: the organisation of decision-making arrangements; mechanisms for the provision of information and co-ordination; property rights; and incentive mechanism a list of characteristic to understand the system in economic realm. In addition, Asutay (2007, 2013), provides a systematic and useful method of addressing the key characteristics that go to make up a particular economic system.

- (i) Defining and identifying the distinction;
- (ii) Framework paradigm (with ontological and epistemological sources) as reference point;
- (iii) Foundational axioms;
- (iv) Value system;
- (v) Operational principles/mechanism;
- (vi) Specific methodology;
- (vii) Functional institutions;
- (viii) Modes of production and social formation.

The above characteristics of a system are discussed in following paragraphs below with the objective of locating them in Islamic economics to demonstrate that it is IPE, as an alternative system.

2.9.1. Defining and Describing Islamic Economics

Generally, definition of Islamic economics and its scope considers and reflects upon the many categories of prevailing thought. The first focuses its attention on *Shari'ah* that creates

a framework and defines the environment and the second focuses on the study of human behaviour within the Islamic system of economics. Also definitions of Islamic economics are classified on normative and positivist frames and hence the ones that are considered independent and distinctive from the mainstream economics and others, which treat Islamic economics as sub-discipline of conventional economics. In the following, a number of definitions are elaborated on these bases in order to come up with an appropriate but also comprehensive definition of Islamic economics.

Mannan (1970:3) defines Islamic economics as “a social science which studies the economic problems of a people imbued with the values of Islam”. It has to deal with the production, distribution and consumption of goods and services within the framework of an Islamic society where the Islamic way of life is fully established (Mannan, 1984:51). For Mannan defining feature of Islamic economics comes from the conviction that Islamic values should shape human behaviour including economic and financial behaviour, as they are motivational properties which influence the pattern, structure, direction and composition of production, distribution and consumption (Mannan, 1984:229). However, Mannan does not elaborate on the relevant values beyond developing a discourse and how their involvement will create Islamic economic as a distinctive field.

Siddiqi (1992) and Naqvi (1994) take a different position, as they portray Islamic economics as something shaped by Muslim scholars within Islamic perspective. For example, Siddiqi (1992: 69) states that “The Muslim thinkers’ response to the economic challenges of their times. In this endeavour they were aided by the Qur’an and Sunnah as well as by reason and experience” whereby he refers to the importance of field and hence social constructivism determining the nature of Islamic economy. Siddiqi (1992), thus, takes an inductive/normative by referring to the observation of everyday life but also principles enshrined in the Qur’an. The normative nature in defining Islamic economics becomes more distinguishable in Naqvi’s (1994: 13) attempt: “Islamic economics is the representative Muslim behaviour in a typical Muslim society”, in which the ‘representative nature’ refers to the Islamically defined behavioural norms as opposed to the Muslim behaviour.

In articulating a system understanding, Ahmad (1992: 19) defines Islamic economics as “a systematic effort to try to understand the economic problem and man’s behaviour in

relation to that problem from an Islamic perspective”. In this holistic approach, Islamic economics is considered as replacement of conventional economics, hence Islamic economics system positions itself as opposed to conventional economics. In supporting this, Hasanuzzaman and Khan are also proponents of a replacement of the conventional economics with Islamic one (Kahf, 2003: 26).

For Hasanuzzaman Islamic economics presents ‘the distinctiveness’ of the Islamic way of life, whose main goal is the prevention of injustice by following the principles of *Shari’ah* for the purpose of pleasing Allah (Kahf, 2003:26). He considers Islamic economics as part of operationalizing the Islamic principles in economic and financial spheres as well as every aspect of human life. Due to the process and consequences nature of Islamic economics, Hasanuzzaman argues for two-dimensional utility function by endogenising hereafter utility along with present utility. According to him, this will lead to *homoislamicus*, which is the unique feature of Islamic economics. Hence, Hasanuzzaman by proposing justice as necessary requirement of achieving *falah*, or salvation, defines Islamic economics as (1984:52) “the knowledge and application of injunctions and rules of the *Shari’ah* that prevent injustice in the acquisition and disposal of material resources in order to provide satisfaction to human beings and enable them to perform their obligations to Allah and the society”.

Following the same philosophical stance as of Hasanuzzaman, Abu Al Makarim also essentialises Islamic economics with the realisation of justice in everyday life activities. Due to his insistence on ‘justice’ dimensions, he names Islamic economics as a ‘science of economic justice’, which is rather a remarkable position considering the nature of the science of economics. However, Al Makarim argues that before considering it as a science in the form of Islamic economics, it should satisfy ten-point test articulated within for categories name, definition, subject and sources. After evidencing that this paradigm fulfils the conditions of a science, Abu Al Makarim (1974:35) defines Islamic economics as “the science, which deals with wealth and its relation to man from the point of view of the realization of justice in all form of economic activities”.

However, despite being rather aspirational, these two definitions do not specify the operational nature of Islamic economics for achieving *falah* that could be practised in everyday life, as they mainly define Islamic economics from the justice perspective.

Therefore, some may argue that if the issue is 'justice', then this cannot constitute as an alternative paradigm, as even the modified capitalism in the form of welfare state and the socialism can be considered as justice oriented economic system for *falah*. Therefore, the distinct nature of Islamic economics is very much related how 'justice' can be attained rather than discursively articulating justice.

In providing a welfare oriented understanding, Khan (1994) considers Islamic economics as a study of well-being through cooperation and participation. For Khan, (1994:33) Islamic economics "aims at the study of human *falah* [well-being] achieved by organizing the resources of the earth on the basis of cooperation and participation". As can be seen this definition has two aspects: one is the shaping of economy to structure according to the Islamic economic practices so that *falah* can be achieved; and secondly, articulating the concept of 'modes of production', as Khan (1994) refers to the 'organisation of resources' in the sense of defining a particular way land, labour and capital can be brought together to produce a modes of production according to Islamic principles, which also relates to wealth distribution and the distribution of surplus.

Hasan (2011: 21) adds to present life and hereafter in his definition when he defines Islamic economics being "the subject that studies human behaviour in relation to multiplicity of wants and scarcity of resources with alternative uses so as to maximize *falah* that is well-being both in the present world and the hereafter". As can be seen, it locates Islamic economics within the mainstream economics, and fails to go further enough to outline the distinctive nature of Islamic economic as a system but rather Hasan (2011) even narrows it as subsystem of neoclassical economics in an attempt to modernise Islam. However, it is important to note his reference to Islamic maxims, such as *falah* and *akhirah* whereby two dimensionality of Islamic economics emerges.

Chapra (1996: 25) comes with the most comprehensive definition of Islamic economics, based on a paradigm in which the establishment of socio-economic justice is the primary objective. In other words, the primary function of Islamic economics, according to Chapra (1996) like that of any other body of knowledge, should be the realisation of human well-being through the actualisation of the *maqasid*. Therefore, Chapra (1996: 30) defines Islamic economics as branch of knowledge, which helps to realize human well-being through allocation and distribution of scarce resources that is conformity with Islamic teachings

without unduly curbing individual freedom or creating continued macroeconomic and ecological imbalances. In this definition caveat is provided by Islamic teachings, which is further linked to *maqasid-al Shari'ah*. However, the nature of macroeconomics is not provided.

In further expanding the definition of Islamic economics towards IPE, Aydin (2011) points to the distinctive feature of Islamic economics through Islamic worldview, and in particular through its ontological, epistemological, and technological foundations. Aydin (2011: 35) highlights multidimensional well-being goals and morally guided market mechanism in his definition: “Islamic economics foresees an economic system based on the Islamic worldview aiming to realize spiritual, moral, intellectual, social, and material well-being of individuals in this life and the hereafter through allocation and distribution of scarce resources in a morally guided market system”. However, in this definition, the nature of the market system for which reference is made is not explored and therefore whether a different modes of production is referred is not cleared; as the systemic nature of IPE requires a particular modes of production which can distinguish it from other systems. In addition, in this definition again the non-material and justice aspirations of Islamic economics is identified, which is a recurrent position as can be seen.

Kahf (2003) renders a critique of the existing scholarship in Islamic economics and attempt to define and describe Islamic economics within the Khaldunian paradigm (Ibn Khaldun, d. 808/1406), namely *ilm al-Umran*. In this, however, Kahf (2003) strips Islamic economics from its religious and cultural relativist position to a value-neutral nature in the same way as neo-classical economics does by referring to ‘material objectives’. Kahf (2003: 29) therefore defines Islamic economics as “the study of human behaviour individually and collectively, with regards to the use of resources for the purposes of satisfying human material objectives”. In developing his own definition, Kahf (2003) considers various definitions of Islamic economics and divides them into two categories: those definitions, which consider Islamic economics as distinctive field of economics and those which considers it as sub-economics of conventional. However, his position disagrees with either of the conceptualisation as expressed by the majority of the contenders (Akhtar, 2007), as for Kahf (2003) Islamic economics is a branch of conventional economics that resembles capitalist perspective on economics. This leads Kahf (2003: 33) to suggest that Islamic

economics can be reduced to an “economic theory”, which is not a science of its own and hence, uses the model and concepts of conventional economics. This indeed, negates the entire discourse of Islamic economics.

For purpose of the clarity, it should be noted that definitions offered by Mannan (1984), Hasanuzzaman (1984), Abul Al-Makarim (1974), Khan (1994), and Hasan (2011) mainly consider normative aspect of Islamic economics, in which the main focus is the principles and rules of *Shari'ah* that make up framework or milieu for the behaviour of the economic agents. In these definitions, according to Zarqa (1990: 32) normative side dominates, in terms of how peoples' economic life should be shaped according to Islamic principles and values. To this group, Tag el-Din's definition may be added, as it refers to normative economics by concentrating on macroeconomic policy (Kahf, 2003:27). It is “a system of economic policy guided by the Quran and Sunnah in facing the economic problem”. For Tag el-Din, the focus of Islamic economics is “the normative interventionist policies” (Saif, 1994:97-100).

On the other hand, definitions by Siddiqi (1992), Naqvi (1994) and Ahmad (1992) focus on human behaviour within the framework provided by the Islamic economic system, whereby normative assertions are supported by institutional Islamic constructs. In other words, definitions of this part focus on the construction of *homoIslamicus*, Islamic economic analysis of institutions, the normative aspects of economic life of Muslim and non-Muslims societies, by explaining the reasons and results of the economic activities and accordingly providing Islamic solutions for the problems with the objective of establishing the foundation of Islamic economic system (Zarqa, 1990:32). As part of this normative policy oriented fascination, for Al-Sadr (2003: 28), Islamic economics has two roles: “to discover the shape which real-life variables may take in a society that applies the Islamic economic system and to uncover the Islamic economic system itself” (as quoted in Kahf, 2003:28).

In mapping the definition and stances regarding Islamic economics, another category tries to define Islamic economics as value-loaded, which incorporates ideas, beliefs and values of individuals who are involved in in social construction. It is return to IPE, as Asutay explains where the ontological and epistemological sources namely the Quran and Sunnah determine the framework of the economic value system, the operational dimensions of the economy as

well as the economic and financial behavioural norms of the individual Muslims (Asutay: 2007).

As the preceding discussion on the definitions of Islamic economics and its distinctive nature demonstrates, the Islamic economics “is defined within the parameters of its own ethical system, which fact incidentally, demonstrates its originality and relativity” (Naqvi, 1994:80). Since Islam represents overall order, it also has implications for economic realm by offering Islamic economic system (Asutay, 2007:3). Therefore, the Islamic order through its ethical economic principles, provides “the economic system with its basis and objectives on the one hand, and with axioms and principles on the other hand” (Kahf, 1989:43), and the ethical base of Islam defines the value system of the Islamic economic which governs all forms of economic interaction in society.

Since distinctive nature of Islamic economic comes from the values and the sources of Islam, which are socially constructed that implies that Islamic economics is value-loaded, despite the modernist projections of universal values. As part of individual social construct, Islamic economics is shaped by Islamic values derived from Islamic sources and therefore cannot be value-free. This is a distinction of Islamic economics, which distinguishes it from neo-classical economics.

As the definitions and features of Islamic economics show, it is mainly a normative proposition stating ‘what people should strive towards, as opposed to how people are likely to behave (the ‘ought’ as opposed to the ‘is’)’. However, “the Islamic economic system is not devoid of positive economic statement or hypotheses. Several areas of Islamic economics are truly positive and cannot be different in Islamic or any other framework” (Asutay, 2007:14).

In overall, Islamic economics for Asutay (2007) is, therefore, “value-loaded, at its most elementary level and shaped by individual values derived from individual worldview, as part of individual social construct. Since factors affecting worldviews differ, different worldviews exist leading to different ‘systems’ for different peoples” [in different environments and places] (Asutay, 2007:6). This is in line with Haneef’s (2005: 5) definition that Islamic economics is “[an] approach to, and process of, interpreting and solving the economic problem of human beings based on the values, norms, laws and

institutions found in and derived from the sources of Islam”. Therefore, Islamic economics is conceptualised by the majority of the contenders as an alternative system and a political economy system, namely IPE, which can be described as (Asutay, 2007:6):

- (i) it is part of *din* (religion), Islam;
- (ii) it deals with production, consumption and distribution activities of human beings according to Islamic worldview;
- (iii) it makes economic and finance choices according to Islamic norms;
- (iv) it describes, analyses, and prescribes, as in the case of other economic systems.

Accordingly, as can be seen, Islamic economics fulfils the requirement of a system, as in the case of the prevailing system by being a fully theoretical framework at least in the discursive level; and, therefore, by nature of its contents, values, operations, mechanism and institutions, it should be considered as a political economy beyond narrow frame and analysis of ‘economics’. In addition, since economics is a scientific inquiry based on Enlightenment worldview, a religio-cultural definition of economy in Islamic should not be described as ‘economics’.

In summing, Islamic economics mainly emerged as a response to the failure of neoclassical economic theory in development of the Muslim countries due to implementing the hegemonic modernistic approach where values and norms are ignored in the name of universality of neo-classical economics. Islamic economics, hence, as part of heterodox family, responded to neo-classical hegemony by criticizing the main concepts of the mainstream economics but also expanding heterodox circle from pure positivism to introduction of the revealed truth in the pluralistic environment of heterodoxy. Therefore, the definition of Haneef (2005) presents the holistic approach of Islamic economics by answering the development needs of the Muslim individual and society without ignoring the values and norms of Islam in a process but also through consequentialism.

2.9.2. Framework Paradigm

A distinguishing feature of Islam as a worldview is its guidance, which covers all dimensions of human existence from spiritual to physical, private to public, personal to universal. As such Islamic ontology provides the philosophical foundation, which as conceptual

framework of IPE has several implications for shaping the economic and social policies in terms of operational and institutional nature of IPE system (Asutay, 2007b; 2013). The holistic approach of Islam does not allow any particular of economic system in isolation from other components and systems, as that will lead into separating body from soul in order to fathom the secrets of human behaviour. The *tawhidi* framework of complementarity and untirarity, by definition, suggests that economy cannot be distinguished from other components and system; as it is product of such intersection. Thus, *tawhid*, as the fundamental core of Islam and the basis of IPE embraces every facet of human activities at the individual and collective level from both the natural and social perspective that reflects unification (Haneef and Furqani, 2009). In other words, IPE with 'theomorphic' view as comparing to 'anthropomorphic' considers Allah the centre, the measure of all things. Therefore, in such aspect, any theories developed should reflect this principle as the core, instead of making the individual as the centre.

The Islamic paradigm treats individuals as *khalifah* or vicegerent of Allah on this earth, who is considered to have partial right to what he/she can produce or the wealth he/she owns, since Allah as *Rab* has absolute ownership. In other words, based on axiom of *khalifah*, *homolamicus* or Islamic economic agent can be considered as the one who is conscious of Allah's guidance in his behaviour and follows the Qur'anic injunctions. This consciousness affects individuals' behaviour toward one's fellow human beings and nature, the purpose of his/her economic life and the way he/she chooses or makes decision in resource allocation (Haneef and Furqani, 2009).

Islamic economics, hence, emerges within a framework paradigm with various layers from micro to macro, which, by definition, fulfils one of the features of system, thus, makes Islamic economics as IPE.

2.9.3. Foundational Axioms

In order to be a system and hence to be consider as political economy, in our case IPE, the building blocks, namely axioms should be defines, in our case, within Islamic social and economic theory based on ontological and epistemological references in *Qur'an* and *Sunnah*. Islamic economists devoted most of their energies to enumerating and elucidating these axioms in an attempt to distinguish the aims and justifications of Islamic economics as a valid

alternative. Therefore, for Naqvi (1994: 40-41), for an axiomatic approach to be meaningful in an Islamic worldview it has to satisfy four criteria:

- (i) it must be an adequate and legitimate representation of Islam's ethical views;
- (ii) it must form the smallest possible set;
- (iii) the elements of the set must be internally consistent; and
- (iv) the axioms must have predictive power.

On this basis, a certain set of axioms can be developed to summarise Islamic ethical philosophy in developing the frame of IPE.

Over the years, with the contribution of Naqvi, Ahmad, Chapra and others, the foundational axioms of Islamic economic system as follows (Asutay, 2007, 2012, 2013): *rawhid* (complimentarity and unitarity), *taqwa* (God-consciousness), *adalah* (justice), *khilafah* (vicegerency), *ukhuwwah* (solidarity), *ihsan* (beneficence), *tazkiyyah* (growth with purification), *rububiyyah* (nourishment and directing things to their perfections as *fitrah* or nature requires), *'ijz* (humility), *sabr* (patience) *ubudiyyah* (servitude), and *shukr* (thankfulness) among others. These define the horizontal and vertical ethical frames for Islamic economy to produce Islamically acceptable economic consequences after defining the working mechanism and process of such a working mechanism, which aim at bringing 'functioning', 'doing' and 'being' individuals in an attempt to fulfil Islam's expectations¹.

Various Islamic economists, such as Ahmad (1980), Siddiqi (1981), Naqvi (1981, 1992, 2004) Chapra (1992, 2000) and Asutay (2007, 2014), have applied this approach as a foundation for their discourse. The axiomatic approach demonstrates the interactive and dynamic nature of the new theory based on contemporary economics philosophical approach within the wider scope of political economy rather than in the narrow spheres of *taqlide* (classical and traditional) and legal positivistic *fiqhi* framework. Thus, Islamic economics, within such an approach proposes an ethical and systemic understanding of political economy inspired from the ontological and epistemological sources of Islam. Consequently, the IPE not only deals merely with means and forms (institutions and mechanisms), but also with the ends and substance represented through its unique axioms

¹ Each of these axioms is discussed in detail in the following chapters and in particular in Chapter 3, where the Islamic moral economy nature of Islamic economics is defined.

and means to articulate them.

2.9.4. Value System

In Islam, the entire purpose of individual's life is to realise his/her role as an agent with free will, to be able to make a choice between right and wrong. Moreover, social justice or 'adl axiom specifies the social responsibility and requires individuals with wealth to take care of the needy in the society. Therefore, the ethics of care as an attitude and value enables to actualise the notions of Islamic political economy, as it negates the transaction oriented relationship between individuals and Allah in serving the needy (Haq, 1996). Hence, ethics of care is an essential element of the value system of the IPE. This, in the Islamic moral economy, refers to socialisation in the sense that mutuality and reciprocity defines the value system of IPE implying that individuals being socially connected to fulfil ethical expectations from them.

In addition, as part of the value system, at this stage *taqwa* becomes essentialised and so society leans further away from disobedience and harm. Furthermore, not only is the establishment of these institutions necessary but the eradication of systems and policies, which undermine any of the above is absolutely essential.

Moreover, *tawhīd ullah*, *khalifah* and 'adl combined together aim to change the worldview of an individual and his attitude toward life. According to Chapra (2011), the implications of these three axioms together help reform individual in three ways: firstly, by adjusting his/her attitude toward him/herself in the light of answerability before Allah for everything, both public and private that he/she does; secondly, changing his/her relationship with other human beings based on brotherhood (*ikhwan*) and mutual care; and lastly, readjusting his/her attitude towards all the resources at his/her disposal, including the environment, as a trust from Allah to be consumed in a way that would guarantee the well-being of all human kind. These examples explicitly illustrate how Islamic axioms work to produce the value-loaded policies to respond to the issues in the society.

2.9.5. Operational Principles and Mechanism

The institutional and operational features of IPE paradigm conceptualised on stated axioms, are based on understanding that developments of societies are based on individual and

collective efforts of participants of a society contrary to historical materialism, hence according to Asutay (2007b), the development methodology of IME is different than other political and economic ideology standings. This can be illustrated with the vicegerent role bestowed upon mankind, who with the free will are the active agents of social changes. Where Islam provides the framework containing the doctrine and value judgement for the IME to function as an arena where individuals make decisions.

2.9.6. Specific Methodology

IPE paradigm with its ethical values derived from axioms aims to generate *homolamicus*, or most correctly *tab'ay* or submitted individual, who, as a trustee of Allah on this earth with a view to be accountable for his/her actions to Allah, works toward the achievement of *maqasid al-Shari'ah* or objectives of *Shari'ah* with the overall aim of human-wellbeing. This implies that whatever a *tab'ay* individual does, economic or otherwise, must consider the overall welfare impact on others through socialisation process.

As a behavioural norm, IPE does not deny the existence of self-interest as important motivation for human action, as mentioned explicitly in Qur'an at many places as a foundational aspect of human behaviour (Farooq, 2006). The belief of the reward and punishment in the hereafter integrated in IPE, abstains individuals from short term self-interest, who otherwise may disregard the interest of society. Accordingly, Chapra (2000) suggests that moral filters should be engaged to serve not only the self-interest of an individual but also interest of the whole society to help actualize the *maqasid al-Shari'ah*. Thus, IPE framework proposes constraints so that conflicts between the self-interest of individual and social interest to be removed, which stands as an important methodological component in shaping individual behaviour.

IPE in its methodology recognizes private ownership and wealth creation as the core of economic life, mentioned as *amwal* (wealth, pl. of *mal*) in Qur'an. The creation of wealth and production of goods and services has not only been recognized as a legitimate pursuit in Islam but also as a praiseworthy one, because the Qur'an assigns it a high moral ethical value. However, like self-interest, private ownership and wealth are subject to filters through moral codes as "property is a trust (*amanah*) [from Allah], and as such, property rights are subject to moral limits and used as a means of fulfilling ethical objectives – *the maqasid al-*

Shari'ah" (Ahmad, 2003: 195). Hence, moral filters ensure allocation and distribution of resources in a brotherly and justly manner.

IPE paradigm provides the complete institutional framework in which economic activity, from production to exchange and to division of labour to take place through morally filtered market mechanism, which not only serve private but also social goals. Thus, morally filtered market system promotes economic activities through the process of co-operation and competition (Ahmad, 2003: 195). For example, al-Sarakhsi (1978: 264) states that "the farmer needs to work of the weaver to get clothing for himself, and the weaver needs the work of the farmer to get his food and the cotton from which the cloth is made... And thus every one of them helps the others by his work".

In other words, competition in morally filtered market system does not allow creating conflict between self-interest but rather promote an environment of co-operation, so that, according to Asutay (2007: 11), "various individual and social claims to resources can, economically and socially efficient manner, be fulfilled". Therefore, to produce social and economic efficiency or optimality simultaneously, IPE provides a regulatory system in the form of *hisba* institution to provide ethical screening and filter mechanism to the market if required with the objective of preventing the excess of the market mechanism as suggested by Ibn Taymiyah (1982).

Based on previous discussion methodology of IPE can be summarised as follows (Asutay, 2007:12):

- (i) "Sociotropic individual, not only individualism but social concerns is prerequisite;
- (ii) Behavioural postulates: socially concerned God-conscious individuals who (a) in seeking their interests concern with the social good, (b) conducting economic activity in a rational way in accordance with the Islamic constrains regarding social environment and hereafter; and (c) in trying to maximise his/her utility seek to maximise social welfare as well by taking into account the hereafter as well;
- (iii) Market exchange is the main feature of economic operation in the Islamic system. The regulation of market exchange is done through institution of *Hisbah* which keeps Islamic system socially concerned and environmental friendly system".

As can be seen, particular methodological components can be developed from the Islamic ontology and its articulations to provide methodological foundation for IPE to complete it as a system and paradigm. In addition, there are further philosophical underlying essences to define methodological components for IPE; however, due to space this could not be discussed here.

2.9.7. Functional Institutions

In actualising its foundational claims as a system in fulfilling its political economy frame, Islam, ontologically and historically, developed a number of institutions in responding to everyday needs of the society.

For example, network of *waqf* as pious trusts and foundations on voluntary institutions for mutuality, reciprocity and socialisation were created as early as during Prophet's time. They have since then survived as welfare institutions by working in various levels to make sure that basic needs of the individuals within its jurisdiction are met with the generously allocated wealth of the rich people. Thus, historically, *waqf* aimed at guaranteeing the basic needs of the poor irrespective of religion, race, gender or age to enable them to participate in the dynamic of economic life and as well provide a number of public goods and services such as education and health.

As a mandatory 'alms' giving *zakah* constitutes an essential instrument of giving in the form of 'returning the right of the society to society', which helps to respond to the failures in the economy so that the needy to be provided (Asutay, 2007).

Throughout the history, various financing instruments have developed to facilitate development of business and trade; some of these instruments and modalities are currently utilised in Islamic banking and finance institutions to facilitate financial intermediation. These are profit-loss-sharing and risk sharing instruments, exchange/sale contracts (debt-based financing and deferred trading contracts), usufruct based contracts, and agency based contracts, which are discussed in the vast Islamic finance related literature.

Furthermore, according to Asutay (2007 and 2013), filters mechanism is also an important tangible and intangible institutional forms have been developed to promote moderation, balance and harmony and provide sustainable development through preventing "the

problems of waste, over-utilization and the excessive exploitation of non-renewable natural resources and the ecological and environmental aspects of economic activity” (Ahmad, 2003: 196) as all resources on the earth are perceived as *amanah* from Allah. For example, the institution of *hisba*, a regulatory body, is among such operationalised institution, which is discussed in detail in the next chapter in identifying the moral economy nature of Islamic economics.

It is important to highlight that Institutions and policies in IPE cannot exist merely on their functional aspects such as legal or economic validity, but rather must grow out of and have a firm attachment to the core elements of Islamic axioms. If this connection is broken or becomes ambiguous then the institutions and policies themselves lose authenticity. It is possible to state, therefore, that Islamic policies, institutions and mechanisms are measured in their effectiveness by the social trust, which underlies them.

In the contemporary world, other institutions have been developed to respond to the economic and financial needs of the Muslim societies, including, among others, Islamic banks and financial institutions; *takaful* institutions; Islamic financial, capital and money markets; Islamic legal institutions such as arbitration centres; and *halal* markets and agencies to provide *Shari’ah* compliancy of products and services.

In concluding, IPE system assures individual freedom to justly acquire and utilize resources on the earth “but at the same time it aims at providing effective moral filters at different levels of life and activity and established its own distinct institutions to fulfil the *maqasid al-Shari’ah*, namely human wellbeing, economic development and social justice in the society” (Asutay, 2007: 11), thus providing a system that is able to induce the individual to work for his self-interest within the limits of social wellbeing (Chapra, 1992).

2.9.8. Modes of Production in Islamic Political Economy

In addition to the above explained features defining political economy nature of a system, an important articulation of the system appears in the form of modes of production. Therefore, the difference between the political economy approaches lies in the explanation of the modes of production or the mechanics of that production process and the understanding of the social relations involved within it.

Ayubi (1996) describes modes of production as a combination of two elements: 'forces of production' and 'relations of production', which together constitutes 'the base'. The forces of production include 'land, labour, capital as well as social capital'. Thus, in every system of political economy due to the mechanism and nature of its underlying philosophy, the forces of production is combined in a particular way to define a particular modes of production in respect of that political economy. In addition, 'relations of production' refers to who owns modes of production and how long; such as who is capital owner, how owns land, who own labour and for how long' (Ayubi, 1996). "It is expected that a particular mode of production together with relation of production should lead to a particular type of 'superstructure', which implies political, social and economic structure of a society within which the mode of production operates" (Asutay, 2015:12). The modes of production and superstructure, thus, define a particular political economy as an expression of a particular social formation (Ayubi, 1996). In other words, by looking at a particular modes of production and superstructure, we should be able to recognise the reality of the social context in which modes of production operates as a reflection of actual history of that respective ontology. Therefore, the way forces of production and relation to production come together help us to define whether it is a capitalist, socialist or for that matter it is an IPE based modes of production.

The hegemonic modes of production has been capitalist model, which covers the period from Mercantilism to Imperialism and is usually associated with the emergence of modern industrial society. In that model, the primary form of property is the possession of objects and services through state guaranteed contract. Hence, contractual arrangements determine the relationship between capital provider and the labour. Consequently, these arrangements create the class of bourgeoisies, which, according to Marx and Engel (1667), possess the means of production for the whole society. So everything made use of in the process of production wherein men-power or skill is involved, is capital (Abu Saud, 1994). Therefore, in the capitalist system, the forces of production include all aspects of modern production with land, labour and capital with capital being the main determinant of value. Therefore, the uncultivated land, the rainwater and everything else wherein man has no access or no his/her skill is involved false out of the category of capital and hence capitalism.

The form of capitalist modes of production predominates in modernist economy based largely on oligarchical multinational corporations with its highly globalized system of production. In this system, the capital is actually the aftermath of human strive and efforts whether material or essential. The specialization in productive work and skill has become inevitable by using the science and technology to produce large-scale production (Abu Saud, 1994), which are necessary for advancement of bourgeoisie. Consequently, the capitalist modes of production are distinguished by capital-accumulation process, financialisation, and sanctity of private ownership (Foster and Holleman, 2010).

On the other hand, socialist mode of production emerged when the accumulation of capital is no longer sustainable due to falling rates of profit in (real) production, and social conflict arising from the contradictions between the level of technology and automation in the economy with the capitalist form of social organization. A socialist society would consist of production being carried out, organized in a manner to directly satisfy human needs, with the working-class cooperatively or publicly owning the means of production. In that system, the wealth was regarded as a source of income, which has no life, no soul, nor its own will or choice and hence should be deprived from power and supremacy (Abu Saud, 1994). In other words, in the socialist system, value is determined by labour and state or collectivity owns whatever exists including labour.

Marx's view was that the expansion of capitalist markets tended to dissolve and displace older ways of producing over time. A capitalist society was a society in which the capitalist mode of production became the dominant one. The culture, laws and customs of that society might however preserve many traditions of the preceding modes of production. Thus, although two countries might both be capitalist, being economically based mainly on private enterprise for profit and wage labour, these capitalisms might be very different in social character and functioning, reflecting very different cultures, religions, social rules and histories.

The essence of the modes of production in IPE lies mainly within the concept of need and labour. Labour as *al jihaz al intaji* (tool of production) is the cause of the worker's

ownership as a result of his/her labour. In Islamic ontology, the private ownership is a natural drive for men and women to appropriate for themselves the results of their work. Hence, Islam allows private property on the basis of labour, which is the central access of modes of production in Islam. The general rule of IPE is that the private property appears only in goods (*amwaal*), which is mitigated in their composition (production process) or adoption (trade) with human labour and risk bearing (Malatt, 2013). This ruling excludes goods and natural resources from private possession, which does not mix with labour.

In this political economy, factors of production include social capital in the form of reciprocity and mutuality in addition to land, labour and capital. While individuals own land, labour and capital, the socialisation in the form of ethics of care require sociotropic individual and therefore ownership is subject to one's piety and others' need. Therefore, Allah as the *Rabb al-aleeman* remains real owner of everything on earth, while individuals can only claim temporary ownership as everything is considered as *amanah* or trust from Allah. Thus, in IPE, temporary ownership of private property in the form of *amanah* is essential, which runs contrary to capitalism and socialism. However, for example, the fruits of the cultivation of land can be owned as a result of human input. Furthermore, due to the *tawhidi* methodology of complementarity and unitarity, modes of productions are considered complementing each other to reach unity rather than competing and being hegemonic, such as the case with capitalism, which essentialises competition and contradictions. This remains an essential nature of Islamic modes of production.

In regards to the *al jihaz al tawzee'i* (tools of distribution), labour is also a primary tool in distribution process from the standing point of ownership. In other words, the person who works in nature, reaps the fruits of his/her own work and possesses it.

At the same time, *darurat* (the first level of human necessities) and *hajiyat* (the second level which represents needs), according the *al maqasid al Shari'ah* hierarchy, are used as a primary tool for distribution (Audah, 2008). Accordingly, it can be argued that Islamic society recognises and supplies essential necessities and needs necessary for a decent human existence. In that regards, IPE essentialises fulfilment of biological, spiritual and

mental needs of labourers rather than securing unlimited wants of capital owners. That implies that distribution of capital in Islam is driven by labour input for securing his/her basic human needs instead of providing capital for the sake of fulfilling unlimited human wants. Therefore, the need for survival is primary tool of distribution as the expression of human rights (*haqq*).

Transferring private property is a secondary tool of distribution, which happens through commercial activity (*tijarah*), gift (*hibah*) and inheritance (*mirath*), which identifies the temporary ownership in IPE. All these activities are permitted within the special conditions which do not conflict with the Islamic principles of justice. It should be noted that trade (*tijarah*) is the essence of distribution process in IPE and only acceptable way through which capital owner and labour can engage in production process. Since capital cannot generate return without labour involvement or social capital in the form of entrepreneurship and knowledge or skill, IPE essentialises *musharakah* and *mudarabah* models for production process and equitable distribution.

Essentialisation of *musharakah* and *mudarabah* financing modes, for example, establish linkages between the needs of real economy represented by labourer, and capital providers in the projects which revolve in asset-backing modes of finance for developmentalistic needs of society (Choudhury, 2011). The most important component of these profit-and-loss-sharing and risk-sharing models of financing is the nature of risk which cannot be born only by entrepreneur but also by capital provider in order to justify his/her portion of profit from investment. In a nutshell, labour of a labourer and the capital from a capital provider combined for productive project based on profit and loss sharing arrangements, define a particular modes of production in as part of IPE.

Furthermore, as part of modes of production and social formation of Islam, IPE proposition states that human beings can only claim partial credit for what he/she produces as the needy and society have a right too through *zakah*, *sadaqah*, etc., which human beings in affording position has to give as God's share to society. Thus, as an essential element of modes of production, socialisation is essential part of IPE, which necessitates that the right of the society should be returned to society through *zakah*, for example. In addition, "responsible

use of rightful earnings by keeping the moral purposes of human beings is essential prerequisite in articulating Islamic modes of production” (Ul Haq, 1995: 84). This is, because individuals must not prevent others in society and nature from meeting their basic biological needs. Due to *tawhidi* methodology, hence, an expanded stakeholder based understanding dominates the nature of modes of production.

It should also be noted that Islamic modes of production within Islamic social formation benefits from *fiqh* in also determining lawful and unlawful earnings, business activities and financing methods. Therefore, “immoral, prohibited modes, oppressive exploitation of human beings and creation of ecological imbalance or environmental disruption” cannot be acceptable regardless of the profit and wealth they may generate (Ul Haq, 1995: 85)

In conclusion, in any specific society or country, *different* modes of production have emerged. Historically, only capitalism has remained dominant after the fall of socialism as one of the alternative forms of modes of production. As explained, Islamic ontology and epistemology produces a different modes of production unique to its own normative world according to its social formation, which rationalises the existence of IPE and its system.

2.9.10. Reflections in Rationalising Islamic Political Economy

As the in-depth discussion in the preceding section clearly identifies and argues, due to fulfilling the features of a system, Islamic economics represents a system, which defines it as a political economy in helping to the emergence of IPE. In particular with a unique Islamic social formation and its outcome of particular modes of production and relation to factors of production rationalises IPE and justifies as to why it should be a political economy. In addition, as depicted in Figure 2.2. and Figure 2.3, IPE develops an integrated and holistic approach mainly due to *tawhidi*, or complementarity and unitary, nature of Islam. Thus, IPE is beyond the narrow definition of ‘economics’ let it be Islamic economics, but due to its nature it must be expressed as Islamic Political Economy, which has been the main argument of this paper.

After establishing the rationale for and nature of IPE, the next section provides a comparative analysis of different political economies to further rationalise and explore IPE.

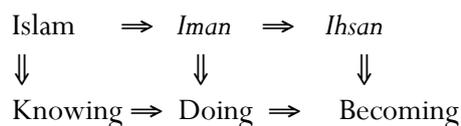
2.10. COMPARING POLITICAL ECONOMIES: CAPITALIST, SOCIALIST AND ISLAMIC POLITICAL ECONOMIES

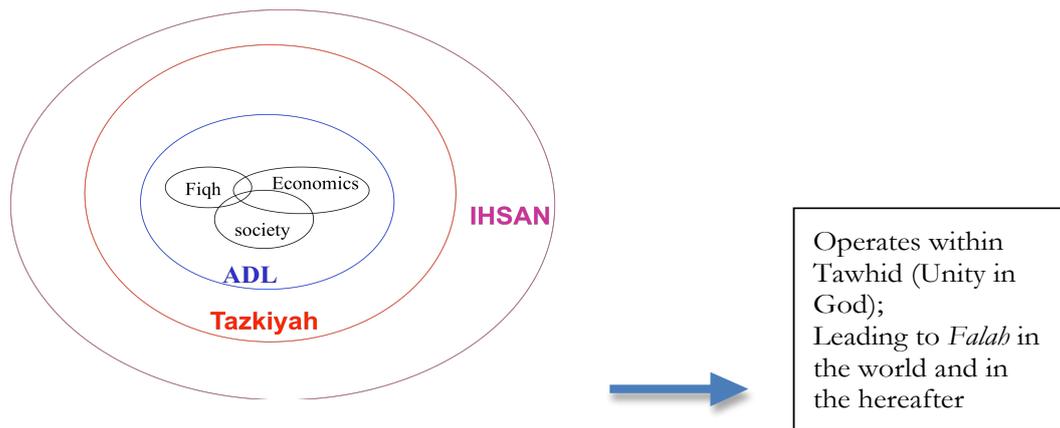
In order to establish analytically distinctive character of ethically-oriented IPE, inter-systemic comparison Islamic, capitalist and socialist politico economic systems are evaluated in this section. However, first in line with Figure 2.2. and Figure 2.3, the structure of IPE should be presented as follows:

In constructing the microfoundations of IPE, an economic system of Islam every economic activity moves around a specified nucleus, namely *falah* and *ihsan* in this world and life hereafter. Accordingly, Islamic ethical order develops through the following path as expressed in Figure 2.4 to produce the IPE framework.

It begins with *tawhid* as it is the essence to all endeavours, actions and states of being in Islam. The arrow in Figure 2.4 represents a movement out from the initial core of *tawhid* through the legal requirements and obligatory duties and on towards the stage of correcting inward intentions and self-control (Zaman and Asutay, 2009). Therefore, *tawhid* as the foundational framework informs, shapes and directs *fiqh* and actualization of *iman* towards growth and development. “The economic growth and development follows *tazkiyah* as it addresses itself to the problem of economic aspect of human life in all its dimensions. *Tazkiyah* is concerned with growth towards perfection through purification of attitudes and relationships. The result of *tazkiyah* is *falah*, prosperity in this world and hereafter” (Ahmad, 1994:20). The axioms of *adl*, *taqwa*, *tazkiyyah* and *ihsan* “signify the journey to each stage traversing the previous stage in a progressive manner” (Zaman and Asutay, 2009: 86). Hence every aspect of life under Islam follows a similar path of progression from *tawhid* through *fiqh* and *iman* through to *tazkiyyah* and *ihsan*.

Figure 2. 4: Islamic Political Economy Framework-Actualised





Source: (Asutay, 2010:18)

Further micro-foundational constituting blocks of IPE is depicted in Figure 2.5 in a comparative manner.

Looking from the paradigm perspective in the Figure 2.4, socialism is based on Marxian dialectical vision, which comes from a dialectical-historical view of the social processes (Marx, 1848) to which class struggle is central and hence necessary for the social change. On the other hand, capitalistic paradigm relies upon accumulation and exchange of commodities in the market as essential driver of economic advance (Rodinson, 2007). IPE, on the other hand, is based on the Islamic social formation as expressed by *Shari'ah* paradigm, as a way of life in support of social change as well as economic advancement.

Furthermore, socialism requires the laws of dialectical materialism and completely dismisses the ethical imperatives in the societal building and capitalism forces a sense of social responsibility on individuals through enforcing the policies and regulations, whereas Islamic economics essentialises the ethical norms and values which consequently leads to the different structures of the society. Based on the driving forces of ethical norms or laws or policies the nature of society could be identified.

In regard to the micro foundation of examined systems, Marxist political economy negates private property in all forms including that of means of production in order to address the problems of equitable distribution and of the wealth (Marx, 1848). On the other hand, capitalism by insisting on self-interest behaviour both in theory and practice, gives individuals economic freedom and consequently the individual's right to private

property as essential means for individual's liberty and social progress (Rodinson, 2007). IPE, however, has reservations against both stances: total negations of the institutions of the private property under socialism are against Islamic stance, as Islam gives individuals right to own property and uses it productively, it also simultaneously bans him/her from squandering (Naqvi, 1994). However, this ownership is considered as temporary with the understanding that all of these are *amanah* from Allah. Finally, disposition of the property has to be regulated by Islamic law of inheritance (Teleghani, 1982). In respond to capitalistic position, IPE sees individual's freedom (*ikhtiyar*), which is founded on belief that all property belongs to Allah and hence individual can only hold it as a trust.

Capitalism as a system can either denote capitalist mode of production (integration of the production process from the primary stages to the final product) or the capitalist socio-economic framework (connecting private consumer and producer through the market). In regards to the capitalist modes of production, the process of production requires land, labour and capital; however, capital becomes central factor, which commodifies all other factors and defines the value as a outcome. IPE, on the other hand, defines the relation between capital and labour as complimentary as expressed in the case of *musharakah* and *mudarabah*, which essentialises the profit and loss sharing arrangements. In regards to land and capital, engagements are accomplished based on *ijara* concept. In that way, IPE minimises the exploitation of labour through implementing profit and loss sharing contracts for fair functional distribution of income (Naqvi, 1994). In socialist political economy, the modes of production determine social reality, which force production and reproduce itself by transforming into semi-fixed social structure that can only be changed by revolution (Mandel, 1990). In socialist political economy, value as an outcome is determined by labour. However, modes of production in Islamic political economy are outcomes of social formation determined by Islamic value system, namely expanded stake holding of *tawhidi* complementarity (Naqvi, 1994).

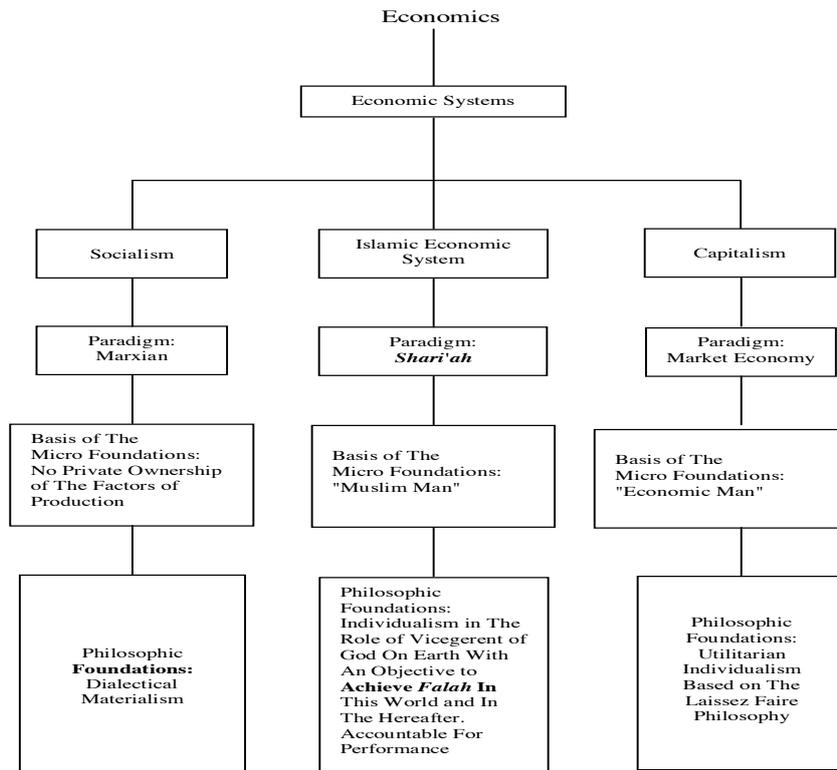
Socialists theoretised that the labour is the cause for the existence of society and therefore does not recognise individual ownership status. In that regard, the socialist

rule is that labour is the cause of the commodities value and therefore the cause of the worker's appropriation of the commodity. In Islam, labour is the cause of the worker's appropriation of the commodity and not the cause of the commodity's value. For example, when the labourer extracts the pearl, he does not thereby confer the value to the pearl but he possesses it by this very work of extraction (Malat, 2013). Therefore, Islam allows private property on the basis of labour, which contradicts both socialism and capitalism in the rights granted to the proprietor. Consequently, labour in Islam is a central concept from which property is derived. Under this arrangement, since property becomes secondary element of distribution, it has to be limited by set of moral values and social interests established by religion.

Rational economic behaviour and utilitarianism have great influence in shaping the existing capitalism as well as Marxism, both of which arose in the same atmosphere (Kahf, 1992). However, Islamic rationalism as depicted in Figure 2.4 is founded on the ontologically derived axioms such as *tawheed*, *khalifah*, *falah* and other axioms, which orient human behaviour towards one goal (salvation in this world and hereafter). Hence, IPE in its nature seeks to fulfil *homoislamicus* or even *tab'ay* individual; whereas capitalism and socialism aims towards *homoeconomicus*. The main difference between the two is that the utility function of *homoislamicus* has a new variable the reward or penalty in the hereafter, which is subject to the consumption in the present life (al-Zarqa, 1992). This establishes that Islamic utility theory has also two dimensions: *dunya* (this world) and *akhirah* (the hereafter), where the later has influence on the former and belief in the former has impact on the later.

The inter-systemic comparison in this section clearly highlights the originality of Islamic viewpoint of Islamic economics, which does not withstand many points of similarity between discussed economic systems. Thus, IPE is defined within the parameters of its own ethical system, which demonstrates its originality and relativity in comparison to other IPEs.

Figure 2.5: Comparing Political Economies through their Actualisation

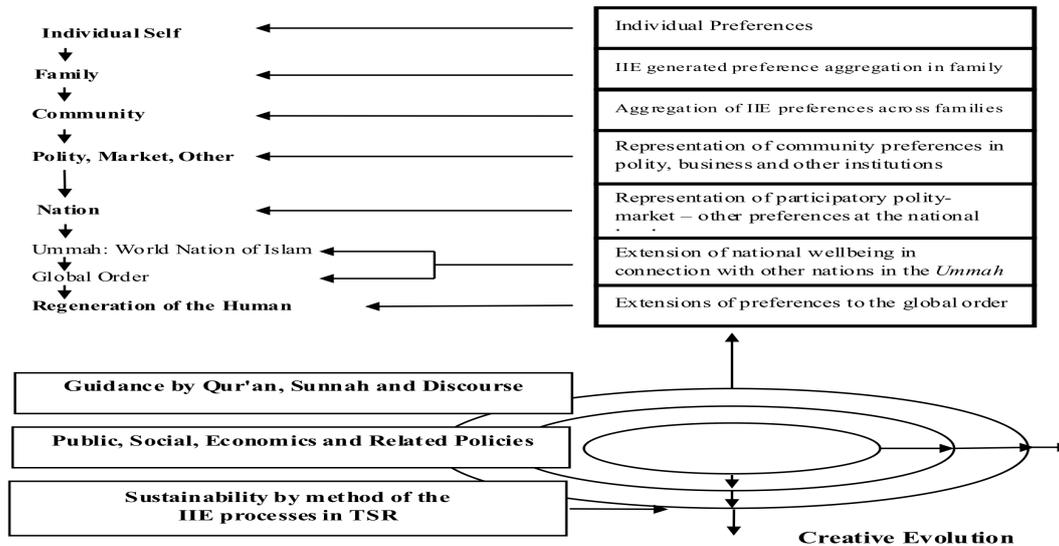


Source: Arif (1985: 35)

In line with Figure 2.2 and Figure 2.3, in terms of macrofoundational articulations and institutional framework, the constitution of IPE is presented in Figure 2.6.

Figure 2.6. presents that IPE involves socio-scientific entities which are epistemologically centered on the unity of divine knowledge (*tawhid*). This axiom generates the cumulative nature of dynamic preference formation premised on unity of divine knowledge. Such a law defines the perimeter and details of unity across systems influenced by knowledge-flows emanating from the *tawhidi* episteme (Choudhury and Haque, 2007). The integrated systems of IPE, hence go into continuously recursive evolutions through the route of the interactive, integrative and evolutionary processes (*Shura*), and induce the knowledge and learning, which enhance the social realization of *ihsan* across complementing systems.

Figure 2.6: Integrated Islamic Political Economy



Source: Choudhury and Hoque (2007: 92)

As depicted in Figure 2.6, integrated IPE commences with ‘individual’, and extends the unit of analysis by endogenising various institutions such as family, community, political order representing social formation and modes of production through amalgamation of the preference orders. Hence, creative evolution takes place with the dynamic articulation of Islamic ontology expressed through various strategies.

2.11. CONCLUSION

The proceeding discussion has attempted to show developments in political economy, from political economy to economics, and from economics to political economy in accordance with historical wisdom. It also attempted to develop and sustain an argument that Islamic economics is a wrong term used for correct substance, and therefore aimed at re-framing it as IPE. Thus, this study suggests that IPE should be the frame while Islamic moral economy, as discussed in the next chapter, constitute the substance of this frame.

From historical perspective, the main difference between economics and political economics stems from the formulation of social and private choice and endogenising of institutions, state, society and environment in the political economy frame. Economics assumes the individual as the key construct, and the allocation of given resources constitutes the main problem. It utilises a mechanical model of minimisation and maximisation as its

determinants. On the other hand, political economy theory starts its analysis with the social individual who faces contingent choices in the political and economic market with bounded rationality.

As result of the great divide between economics and political economy, the re-emergence of political economy in the post 1970s aimed at removing division by bringing back the holistic analysis by comprehensive and integrated individuals, institutions, operations, mechanisms and outcomes.

IPE, hence, represents a distinct form of political economy beyond the narrow definition and operation of economic by setting a particular modes of production and by generating a system that is IPE system, as discussed, IPE fulfils the conditions of a system. As explained in the next chapter, the substance of the IPE frame is provided by moral economy of Islam, which further defines the nature of IPE as embeddedness, rejection of commodification and fictitious commodities, and encouraging reciprocity, mutuality and distribution.

In reflecting on the public policy developments based on IPE, it should be noted that IPE represent a counter hegemony as part of double movement. Since global hegemony is not democratic enough to develop a participatory, pluralist and heterodox economic, financial, social, political and legal system, the macro change through various means is not recognised as a strategy in this study. Therefore, recognising the ‘power of capital’ not as an economic matter but a hegemonic political process, this research focused on micro foundations of IPE, which directly aims to construct the IPE through individual choices and transformation. In other words, emancipation and empowerment is considered as an essential aim of the post-modern developmentalist strategies. In line with such strategies, IPE in this study is constructed through micro foundations so that individual emancipation can be achieved beyond the existing hegemony and power leading to empowerment of individuals within IPE paradigm. This directly refers to *tazkiyah* process of gradual or incremental development and change with the objective of recognising the ‘perfect path’ essentialised by *rububiyah*; therefore, IPE, in this study, is constructed to essentialise ‘human-well being’ rather than essentialise state and administration.

Turn to IPE from the current state requires a pro-active search for the necessary strategies, which should be nuanced from the way Islamic finance has submitted to the ‘power of

capital'. Therefore, *maqasid al-Shari'ah* should be re-articulated beyond the narrow boundaries of Ghazalian formulation into unlimited and policy formation realm as suggested by Ibn Qayyim (Siddiqi, 2004). This would require developing a mind-set beyond *fiqh* and the hegemony of *fuqaha* into substantive morality by developing a consequentialist approach in line with the Islamic normative imaginations. The hegemony of *Shari'ah* scholars or *fuqaha* by essentialising 'form' over 'substance' has not produced a way out in earlier experiences in Iran, Sudan and even in the case of Islamic finance industry in producing a counter hegemony to essentialise human-well-being beyond developing *fuqaha* hegemony; as *fiqh* is a product of legal rationalism, while developmentalism relates to substantive morality. In other words, developmentalism relates to public policy as it involves normative decisions, and, therefore, requires substantive morality based strategies in line with the Islamic moral economy. This can be possible by the participation of all stakeholders in the developmentalism process, which, in turn, essentialises Ibn Khaldunian perspectives on '*imar*' or developmentalism through essentialisation of justice through the participation of public (*see*: Chapra, 2000: 147-148). In sum, since developmentalism is beyond legal rationalism or *Shari'ah* compliance but rather relates to normative judgement and assessing costs and benefits according to such normativeness, policy holders alongside other stakeholders should be given their fair role to play in producing developmentalism.

Chapter 3

FRAMING ISLAMIC ECONOMICS AS ISLAMIC MORAL ECONOMY

3.1. INTRODUCTION

Since the beginning of the 20th century, market economy has become the main political economy by being transformed into a “supreme institution and dominant metaphor” (Tripp, 2006) by essentialising ‘homoeconomicus’ such that ethical constraints are no longer considered as part of the economic process. Such transformation was followed with tremendous growth, which was made possible by the social and economic dynamism of capitalism. However, this rapid growth and market transformation brought also the systematic economic financial crises either country level, regional or global, which is not something new but seems to the nature of capitalist form of economies as argued by Reinhart and Rogoff (2011). Such systematic failures in the economic and financial system are also attributed to the detachment of economics and finance from the rest of the social reality, including moral decline. For example, on reflecting on the recent global financial crisis and economic meltdown, Bernanke (2008: 1) stated that “far too much of the lending in recent years was neither responsible nor prudent’ (...) in addition, abusive and unfair or deceptive lending practices led some borrowers into mortgages that they would not have chosen knowingly”. The detached finance from the real economy in addition to the separation of moralities from economic and financial consideration, has added havoc to this crisis. In response to this, the demonstrations on the Wall street in the USA and the City in the UK in addition to the ‘anti globalism movements’ earlier came to break the capital-market-exchange-profit-capital-commodification circle, which dominates the culture of market economy, with the objective to re-embed the economy on the principles of ethical principles such as social justice and universal solidarity.

The protests on the Wall Street as an outcome of the recent global financial crisis, and also similar movements in other parts of the world alongside calls for alternative economic and finance revived the foundation of moral economy as laid down by Polanyi (1957) and articulated by Thompson (1971) and Scot (1976). Such search for alternative forms of 'doing economy and finance' was a movement to challenge the hegemonic dominance of market values and bring back humanitarian values. Nevertheless, search for new forms of economics and finance has set forth since late 1960s in response to the emerging economic, social and environment issues: attempts by Schumacher (1973) with *Small is Beautiful*, for example, is one of the important representative of such movements in considering to rescue the economy, society, individual and environment from the exploitative modes of productions developed by capitalist form of economy. Since then various positions, movements, academic and popular forms of attempts have developed to respond to the failure of capitalism and overcoming the shortcomings and adverse impacts of capitalism. One of the reasons attributed to such consequences of capitalism and hence market economy is the shortcomings in theoretical foundations of market based capitalist economy, namely neo-classical economy. Therefore, a number of academic trends have also been developed to respond to neo-classical economics since 1960s, some of which are religious oriented, such as Islamic economics movement.

In other words, several economic problems on a worldwide scale have been noticed leading to the realisation that there was something missing in the world economic system; this led to the emergence of two movements - moral economy of the poor and Islamic economics within the Muslim world. These two new models (moral and Islamic) demand economics not only to be engaged with the management of resources for name of human well-being, but to develop a comprehensive approach where ethics, values and on-going spirituality leads to a just outcome. This, as Chiotis (2015) argues, will enforce a state of affairs that everyone accepts as beneficial.

Similarly, the founding features of Islamic economics responded to the challenges faced by capitalism by attempting to construct an economic theory that is based on Islamic ontological base, values and practices. This new economic model and theory attempt remains an unfinished project due mainly to the emergence and prioritising of Islamic finance. However, this research argues that rather than developing the Islamic system of

economics on neo-classical economics, Islamic economics should be constructed on a political economy frame and should be substantiated in its contents as a moral economy. Because, its overall end-goal seeks to reintegrate human welfare and social justice back to the centre of all economic activities through teaching and implementing the traditional values of Islam. In other words, Islamic economics aims at embedding economic and financial relations and activities within the social formation of Islam. Thus, this apprehension also stresses emphatically on the spiritual aspect in terms of the welfare of society in addition to the material well-being (Naqvi, 2003: 3-15). Thus, Islamic economics, by definition, is a moral economy in its essence.

Islamic finance as a subsystem of Islamic moral economy, in its formative form was unable to get rid of the trappings of conventional financial institutions and their perception due to mimicking and mirroring conventional finance. This is but a natural outcome given that the conventional financial model dominates the world of finance. There is however, a great deal of criticism by Muslim economists (Asutay, 2007, 2009; El-Gamal, 2007) of why Islamic finance deviated from the initial embedded or substantivist finance orientation as proposed by Islamic moral economy.

In defining and exploring aspects of Islamic economics, this essay aims to frame Islamic economics as a moral economy by identifying the articulation of moral economy within Islamic economics through ontological and epistemological base of Islam and through historical practice and contemporary experience of economics and finance in the Islamic and Muslim context. While ‘political economy’ constitutes the macro-frame of Islamic economics in constituting Islamic Political Economy (IPE), moral economy nature represents the contents and substance of IPE resulting into Islamic Moral Economy (IME) whereby complementarity and unitarity of *tawhid* axiom is articulated in knowledge creation. This essay, hence, aims to explore various aspects of ‘moral economy’ to argue for moral economy nature of Islamic economics.

3.2. DEFINING MORAL ECONOMY

The term ‘moral economy’ is rather vague; there is no straightforward answer for its meaning, what it aims to achieve and the way in which it is put to use. The reason for this is that moral economy is both an object in and of itself as well as being a studied phenomenon;

hence the confusion arises. This section attempts to provide an answer for the possible confusion.

Defining moral economy as an object, Sen (1978:185; 1980: 362) defines moral economy as “the application of ethical categories to the study of the economy”. This is in contrast to the neoclassical economics understanding where ethical concepts in economics are eliminated for the sake of technical attractiveness. This has led to the ‘descriptive impoverishment’ of economics as identified by Sen (1978; 1980). Thus, moral economy essentialises the normative values and ethical principles in conceptualising economic analysis.

The economic rationality approach makes two assumptions about human nature: firstly, humans are selfish and secondly, they are utility maximisers. However, the mainstream economic theory approach ignores the fact that agents, whether economic, moral or simply human, interact in a social context. Thus, it is plausible and realistic to assert that although individuals want to maximise their utility and take little interest in others’ utility, interactions with others are essential for their maximisation. Thus, even economic agents need others since utility maximisation is the outcome of interactions (Chiotis, 2015).

Another difficulty in neoclassical economics, which differentiates from moral economy, is “when economists spoke ‘qua economist’ ...they tried to speak in a value-free ‘scientific’ language with ‘expletives’ deleted” (Sen 1980 pp.363-4). However, when moral economists speak, for them the focus is on given values, such as how to live, what is worth striving for and what should be avoided *etc.*; hence, moral dimensions are unavoidable (Bernstein, 2007). Therefore, the fact-value dichotomy, which penetrated neo-classical economics after 1932 has resulted in impoverishment of welfare economics’ ability to evaluate what it was supposed to evaluate - economic wellbeing (Putnam, 2002:62). It is essential, therefore, for economics to rediscover the ethically ‘rich descriptions’ that marked the work of Adam Smith and classical economists, which were based on moral economy foundations.

Defining moral economy as an object of study, Sayer (2004:1) observes that ‘it is now a commonplace to note the influence of rules, habits, norms, conventions and values on economic practices and institutions and to note how these vary across different societies’. In

further elaborating this, Sandberg (2015: 177) states that moral economy consists of two interrelated parts: (i) “a set of moral value-based attitudes or beliefs concerning economic agents, practices or structures that are shared by a certain population or group and (ii) the actualisation or institutionalisation of these attitudes in a certain social practice or structure, common tradition or general ‘way of life’ of the population”. Therefore, one may argue moral economy refers to either of these two terms or both together in paving the way for the emergence of a particular moral economy.

Defining moral economy as a particular kind of economy, Sayer (2007: 262) analyses moral economy as a field, which “studies the moral norms and sentiments that structure and influence economic practices, (shaping specific economy) both formal and informal, and the way in which these are reinforced, compromised or overridden by economic pressures”. Based on this definition, all pre-modern economies are ‘moral’ as they have not been organised by markets. For that reason, Arnold (2001: 85-95) observes that moral economy has been too closely associated with resistance to markets and tied to ideas concerning social goods and prioritising social justice.

Looking at moral economy as the study of ethical character of economic life, moral economy is defined as “the critical study of the ethical character of economic activities and relationships, and of how this shapes and is shaped by other dimensions of social and political life” (Anthony, 2014:1).

Since ‘social good’ is one of the main principles of moral economy, social goods are defined by Arnold (2001: 90) as “objects and qualities whose possession or consumption confers some kind of benefit and satisfies human needs and wants”. The concept of social goods establishes its essential meaning on which moral economy can only operate; this is covered by three main principles. Firstly, basic rights; respect for the person, secondly, interpersonal flourishing and thirdly personal integration. Thus, moral economy, as summarised by Abdullah (1994:198), refers to “social and economic rights or traditions enjoyed by a subaltern class or group”.

Following on from the previous explanation of social goods in which moral economy attempts to release itself from the shackles of capitalism and communism, it also represents ‘norms and sentiments’ concerning ‘the responsibilities and rights of individuals and

institutions with respect to others'. These should "go beyond matters of justice and equality to conception of the good, for example, regarding the needs and the ends of economic activity", including "the treatment of environment" (Sawyer; 2000: 79). Thus 'moral economy' can be defined as a collective system that distributes social goods to all because it considers moral and ethical norms in its economic practices. Subsequently, the main point of a 'moral economy' is to create a fairer economic model by the norms of a particular society. In other words, as Bernstein (2007), argues, moral economy concerns the social condition of human existence in general.

The previous definitions refer to the notion that economic institutions and practices are socially embedded. The term 'economy' in the context of moral economy refers to all forms of provisioning including those outside cash flow and that also involve activities of production, distribution and consumption as framed by moral-economic norms. The embedded moral norms then state what are the rights, entitlements and responsibilities and appropriate behaviour for actors in their commitments, identities and ways of life.

According to Trip (2006: xx) "Islamic economics falls under the science of moral economy that deems the intersection of moral values, cultural beliefs, and economic activities as encouraging on social responsible financial transaction thus leading it to be presented as IME. Goals and objectives of IME fall under homoislamicus. The main objectives of IME according to Zaman, Chapra, Ahmad, Asutay, Naqvi among others is to establish social justice, free society of corruption and poverty, establish moral and ethical instruments based on Islamic teachings, with the ultimate goal of to seek pleasure of Allah.

In short, moral economy comprises a particular set of relationships, beliefs and norms that constitute a particular kind of economic life.

3.3. FEATURES OF MORAL ECONOMY

The established moral norms, which are constantly repeated in socio-economic interactions between members of a society, represent unwritten conventions on both 'macro- and microeconomic' (Chiotis, 2015) levels, because they lead to maximisation without requiring costly rational deliberation. Therefore, moral conventions are sustained by the availability of information and communication (Skyrms, 2004) within society. Should an

agent break conventional rules, his/her behaviour can be detected and punished via social exclusion and public embarrassment.

When concentrating on moral behaviour, the analysis automatically moves around concept of economic justice and exploitation; whereby it can be stated that one of the main features of moral economy is its emphasis on 'justice' and hence 'removal of exploitation'. Thus, justice, as an expression of moral behaviour, is not a matter of exogenous constraint, but of endogenous dynamics. It involves for example, a 'redistributive mechanism', which is believed to provide 'subsistence insurance' for the members. Thus, these endogenous practices shape the agents' moral standards and serve a normative dimension, stressing on equality, justice and equal access to resources for accomplishing social and personal tasks (Moore, 1966).

The existence of ethical dimensions is often neglected, although it always presents in every society. For instance, Capitalism is criticised for universalising markets, disregarding the fact that marketplaces are in fact depend on time, place, culture and value systems of where they are erected (Tripp, 2006). In other words, markets are value-loaded. Building on Sawyer's (2000) explanation of moral economy, thus, a revival of the moral economy understanding based on an 'ethical framework' (Warde, 2000) perhaps would provide a better economic functioning.

As part of the capitalist economic system, money has also been detached from its original value and social relations to become a 'amoral power' in today's financial system (McGraw, 2012). This has created a great shift in economic theory, where agents are assumed to be utility maximisers and act rationally in the marketplace in terms of how they behave in reference to buying, selling and managing everyday resources (Chiotis, 2015). However, money is the source of 'commodification' and 'fictitious commodities'.

A moral economy approach implies an equitable price mechanism and a fair value (Chiotis, 2015), which suggests that there is a single price, which is just for both the producer and the consumer. For the producer, it would incorporate such things as production costs and be 'in proportion to the nicety of the work' (Thompson, 1963), whereas, for the consumer, the price implies affordability, that is, an absence of exploitation in fixing the cost. Therefore, any economic practice that will have an effect on fair pricing might not be

strictly illegal, but will be deemed to be uncharitable. Consequently, selling food at high prices or raising rents is condemned as that activity can influence the behaviour of many people who regard themselves as moral before they are rational and worry about their reputations.

Thus, moral economy is an anti-materialist movement that criticises the rich and the powerful leading to the refusal of consumption of modern goods, declining money beyond the minimum necessary for daily survival and antagonism towards the police and merchants (Simeant, 2015). It is the moral economy approach as discussed by Thomson (1971) that allows followers to consider both their dignity, physical and physiological well-being (Sayer, 2007) and the indignity of dominant classes which cause social and economic upheaval in societies.

Interdependency of moral economy is another important feature. It requires from each farmer or from every entrepreneur in the society (who are likely to be neighbours) to work together and help in the production process (Hume, 2008), given that maximising their utility in the workplace would influence their utility at home. Even if the two utilities were somehow separated, each farmer or entrepreneur would want to maximise his/her aggregate utility (Chiotis, 2015). Thus, it is reasonable to assume that a person's utility function consists of all the utilities derived from his/her total interactions. In summary, the society members and their interactions are interdependent and hence moral economy suggests a cooperative behaviour.

Cooperative behaviour within the moral economy framework is self-reinforcing in n -person, n -iteration games, *i.e.* the greater the number of individuals who cooperate, the better the outcome (Ward, 1990). Hence cooperation, despite being costly, produces a greater amount of cooperative surplus, leaving more to be distributed (Skyrms, 2004). Consequently, if the majority of the actors are cooperative and follow the socially established convention, cooperation will take the form of a stable equilibrium.

The moral economy approach does not refer to a totally abstract economic environment of thought, but seeks to understand the seemingly economically irrational behaviour of those involved. The combination of rights and the unselfish action for a common good set the rules for honour and patriotism among the members of economic societies. Therefore, the

configuration of collective emotions, values, and actions that allows us to assess respectability and trustworthiness in a given setting (Daston, 1995) in this case, economic societies, represent another characteristic of moral economy.

In pre-modernist societies, each person and each household was a consumer as well as a producer. Social networks created mutual understandings to promote the survival among social units and prevent the economic actors in traditional societies from behaving as personal-profit maximisers. Traditional understandings arise given the relative value of various goods and services; they are not independently renegotiated for each transaction in an impersonal, anonymous market. Traditional staple foods and other goods deemed necessary for the survival of the community acquiring customary prices, as dearth or plenty should be shared by all. These traditional understandings acquire the force of custom, and with increased social complexity may eventually acquire the force of law (Gotz, 2015; Scott, 1997 and Van Tassel, 1995).

Each society within the moral economy understanding interplays between cultural customs and economic activity and describes the various ways in which custom and social pressure coerce economic actors in a society to conform to traditional norms even at the expense of profit (Kung, 2011). However, sometimes a moral economy does not act in conformity to morality, as it is generally understood. Social pressures to enforce racial segregation even when willing buyers and sellers would erode the racial barriers, are clearly an example of cultural pressures imposing economic inefficiency, and therefore fall within the scope of moral economy (Sayer, 2000).

The formal or informal restrictions designed to prevent greed from overcoming morality have created inefficiency of contracts in the modernist period. For example, the traditional Christian and Muslim prohibitions on usury represent the limits imposed by religious values on economic activity, and as such are part of the moral economy. Laws that determine what sort of contracts will be given effect by the judiciary, and what sort of contracts are void or voidable, often incorporate concepts of a moral economy; in many jurisdictions, traditionally a contract involving gambling was considered void in law because it was against public policy. According to the beliefs, which inspired these laws, economic transactions were supposed to be based on mutual obligation, not individual gain.

In modern times, an important characteristic of moral economy is the 'utopian moral economy' representation, which arose to systematically reorganise economic systems and reflect on a particular moral or ethical code that rejects the free-market ethos of capitalist economies. Societies that pursue some derivative of Socialism or Communism are obvious examples of this impulse, along with small-scale attempts, such experiments include cooperative movement to ensure social good at least for the members of a community in ensuring moral economy.

Within the utopian understanding of moral economy, Brown and Garver (2009) discuss the urgent need for achieving an economy that is recognised to be a subsidiary of the overall ecosystem of the planet. They address key questions regarding the purpose, function, appropriate size, fairness and governance of a world economic system and propose new ideas to place our economy in a correct relationship with the Earth's ecosystem. They argue that such a moral economy is essential if we are to avoid a systemic collapse; such as would be the case if our growth economy outstrips the Earth's limited ability to recycle our waste or if the Earth's stock of critical raw materials and minerals is used up, in the face of growing populations and the growing affluence within those populations.

The most important feature of a moral economy is 'embeddedness' (Booth, 1994), brought upon by Polanyi's criticism of the market economy, who passionately argued that historically economy was 'submerged' in social relationships or a general structure of society in the form of social formation, which refers to the level of social and ethical constraints of the economic activities (Polanyi, 1957; Lacher, 2007). In observing the past economies, Polanyi suggested that the livelihood of pre-industrial economies was grounded on redistribution and reciprocity, and not on market exchange. Thus, Polanyian embeddedness in moral economy means that the moral norms and sentiments in the society are an integrated nature of economy and serves as the base that helps to structure and therefore influence economic practices. In other words, as Polanyi suggested in his examination of the past societies, non-economic factors played an important deterministic role in determining economic activities, which can be combined together as social formation of a society in the form of the actual theory of a society.

However, when autonomous and self-regulating market economy emerged in the modern times beyond social relations, markets become dis-embedded. They moved away from the

embrace of the sovereign community, which it used to serve. In this new economic paradigm, markets escaped the control of the community (Booth, 1994) to the extent that the natural world, people and human activities were made into objects of sale or referred to as 'fictitious commodities' or what we call 'commodification'. The shift towards commodification and financialisation, which are the non-contractual social relations, replaced the trust and reciprocity-based relations because they were seen to hinder individual freedom and profit maximisation in the market economy (Harvey, 1999 and Brown, 2009).

Even though, still there is a doubt that there is no such thing as morality in the realm of economic life and that moral commitments characterizes only pre-capitalist societies where systems of reciprocity bind people to each other and to the social good (Browne, 2009: 1). The moral economy approach sees values as "embedded" in peasant societies and these values are therefore reflected in the nature of village institutions. Commercialization of agriculture disembeds peasant values and displaces existing village institutions with market-based institutions (Wegner, 2005: 107). Characteristic of modernity on the other hand is that the market threatens to become the dominant mechanism integrating the entirety of society (Polanyi 1957). Hence, the magnitude of the market's reach is measured by the extent of commodification, by the range of goods subject to commercial traffic but not by social relations.

The pervasiveness of the market in modernity and the fostered capitalist exchange led to the commodification of land, labor, tools, and machinery (Brown, 2009:17). When nature and persons, the world and human activity, are made into objects of sale - when that is the dominant mode for their transaction - the remaining barriers to marketization must be frail indeed. Therefore, the former world is turned inside out, and now a whole society becomes embedded in the self-regulating mechanism of its own economy; the economy envelops society, refashioning its ethos and relations after its own image (Booth, 1994:656). Consequently, in of this process of 'commodification' land and labour are removed from their status-determined, nonconsensual location in the social hierarchy. Land is freed from its attachment to patrimonial lineage, with (as Tocqueville observed) the resulting democratization of the agrarian economy. Labour is taken from its servile status and made a part of the self-ownership of the person, something to be freely disposed of

Booth, 1994: 661). As a final outcome, the content of social relations has been replaced by a new form of contract that bound the parties by enforcement of property rights. Thus, with the rise of capitalist economic arrangements, the moral concerns of the economy became located in the state and in laws of the state designed to enforce the new, moral rights of ownership (Brown, 2009:17).

In Polanyi's view (1967: 157), the commodification of land and labour in colonial regimes is more fundamental in terms of 'cultural degeneration', *i.e.* the destruction of indigenous ways of life (moral economies), than of economic exploitation - another motif that resonates with today's anti-modernist and anti-development currents? The emphasis on exploitation in formulating 'the colonial problem' represents 'the economic prejudice' to Polanyi - presumably another swipe at materialism and the stance of the communist and socialist parties of his time on the colonial question (Bernstein, 2007: 11). Polanyi explained that, after the industrialisation process, the commodification of land began; therefore landowners (even the Church) started to draw borders and enclosures on their own territory. Thus, the privatisation process started, rendering some landless people unemployed and forcing them to move to the new industrialised cities and also becoming subjects for the fabric industry.

In this respect, one might claim that moral economy is a struggle of two 'great goals'; on the one hand it is related to assembling labour, land and money within society, because the commodification of these elements is undoubtedly the opposite of their nature. On the other hand, it aims to disembedding economic matters from social relations through new modern and capitalist institutions put in place by the market economy. In pre-nineteenth century civilisation (before the self-regulated market society) concurrently with the Mercantilist era, feudalist and guild systems prevented land and labour in particular from being commercialised due to the prevailing nature of social values, morals and customs, as opposed to the "satanic mills" (Polanyi, 1957: 33-42). Therefore, the Great Transformation was mainly directed at the cultural damage done by commodification, particularly of labour power and the consequent 'loss of self-respect and standards', in terms of possibilities for working people to live with dignity and security, developing their capacities and achieving fulfilment (Sayer, 2007: 267).

Through the critical analysis presented in the *Great Transformation*, Polanyi enables the reader to see how the self-regulated market mechanism is exercised. He also explains how the new system (capitalist or liberal) replaces the old one (traditional and feudal) by creating new modern institutions by dis-embedding the economy from social and political life, resulting in a new form of social formation. As a result, labour, nature and money turned into 'fictitious commodities' by replacing the real economy-based transactions and relations of 'real commodities'. Therefore, such concepts as fictitious commodity and the double movement theory developed by Polanyi have been instrumental in helping us understand the transformation processes of pre-modern/agricultural society into modern/industrialised society within the modernist perspectives. Such a concept and theoretical framework have also been helpful in comprehending the emergence of today's complex, digital, technological and post-modern society, indicating another transformation.

Another question that moral economy emphasized is the real and its constancy, versus the falsity of surface appearances as outcome of increasingly abstract "economy of appearances" (Tsing, 2000) that characterizes the global economy. The "violence of abstraction" (Comaroff and Comaroff, 1999) entailed in contemporary economy has spurred a new generation of moral critique couched in terms of hidden or occult forces beyond the grasp of mere humans. Monteverdi's Seneca might join anthropologists Edward LiPuma and Benjamin Lee (2004) in decrying financial derivatives, for example, for objectifying and abstracting "risk" itself as a tradable commodity, and displacing the presumably more "real" economy of production with the speculative and fictional economy of circulation.

The implicit (and sometimes explicit) quest to discover a real economy (Maurer 2005) depends on practices of purification and stabilization of discrete tiny objects as 'grains', and then, subsequently, their being made fungible with one another such that they can be understood 'in bulk'. Money operates similarly - the dollar deposited into the bank does not need to be the same material object as the one taken out of the automatic teller machine. Fungibility and the abstraction that enables it are at once material and discursive practices. They are no more fictional and no less real than anything else to which humans turn their activity. The understanding of abstraction as a 'fiction' and of fictions as masking realities is itself part of the Western folk theory of money and economy (Bloch and Parry, 1989; see also Maurer, 2006).

All of this is to say that the emphasis on the real not for its explanatory potential, but for being exemplary of analytical *and* cultural preoccupations with “reality” in the face of the apparently fictional, whether fictions of love or fictions of speculation of the intellectual (Foster 1965) or economic (Marx 1977; LiPuma and Lee 2004; Maurer, 2009: 262).

Another characteristic of moral economy is represented in gift-based society, which was identified by Mauss (1990 [1925:8]) and Hegel’s theory of recognition. They rejected the idea that “primitive” societies were built on altruism, perhaps it is no surprise that anthropologists have leveraged his work along with Polanyi’s and others in this vein to suggest evidence of the inherent moral value and social complexity of such societies (Browne, 2009). With both Scott and Thompson’s description of subsistence-based peasant systems as ‘moral economies’, the rhetorical inference of moral superiority was reinforced. Morality in economics for some has thus become synonymous with the particular set of principles inscribed in reciprocity-based, non-capitalist societies. In this view, the advent of capitalism caused a rupture that pushed treasured moral norms to the sidelines and stripped the economy of its true moral foundation. The most trenchant critiques of capitalism point to its betrayal of these moral values, values that had once bound groups of people to each other and to the common good (Hart 2005; Wilk and Cliggett, 2007: 160; Browne, 2009).

Important support for this claim comes from that fact that both reciprocity and recognition have a similar three-part rhythm: in both, something (the gift/recognition) must be given to the other, must be received by the other (who thereby acknowledges his/her worthiness as a subject), and must be matched by a return from the other (who thereby recognizes the worthiness of the giver as a subject). Furthermore, in both schemes, each partner must play all three roles (giver, receiver, reciprocator) in order for things to end on a satisfactory note - if there is any asymmetry in roles, things fall apart for both parties involved. Thus, moral economy in essentialising the exchange of material goods provides a fundamental role in shaping human personhood and social life through mutual recognition.

The elusive power of the gift to demand reciprocity, contained in the act of giving, was for Mauss (1967 [1925]: 8) and his followers ‘the spirit of the gift’. The bonds created through the exchange of gift and counter-gift provided Mauss with a model of the social contract. The gift therefore stood for the perceived solidarity and cohesion of so-called primitive societies, which he juxtaposes with commodity exchange, upon which, according to Mauss,

modern societies are based (Rajak, 2009:217). Through the extensive elaboration of Mauss's ideas about reciprocity in the Melanesianist literature, the clear distinction between gift and commodity economies can be summed up as follows: in gift economies people come together to exchange inalienable goods in order to make or reaffirm relationships; in commodity economies people come together without forming enduring relationships to exchange alienable goods in order to acquire things (Brown, 2009: 47).

Another important characteristic of moral economy is presented in social connections which improve quality of life in a variety of ways. People with more social connections report higher life-evaluations, as many of the most pleasurable personal activities involve socialising. The benefits of social connections extend to people's health and to the probability of finding a job, as well as to several characteristics of the neighbourhood where people live (*e.g.* the prevalence of crime and the performance of local schools). These social connections are sometimes described as 'social capital' to highlight the benefits (direct and indirect) that they bring. As with other types of capital, the externalities stemming from social capital can sometimes be negative: for example, belonging to a group may strengthen a sense of unique personal identity that fuels a climate of violence and confrontation with other groups. This, however, underscores the importance of better analysing the nature of these social connections and the breadth of their effects, rather than underestimating their significance. The available evidence suggests that social connections benefit people in the networks, with effects on non-participants that depend on both the nature of the group and the effects being considered (Stiglitz *et al.*, 2010: 51).

Good example of social relations is association of food market traders which provides welfare support for traders, building market infrastructure, sharing market information and lending to one another (Smith and Luttrell, 1994). They may also be the arenas for setting prices and ensuring the rules of the market are followed (Clark, 1994). They play specific roles in dispute resolution (Lyon, 2003; Whetham, 1972) and are responsible for hiring private security guards, often part of youth vigilante groups (Gore and Pratten, 2003). The power of collective action by such associations is one of the more remarkable features of West African trade, which worked to promote order and sound trading relationships within the market space, rather than to fix prices (Lyon and Porter, 2007: 3).

Polanyi (1957) further explains that all economic systems known to us up to the end of feudalism in Western Europe were organised either on the principles of reciprocity or redistribution, or householding, or some combination of the three (Boldeman, 2007:89). These principles of moral economy were institutionalised with the help of a social organisation, which *inter alia*, made use of the patterns of symmetry, centrality, and autarchy. In this framework, the orderly production and distribution of goods was secured through a great variety of individual motives disciplined by general principles of behaviour. The objective of such behaviour according to Scott (1976) was securing the subsistence needs of their members. Custom and law, magic and religion co-operated in inducing the individual to comply with rules of behaviour which, eventually, ensured his functioning in the economic system (Boldeman, 2007: 90).

Distinctive characteristic of moral economy is co-operation among agents (Rawls 2005). It calls agents to cooperate with those who have a history of cooperation, and defect when they interact with known defectors. The main premise is that everybody prefers a cooperative to a non-cooperative equilibrium state. Sugden (1981) therefore, proposes that rational agents look at each other's past behaviour rather than guessing their disposition. This applies to all human interactions, not just those capable of being described by a (prisoner dilemma) PD game. Even in the two-person, one iteration PD game, collective welfare is maximised with cooperation. Cooperative behaviour in n-person, n-iteration games is self-reinforcing: the greater the number of individuals who cooperate, the better the outcome (Ward 1990). Cooperation, despite being costly, produces a greater amount of cooperative surplus, leaving more to be distributed. If there are enough cooperators, cooperation will take the form of a stable equilibrium (Skyrms 2004; Chiotis, 2015).

The tradition of a pre-capitalist 'moral economy' was used to justify popular action against unscrupulous merchants and traders (Thompson, 1971). For example, the poor regularly rioted against grain merchants who raised their prices in years of dearth in an attempt to reassert the concept of the just price. The same phenomenon was observed in a variety of other situations, including peasants' riots in continental Europe during the nineteenth century and in many developing countries in the twentieth. Scott (1976), for example, showed how this frame could be used as a method of resisting authority or balancing economic power (Powelson, 2000) with the less privileged.

With the focus on societal elites, the moral economy of the economic societies needed to interact with peasant-farmers, because making improvements in a primarily agricultural economy greatly relied on increasing the productivity of farmers. However, there is a need to look beyond this interaction (peasant-farmers) by examining political culture, expectations, traditions and beliefs of the members of the economic societies themselves.

Another feature of moral economy, hence, is that it is rooted in crisis which brings economic improvement together with the honour and patriotism of the members of the society. For instance, the crisis of rising bread prices between the seventeen hundred to the early eighteenth hundreds as considered by Thompson (1971) and a more current example is the Wall Street demonstration after the recent global financial crisis in 2008, resulted in the birth of a moral economic surge. This has also been seen in the national crises of economic development in particular countries when the actors started to realise their lack of development in contrast to developed countries (Marjanen, 2015). For instance, we have witnessed in this modern age several Muslim societies in different parts of the world uprising; expressing their anger and dissatisfaction with their current state of development. In short, we can conclude that moral economy in most developing countries rose out of this experience of injustice, corruption and underdevelopment. Hence, these countries turned towards an alternative form of political culture and social formation through revolutions and elections in order to seek a solution.

In conclusion, moral economy represents organic economic system emerged from the social formation of the society in which it operates. It is driven by the goal of provisioning so that people can implement their values and social covenants and live in dignity, cooperation, reciprocity, collective action, labour sharing *etc.* to enable well-being. Capitalism, on the other hand, does so as a by-product of profit-maximising without considering the endogenous factors of society. Hence the outcome of Capitalism expresses an oxymoronic character of moral economy (Sayer, 2007).

3.4. EMBEDDEDNESS AS PART OF SUBSTANTIVIST MORAL ECONOMY: ESSENTIALISING SOCIAL FORMATION IN ECONOMIC AND FINANCIAL FORMATION AND BEHAVIOUR

Embeddedness is the main characteristic which distinguishes the moral modes of production from the Capitalist modes of production. In pre-capitalist economies, the process of

production was, more or less, embedded in a wide variety of institutions such as the family, neighbourhood, community, *etc.* (Polanyi 1944:46-53; 1957:30). This embeddedness nature of pre-capitalist production led Polanyi to distinguish forms of economic life in terms of their respective principles of distribution rather than in terms of their social relations of production. Thus, in Polanyi’s explanation of the former societies, economy in general and production in particular cannot be disentangled from other social activities. However, the rise of capitalism led to the emergence of an autonomous market economy operating according to a profit-maximising economic logic regardless of social norms and values, hence resulting into disembedded economy.

In contrast to formal utilitarian and rational explanations of markets and their transactions, Polanyi outlined ‘moral economy’ in history and political sciences. Granovetter (1985) further developed and specified the concept of embeddedness and highlighted its meaning for economic action. According to him, the core argument of embeddedness is “that the behavior and institutions to be analysed are so constrained by ongoing social relations that to construe them as independent is a grievous misunderstanding” (Granovetter, 1985: 482).

As the market society is represented by the embeddedness of the initiative teams in the intra-social networks, it is crucial to gain a thorough understanding of the embeddedness perspective, which is the aim of this section. Table 3.1 depicts the meaning of embeddedness as a concept and relates and explores its fundamental dimensions in understanding.

Table 3.1: Dimensions of Embeddedness

Dimension	Definition
Relational	Relational embeddedness refers to the quality of the relationship and highlights the effects of cohesive ties between social actors on their economic actions
Structural	Structural embeddedness captures the impact of the structure of relations around social actors on their economic actions
Positional	Positional embeddedness captures the impact of the position social actors occupy in the overall structure of the network on their economic actions
Cognitive	Cognitive embeddedness refers to the ways in which common mental models or a shared vision among social actors impact their economic actions
Cultural	Cultural embeddedness captures the impact of ideologies of markets, industry cultures and management logics on the actions of the social actors
Political	Political embeddedness refers to the impact of power struggles and sanctioning mechanisms on the economic actions of the social actors

Source: Adopted and developed from Marx (2004: 65)

Table 3.1 clearly outlines the meaning of structural embeddedness, which essentialises the quality of collective actions based on a shared view of solidarity. Thus, embeddedness as a concept establishes the behavioural framework within which all economic and non-economic actions take place. In order for these actions to occur, structural embeddedness requires the emplacement of institutional framework to provide the substantiation and operational mechanism.

Similar to structural embeddedness, which defines institutional frameworks, positional embeddedness defines the roles of agents in socio-politico-economic settings. The roles clearly outline the obligations in fulfilling the objectives of articulation of moral economy in everyday practice. In each social formation, roles of various categories of individual hierarchies creates social networks for the organisation of economies; in some societies, religious leaders had deterministic role in the organisation and distribution of economy.

Regarding rational embeddedness, which reflects upon the quality of relation that is articulated through the set of normative attitudes concerning the social relations and social behaviour. It is expressed in gift and exchange relations, which reflect some basic principles of morality (Ivarsson, 2015). The existing literature on the gift and giving alerts us to the fundamental importance of giving, receiving and reciprocating for the shaping and consolidation of social relations (Mauss, 2002). Therefore, quality relation through classical gift and exchange was seen as establishing sociality and a bond between giver and receiver while the commodity exchange within the market economy does not necessary create such relation.

Nahapiet and Ghoshal (1998: 244) redefined Granovetter's conceptualisation of embeddedness and provided a more concrete definition for both the structural and relational dimensions. For them, structural embeddedness is "the impersonal configuration of linkages between people or units", for example, "the presence or absence of network ties between actors, along with other structural features like connectivity, centrality and hierarchy" (Nahapiet and Ghoshal, 1998: 244). In comparison, relational embeddedness is the "personal relationships people have developed with each other through a history of interactions", which included "interpersonal trusts", "interpersonal solidarity" and their "overlapping identities" (Nahapiet and Ghoshal, 1998: 244).

It should also be mentioned that the embeddedness requires a more practice-oriented understanding of society beyond the neoclassical abstract modelling of a virtual society and its individuals' behaviour. Discourse of morality looks at social contracts and implicit norms of behavior and interaction between individuals, groups, man and nature, humans and the spirit world in actual way they are practiced.

A major function of morality therefore is to formalize the link between particular human actions and their effect upon the actor at a future time, and upon other human beings both, now and in the future. Neoclassical economics, eschewing this link and limiting its judgments to the less obviously action-related issues of efficiency/inefficiency, must bear the blame for a much unsustainable development. Economic theory will only be able to contribute to truly sustainable development when it accepts the reality that economic actions do not occur in a vacuum; they must be understood within the social/psychological context of human motivations, ethics, history, culture, politics and institutions, as well as the physical context of technology and the natural environment (Goodwin, 2001).

Finally, Polanyi (1957) emphasises on the institutedness and social embeddedness of economies. He considered the economy, in its substantive sense, as “an instituted process of interaction between man and his environment, which results in a continuous supply of want-satisfying material means” (Polanyi 1957:33). He also explains that, as an instituted process, “the human economy ... is embedded and enmeshed in economic and non-economic social institutions” (Polanyi 1957:34). Thus, the social network analysis as an academic discipline has advanced the meaning of social network and embeddedness research substantially. The social environment (context) becomes an important factor in analysing social relations within which economic or any other activities are taking place (Gouldner, 1954; Selznick, 1957; Stinchcombe 1965; Marx, 2004).

Mainly due to its broad and innate ambiguous nature the concept of embeddedness has been used with some degree of restriction in empirical research; that is until Granovetter (1985: 482) published his pioneering work, who reintroduced the idea of embeddedness whereby he conceptualised it as a “patterning of economic actions by networks of social relationships among actors”. In doing so he found balance between “the ‘undersocialised’ view of an atomised actor in classical and neoclassical economics” and “the ‘oversocialised’ view of an agency-free actor in structural-functional sociology”. This delicate balance became apparent

by his approach in accentuating the role of “concrete personal relations and structures (or “networks”) of such relations” in guiding economic action and outcomes (Granovetter 1985: 490). Thus, Granovetter’s deep clarity of embeddedness in the context of networks and social relationships has created the foundational building block for further exploratory work to be undertaken in this area.

In spite of the different dimensions of embeddedness, organisational frame in recent years has been popular. As part of such an approach, Marx (2004: 56) provides a guiding definition of the embeddedness phenomenon: “Embeddedness refers to the fact that the economic action of a team is shaped by the social relations surrounding the team and the norms and values associated with them”.

Similarly, Powell and Smith-Doerr (1994) emphasise the fact that economic action as any other actions do not take place in a barren social context but are embedded in social networks of relationships. In addition to network of social relations, Granovetter (1985), Zukin and DiMaggio (1990) and Beckert (1999) advocate a broad conceptualisation of embeddedness as they argue that economic actions are not only embedded in social relationships but also within the culture and social visions. Accordingly, embeddedness refers to the contingent nature of economic activity due to the cognition, culture, social structures, and political institutions that reside in the social network. Nahapiet and Ghoshal (1998) have also included many aspects of the social context, such as trust and value systems.

Therefore, according to Polanyi (1944), the economic system is embedded in the social system, stating “... whatever principle of behaviour predominated in the economy, the presence of the market pattern was found to be compatible with it [the social system]” (Polanyi 1944: 68). However, in the case of contemporary market economy this is not the case, as contemporary economy is expressed as disembedded economy (Polanyi, 1944), despite the fact that welfare economy aims to convergence the gap between social norms and economy. An implication of this is that social actors are viewed as autonomous, value-maximizing actors who focus exclusively on economic gains. As a result, the idea of embeddedness in Polanyi’s writing was novel in that it constituted a sharp departure from the basic principles of neoclassical economics.

The lens of embeddedness has carefully analysed networks of relationships among individual and corporate actors to explain a range of economic actions and outcomes, including their financing decisions (Uzzi, 1996, 1999). Such decisions include, the choice of interorganisational partners, governance choices (Gulati, 1995a, b) as well as the diffusion of governance practices (Davis and Greve, 1997).

Based on the previous discussion we can conclude that embeddedness has two essential meanings:

(i) Markets are necessarily limited by institutional regulations, which connect them to the moral fabric of society. Unregulated markets cannot be more than a pathological form of organising the fulfillment of adaptive functions in society and will lead to social anomie. This institutional anchoring of the economy is characteristic of all three types of economic exchange distinguished by Polanyi: reciprocity, redistribution and market.

(ii) The term embeddedness is not only an analytical term but also alludes to the political or social reformist task of stabilising a (democratic) organisation of society through the institutional regulation of markets, especially in the realms that Polanyi termed fictitious commodities: land, labour and money. Hence the reference point of embeddedness is not the economy as such, but according to Barber (1995: 406) “the larger social systems in which all economies are located” (Beckert, 2007).

The previous definitions confirm Polanyi’s statement (1957:46) that “...primitive society, in a sense, is more human than market economy”. Nowadays, markets are assumed to be “more extensively dis-embedded than ever before in the history” (Bienefeld, 2007:21). Market economy, with the commoditisation of labour, land and money is a way of reducing the social relationships and destroy the substance of humanity (Polanyi, 1957 and Lacher, 2007). Consequently, there are a few obvious characteristics of the moral economy, extracted from what has been discussed, such as community, co-operation, collectivism, embeddedness, and solidarity.

Since in a market economy everything is subject to ‘the law of the market’ then, the ‘organic forms of existence’ - non-contractual social relations which are based on trust and reciprocity, such as kinship, neighbourhood, and creed - are at the brink of being eliminated

for they are seen as a hindrance to individual freedom and profit-maximisation in market economy. This detached relationship within society is what makes the economy disembedded (Harvey *et. al.*, 2007). Thus, moral economy is originally linked, as a concept, with the normative concept of subsistence ethics, reciprocity, community, embeddedness and ethicality.

All pre-modern economies are considered as moral, because they are an integral part of social relations and non-economic institutions. How economic and social relations work together, will differ depending on various contexts. Yet, the common thread running through them is an understanding of a pre-modern moral economy in that aims, objectives and processes are informed and directed by the non-economic factors (Polanyi, 1968; Scott, 1976). Thus, it may be accepted that human well-being and status might be enhanced by productive economic activity but that this is only one aspect of many and whatever contribution the economy might make is entirely policed by the norms, expectations and values of the community within a 'moral universe' (Scott, 1976). In other words, economic activity and any surpluses it might create are used as a means to the end; social welfare.

The economics within the moral economy understanding do not have an independent existence. It is barely visible as a guiding hand in human life and exists only for the benefit of the community and citizenship (Habermas, 1987; Polanyi, 1977). Thus, the economy as a structurally or theoretically distinct arena simply does not exist, and could not exist, within this pre-modern moral universe. Abundant analyses inform us that this portrayal of the pre-modern moral economy is over- simplified and that the 'market', as a matter of necessity, must have played more of a role in and been more of an influence on norms, values *etc.* of the community than anthropologists such as Scott (1976) and philosophers such as Polanyi (1957, 1977) (and his reliance on Aristotelian ethics) can account for (Booth, 1994). For instance, historian Thompson (1971:132) distinguishes between the "old moral economy of provision" and the free market economy.

Economic activity involving division of labour, and acquisition, distribution and trade of goods is subordinated to the pursuit of the 'good life' (Polanyi, 1957) but the economic realm did operate as a market based on market principles. However, despite recognition of the dangers of over-idealising the normative dimensions of pre-modern societies, especially in relation to a reliance on status and division of labour (Polanyi, 1977; Scott, 1976), moral

economists maintain that it is only in modernity that we see a ‘market society’ deemed to be a rational, economic system that subordinates human needs in the pursuit of economic gain (Polanyi, 1957; Mauss, 1967; Scott, 1976; Thompson, 1971).

It is generally agreed that the move to a market society involved a change in priorities and much less of an emphasis on the human. As Booth (1994: 656) summarises: “there is no mistaking the conclusion that for the moral economists, the move from *Gemeinschaft* to *Gesellschaft* entailed a loss of a certain vital human quality that typified earlier societies”.

The change in emphasis entailed a turning point in human history (Polanyi, 1977; Tonnies, 1979) given that the market broke away from normative influences embedded in non-economics factors. The market becomes disembedded, autonomous, self-regulating and entirely economic in nature, purpose and outcome. For the moral economists, in modernity the market takes on a life of its own which is represented by the ‘commodification’ of whole areas of social life. More recently, Sandel (2012) has spoken of the moral limits of markets, arguing that it is essential that some goods are not traded in the marketplace because their value cannot be expressed in monetary terms.

However, the commodification process has entered into and, in some cases, consumes and overrides the values and norms of the non-economic realm. Rather than society being integrated via non-economic institutions of family, church, synagogue, mosque, temple and community as the moral guidance centre for ethical principles and behavioural morality; the market becomes the integrative mechanism pervading all aspects of the non-economic life. In other words, the process of embeddedness is reversed; with modern society becoming embedded in the market, rather than the pre-modern market being embedded in society, and “refashioning its ethos and relations after its own image” (Booth, 1994: 656).

In modern economies, the arms of the market society have extended to such an extent that the economics becomes the sole vehicle of analysis and all aspects of social life are objectified, quantified and couched in terms of maximising behaviour and efficiency. As a result, the human becomes understood only as *homoeconomicus* (Booth, 1994; Polanyi, 1977) and *homohumanous* disappears and the economic system becomes detached from the life-world and then colonises it (Habermas, 1987).

In conclusion, the moral economists lament that market society has not only escaped control from the community but that individualised, self-interested pursuit of surplus destroys human bonds and the web of obligations that makes up community. For many, 'market society' is a law like economic realm that is no longer questioned (Mauss, 1967; Polanyi, 1957; Tonnies, 1979).

3.5. HISTORICAL ROOTS OF MORAL ECONOMY

The historical economies are considered as moral economy from the early period of human life on earth. To begin with, simple village life was based on the moral economic principles of cooperation, sharing, and solidarity that allowed the provision of basic needs (food, clothing, shelter and companionship) to be communally provided. Later on, when populations expanded and town and cities were established, new necessities arose to preserve and maintain these bigger populations: societal and individual livelihoods, cooperation, social relations and various economic pursuits were still managed on moral principles, as modes of production in each society emerged in relation to the social formation of that particular society. When it came to the establishment of nations as an outcome of the cohesive understanding and common aspirations of towns and cities, the moral economy values were still embedded in the development of institutions responsible for governing the interest of the society, as the social formation of the society determined the nature of the new societies in terms of shaping the nature of 'base' and 'superstructure' indicating the actualities of the social forces of each society.

With the marginalist school gaining demonomancy in economics science and also due to the emergence of modern societies, and modernism as a project, positivist movement separated values and ethics from the economic analysis. This resulted in moral economy being dismissed from its existence within society but responsively gained its conceptual meaning in the writings of historians and moral philosophers. In modern economies, moral economy, according to Arnold (2001), offers an antithesis to the rational choice imperatives that conflate rationality and utility maximisation in a crude material sense and dominate the present political imagination.

Thompson (1971) saw the origins of moral economy through his elaboration of British riots' activities in the late eighteenth century. According to Thompson, these riots were generally

peaceable acts that demonstrated a common political culture rooted in feudal rights to 'set the price' of essential goods in the market. These peasants held that a traditional 'fair price' was more important to the community than a 'free' market price and they punished large farmers who sold their surpluses at higher prices outside the village while there were still those in need within the village.

Thompson's stress was, "upon a consistent traditional view of social norms and obligations, of the proper economic functions of several parties within the community, which, taken together, can be said to constitute the moral economy of the poor" (1971: 79). Scott (1976) defined the economy of the poor by referring it to subsistence economy, which made these peasants vulnerable and prone to easy destruction. Scott (1976) argues that due to the nature of their living on the margin, peasants formed their own system of ethics, which consisted of 'reciprocity, forced generosity, communal land, and work sharing'. In addition, he states that they were 'risk averse' and that they provide 'subsistence insurance' to be safe if natural or other disasters were to befall (Scott, 1976).

In the 1970s, the concept of a moral economy was developed further in anthropological studies of peasant economies. The notion of a non-capitalist, cultural mentality using the market for its own ends, has been linked by others (with Thompson's approval) to subsistence agriculture and the need for subsistence insurance in hard times.

Thomson (1971) was first to bring a moral economy term assigning to it "a set of empirical observations by integrating them into a nomothetic framework" (Götz, 2015) bound to a specific epoch and particular historical context. It also represented a divine order given to the world or for the human condition. Therefore, it served as an umbrella term for ways of life prior to the great transformation from traditional society to the market system.

Scott (1971) build his discourse of moral economy through exploring the past societies in terms of the socio-economic lives of the peasants. He begins with describing peasants' lives, as they were close to the subsistence line that it takes little to destroy their livelihoods. From this, he infers a set of economic principles that it would be rational for them to live by. It is important to emphasise that his attempt was not based on fieldwork, and itself proposed a cross-cultural universalistic model of peasant economic behaviour based upon a set of fixed theoretical principles, not a reading of peasant culture. However, the outcome

of his analysis, through its features, indicates moral economy. He argues that peasants were 'risk averse', or, put differently, followed a 'safety first' principle. They would not adopt risky new seeds or technologies, no matter how promising, because tried and true traditional methods had demonstrated, not promised, effectiveness. This gives peasants an unfair reputation as 'traditionalist' when in fact they are just risk averse. Scott also argues that peasant society provides 'subsistence insurance' for its members to tide them over those occasions when natural or man-made disaster strikes.

As an important landmark contribution, Polanyi (1944) in his *The Great Transformation* chronically presents the early moral economy models, which had been embedded in real economy since primitive-archaic times. However, with the development of nation states and cross boarder business, along with the creation of self-regulated markets, disembeddedness resulted in the creation of fictitious commodities through commoditisation. This further meant that the constitution of the idea of market economy caused the malaise of society by changing the social formation of societies as norms and values in the form of non-economic values were meant to cease to determine the economic matters with the advent of market economy; as in the market economy price determines everything. As Polanyi (1944) contends, market economies are in this special sense 'disembedded economies': decisions are not constrained directly by social custom and ethical goals, but rather respond to a system that proceeds independently of these.

Polanyi (1944), however, argues that the traditional forms of economy had always been moral economy through its traditional social formation or the way society organised itself. Therefore, as Polanyi (1944) states, the struggle of re-embedding economy in society and rescuing labour, land and money from the 'fictions commodity' or to de-commodificate them has been the aim of protective social movements and anti-liberal discourses since the post-ward period, which, as this paper, argues includes Islamic moral economy in recent time.

Islamic moral economy is another part of such a double movement or counter movement to re-embed the economy to ensure the dignity of labour and fair distribution of resources, was founded on a complex system of Islamic belief system fuelled by centring human well-being and promotion of the common good, and trust (Marjanen 2015). Therefore, the Polanyian discourse is essential for us to understand the emergence of Islamic economics

and re-framing it as Islamic moral economy through embeddedness by way of essentialising profit-loss-sharing, financial products, risk sharing and asset based financial transactions.

3.6. CONSTRUCTING ISLAMIC MORAL ECONOMY

Similar to moral economies across the globe such as the English Crowd (Thomson, 1971), the moral economy of the Nigerian food system (Lyon and Gina, 2007), the moral economy of Sub-Saharan land (Bernstein, 2007), the Iranian and Algerian moral economy of prices (Elsenhans, 2014; McFarland, 1985), the post-tsunami Sri Lanka moral economy (Ivarson, 2015) and other contemporary as well as historical examples of moral economy emergences, Islamic moral economy emerged from the analysis of dominant economic systems failure with regard to the objectives of social justice, social welfare, social wellbeing (Chapra, 1992). In other words, the emergence of Islamic moral economy emergence in modern times has been triggered by the dissatisfaction of the Muslim crowds with economic development, distribution of wealth, access to resources (Asutay, 2007; Black, 2001; Zaman, 2008) and, hence, due to lack of ‘moral economy’.

Associating the concept of moral economy with the economy of the poor, Thomson (1971: 98) described the whole emergence of the English crowd to emplace moralities against monopolistic practices such as selling products through dealers which could charge exploitative prices. Moral anger spread among the English crowd because blood and flesh could not bear any longer the prices and exploitation of the working class (Thomson, 1971). Most recently, when people occupied Wall Street, they rejected on moral grounds the exploitative nature of the high-street banks and financial institutions. Hence, the anger of the crowds, present or past, is a moral devise that attempts to put in order what the incumbent governments usually fails to put in order. However, all these moral economy responses, as social movements and institutions, came to fix particular issues in the economy, in terms of rescuing land, labour and capital from the hegemony; therefore, the emergence of Islamic economics movement, as a social movement, can be attributed to the same objectives. Additionally, Islamic economics as an IME movement and model attempt to provide a holistic solution for the everyday practice of economics and financing operations, practices and behaviours, while the underdevelopment in the Muslim world with the help of post-modern times in essentialising local and alternative knowledge was the main motivating factor for the emergence of Islamic economics.

The holistic solution of IME is contrasted by conventional economic systems based on the way 'individual' and the 'relationship of individual with other stakeholders in life'. As neo-classical economic model is based on a one-dimensional utility function (economic individual in a market system), which leads to *homoeconomicus*, while, Islamic moral economy is founded upon a two-dimensional utility function (present and hereafter) leading to *homoislamicus* as *tab'ay* (Arif, 1989), who is described as an individual who has operationalised Islamic morality in all aspect on human life (Asutay, 2007). Therefore, IME paradigm provides substance in terms of defining and constituting the content of Islamic Political Economy or the Islamic system of economics with its distinctive values, norms, rules and institutions with a policy-oriented system of understanding.

The emergence of IME, similar to other moral economies, is a response to the value-free notion of neo-classical economics, which represent a divorce from moral norms, values and principles. However, with the help of post-modern paradigm of recognising distinctiveness of various ontologies and giving them a space through social constructivism, value loaded positioning such as the emergence of IME has been possible; as IME recognises that no human endeavour is value-free, as Islam aims to shape it with its legal and moral reasoning. It implies that economic reality is socially constructed and shaped by any strong set of values in a particular society. In Islam, such set of values is provided by the divine knowledge in the Qur'an and Sunnah. Thus, IME is "an approach to, and process of, interpreting and solving the economic problems of human beings based on the values, norms laws and institution found in and derived from the sources of Islam" (Haneef, 2005: 5). It also "enables [individual] to look at the production, consumption, and distribution activities within the Islamic norms" (Asutay, 2007), in order to make economic and financial choices according to ethical principles and and moral code of Islam.

The morality in Islamic economics is not a one-way process; on the contrary, the constitution of IME emerges as the "ethical application to the economic problems ...[as well as], economic application to the ethical issues" (ul-Hassan, 2010: 233). In this relevance, Tripp (2006: 103) specifies that the Islamic moral economy is treated "not simply as an ethical enterprise, but also an economic one". Thus, the sources of the Islamic economic, or the Qur'an and Sunnah, not only characterise it as 'moral', but also regulate its action, and forms its micro and macro institutions through its ethical norms.

The ontological and epistemological sources, namely Qur'an and Sunnah provide the axioms and foundational principles that define the moral framework of how the economic activities should take place within the Islamic ethical system:

Tawhid-complementarity and unitarity, which is the foundation of IME in the sense of articulating that everything in this world is connected and is part of the same whole; hence the purpose of human beings is one; and existences, interests and well-beings are all connected; thus, such an overarching normative world constitutes the main frame and rationale for moral economy (Naqvi, 1994).

Adalah and *ihsan* (justice and beneficence), which are shown in people's relationships as part of socialisation; as social justice is essential for one to held; but it is not enough to reach *falah*, which requires contributing to other's well-being through *ihsan* and hence expanding socialisation in the economy and society (Naqvi, 2003); and therefore, *adalah* and *ihsan* is considered to be the main elements of a moral economy in shaping the norms;

Tazkiyah implies growth in harmony, and self-purification, which helps to overcome self-interest by recognising the fact that one's growth should not be at the expense of others, society, and environment in line with the *unitarity* and complementarity nature of *tawhid* (Asutay, 2007); this, *tazkiyah* directly implies moral economy;

Rububiyah implies perfection of developmentalist path as given by creation (Ahmed, 1979); giving an opportunity to reach perfection;

Fard refers to responsibility as mandatory actions, which are socially oriented; and hence, *fard* duties makes sure that certain social obligations 'must be conducted' without being left to the voluntary action so that moral economy outcomes should be ensured;

Amanah denotes trust in terms of being temporary owner of this and being temporarily in in charge of others and other things; and therefore it requires from individuals to considers other individuals, society, and environment in making decision; thus, as an Islamic economics axiom, it constitutes, a source of sustainability, intra and inter-

generational equity whereby constitutes a main substance for Islamic moral economy (Asutay, 2007);

Ukhuwwah denotes solidarity and unity; and being in relation with other axioms it essentialises consideration of other stakeholders in one's decision making in the sense of helping others to reach *falah* through *ihsani* social capital (Al-Qaradawi, 1993); thus, it constitutes another main substance of IME.

Takaful corresponding to the reciprocity feature of moral economy assumes cooperation and dependence on each other; as essentialising of social good and also endogenising other's well-being in one's utility is possible through *takaful*, which constitutes another substance of IME.

Maqasid al-Shari'ah or the objective of *Shari'ah* is the methodological framework through which Islamic injunctions are made to have everyday implications through consequentialist manner so that legal-rational interpretation of Islamic norms could have everyday equivalence. Considering that *maqasid al-Shari'ah* is interpreted as 'human well-being', the moral economy nature of Islamic economics is rather clear, as this norm implies that whatever human activity whether economics or finance is conducted it has to consider 'human well-being' (Siddiqi, 2004; Asutay, 2007), which is in line with the above mentioned axioms; hence, *maqasid* methodology is a frame brining all the axioms together linked to produce 'human well-being' in an interactive manner for individual and for the people, society, and environment, namely other stakeholders connected to the individual.

Khilafah axioms as the consequence of Islamic morality implies homoIslamicus, as an individual who has immersed all the moral qualities of Islam and the mentioned axioms in one's life with the responsibility that he/she is representing God on earth as His vicegerence. With this, comes human accountability before God, as being *khalif* directly implies he/she has to be responsible in relinquishing the mandatory and voluntary responsibilities in essentialising socialisation in terms of considering the interests of the other individuals and things in one's decision making process. Thus, individuals are expected to feel such responsibility so that they should aim to 'becoming a *khalif* or homoIslamicus' which is a dynamic process of 'becoming' rather than 'being'

or 'became'; as one travels between various points in one's life in internalising socialisation alongside becoming a *homoIslamicus* (Naqvi, 2004; Asutay, 2007, 20013).

Consequently, the axioms clearly identify that Islamic economics should be framed as a 'moral economy' in the sense Polanyi defined and explained it; and his predecessor developed and examined in different cases. This is true in a historical context while in the present times, 'economics' postfix does not do justice to the notion of 'economy' understanding within Islamic ontology and epistemology. Thus, the axiomatic approach together with its political economy outline the boundary of the behaviour of the economic agents and features of Islamic moral economy, because:

(i) The axioms, along with the political economy of Islamic economics structure, constitute a value system and normative world in determining the nature a particular (Islamic) social formation which determines the embeddedness in the society; as social formation constitutes the actual theory of a society; and in this case, axioms provide the substance for the construction of IME;

(ii) They form or constitute the embeddedness as a social formation as an implication to produce social justice and social goods in harmony with the interest of individuals and society;

(iii) They form the base to make sure that non-economic factors should also determine economic and financial behaviour and decision-making; as well as considering spiritual and material well-being all members of society;

(iv) The axioms essentialise to reject the idea of decommodification, and rejecting fictitious commodities which undermines the social balance; as they suggest that everything has a value and everything should be real to be available for trade; and therefore, they suggest that social norms should determine what can be bought and sold in the market so that embeddedness can be achieved.

(v) The axioms surely fulfil moral economy's reciprocity feature through essentialising 'socialisation'; however, they do not impose a particular socialisation or over socialisation, *fard*, or mandatory, and expected voluntary nature is identified, while reaching *falah* directly refers excelling in *ihsan* through voluntary action.

(vi) The axioms as the normative world of IME essentialise and response to community and charity nature of moral economy, as communal or social good and socialisation is considered an crucial foundation of within Islamic normative world.

(vii) Essentialisation of convention and coordination as moral economy features is also the outcomes of these axioms, which evidences the constitution of IME frame. For example, *maqasid al-Shari'ah* aims to produce morally outcomes through coordinating and integrating the axioms within the normative world of Islam through the convention oriented substance of the axioms.

(viii) An important feature of 'collective actions' is aimed at by all the axioms and in particular by *takaful*, *ukhuwah*, *khilafah*, *tazkiyah*, and *rububiyah* among others (Chapra, 1992, 2007; Asutay, 2007; Zaman, 2008).

In sum, articulation of all these axioms shape and form the morality of Islamic economics, and therefore this study argues that Islamic economics is beyond the ethics free-zone imposed by neo-classical 'economics'; due to its normative world determining also economic and financial decision making, it must be framed as a 'moral economy'.

The axioms and the principles of IME explicitly emphasise on moral actions in ones life but also in relation to any activities that cause harmful consequences, such as the avoidance of waste, extravagance, harmful externalities and ostentation, whilst stimulating generosity (Kuran, 1995). The fulfilment of the objectives of the *Shari'ah*, are necessary in order to achieve moral outcomes, as well as to achieve systemic and dynamic understandings that include broad and not limited measures which together will ensure welfare through implementation of justice and equity (Siddiqi, 2004).

Based on the understanding of the foundational axioms and implications of those axioms, it is justifiable to say that Islamic economy with its principles essentialises values rather than mechanics of economics, which make it IME. It also emphasises on social justice, social welfare and wellbeing thus suggesting the development of moral economy in the process. Thus, Islamic economy falls under the science of moral economy that demands the interaction of moral values, cultural beliefs and economic activities that serve to encourage engagement in social responsible financial transactions (Tripp, 2006). It is important that

these principles and axioms not only penetrate an individual's inner-soul but also that they are articulated in everyday acts including financial and economic acts. Without the articulation of an Islamic value system into individual behavioural norms, it seems that the objectives to create harmony between each component of economy and thus encourage growth of social welfare, is impossible.

As for the implications of IME, first, human beings can only claim partial credit for what he/she produces as God is ultimately the owner of all wealth (Ul Haq, 1995).

Zakah, is not a voluntary and philanthropic act, as giving *zakah* is returning the right entrusted to individuals to society. According to Chapra (1992) *zakah* is not only an obligation, but also a way of worshipping God and fulfilling the responsibilities towards others. It encourages people to give people in need what is actually theirs, rather than being satisfied with the knowledge of helping (Naqvi, 2003). Hence, *zakah* is a religious obligation, ordered by God, which is taken from those who have a particular amount of wealth and given to those who have not and as such, it is a basic component of moral economy. Second, responsible use of rightful earnings by keeping moral purposes of human beings in view. Earnings cannot come from and be used for prohibited transactions (fraud, corruption, gambling, *riba*, etc.) as these are prohibited, because of their unjust, exploitative, and dishonourable nature (Tripp, 2006). What is more, even ethically destructive economic activities (oppressive exploitations of human beings and creation of ecological imbalances or environmental disruptions, etc.) are included in these prohibitions. Third, all people should have an equal opportunity, without discrimination, to benefit from environmental and public resources. Even the inheritance system originated by Islam has one purpose, which is the equitable distribution of wealth. Its boundaries are outlined by the *Shari'ah*, based on its socio-economic aspect (Chapra, 1992). This would contribute to the equitability of the Muslim society if applied effectively.

In addition to Islamic axioms, fundamental principles of forbidding *riba* (usury), and giving *zakah*, characterised with unity, scrupulosity and friendliness, are the main devices of the IME (Tripp, 2006). However, these principles in addition to inheritance rules are not only values that Muslims should consider in order to achieve the individual well-being in this world and hereafter (Chapra, 1992), but the holistic approach of Islamic moral economy to constitute an interest-free economy, social justice, equal opportunities, private property,

moral filter in uses of resource consumption, self-interest motivation, creating wealth and collective action both in competition and cooperation (Asutay, 2007; Chapra, 1992; Zaman, 2012) in order to realise the *al-maqasid al-Shari'ah*.

From this holistic articulation of IME, the emergence of economic system of Islam in post-modern times is considered as another part of the Polaniyan movement or Gramscian counter/double movement to re-embed the economy in normative world to ensure moral outcomes so that merit goods, social goods, public goods, social protection, fair distribution of resources, income and wealth, the dignity of labour, conservation and enhancement of environment and natural world can be ensured and individuals can be valued.

3.6.1. Further Explorations in the Embeddedness in Constructing and Framing Islamic Moral Economy

In the preceding sections, embeddedness is mentioned as the critical dimension and substance of moral economy as articulated by the 'substantivist school'. The discussion so far also indicated that Islam generates a particular (Islamic) social formation, which provides moral parameters for the economy to operate within and the behaviour of various agents to be shaped and regulated. This discussion proves that Islam essentialises 'embeddedness' through its normative world as well as through its axiomatic forms by generating a moral economy, or IME, by definition of being substantivist.

In further articulating the aspects of embeddedness of Islamic economics, and hence, framing it as IME, various aspects of embeddedness as depicted in Table 3.1 is and can be located in Islamic economics in further substantiating its moral nature. Table 3.2 therefore recalls Table 3.1's contents by adding the responses of Islamic economics' nature to the articulation of moral economy to generate IME.

Following on from this, the cognitive meaning of embeddedness within Islamic moral economy generates the collective feeling of submission (*khudu'*), which creates an awareness amongst subjects to strive constantly towards implementing both vertical and horizontal meanings of justice and equality. At the same time, cultural embeddedness asserts that ideas, perceptions, customs, socio-politico systems and economic constructs are embedded within the Islamic civilisation. Finally, political embeddedness of Islamic moral economy compels the institutionalisation of the *khilafah* axiom, which pushes individuals towards

accountability and motivates them to fulfil the objectives of the *Shari'ah*. In short, the meaning of embeddedness within Islamic moral economy as demonstrated can be related to each category provided in Table 3.2.

Table 3.2: Responses of Islamic Economics to the Dimensions of Embeddedness in Generating IME

Dimension	Definition	Islamic Moral Economy
Relational	Relational embeddedness refers to the quality of the relationship and highlights the effects of cohesive ties between social actors on their economic actions	Based on the concept of <i>ukhuwah</i> (brotherhood) the symmetry of reciprocity among similarly arranged or organised groups
Structural	Structural embeddedness captures the impact of the structure of relations around social actors on their economic actions	The centrality of redistribution through an allocative centre linked to the prevailing politico-economic norms of Islam
Positional	Positional embeddedness captures the impact of the position social actors occupy in the overall structure of the network on their economic actions	The provision for the household based on production for one's own needs in a largely self-sufficient unit such as the family or settlement
Cognitive	Cognitive embeddedness refers to the ways in which common mental models or a shared vision among social actors impact their economic actions	Islamically cognitive embeddedness is expressed through the concept of <i>tawheed</i> and <i>adaleh</i> (the horizontal and vertical equality) which creates the vision among subjects to act in the manner which increases their Islamic utility
Cultural	Cultural embeddedness captures the impact of ideologies of markets, industry cultures and management logics on the actions of the social actors	Since Islam has its own ideology, believe system, values and norms through which people perpetuate and develop knowledge about attitudes and life, this results in their ideas, perceptions, customs, socio-political systems and economic constructs being embedded within the Islamic order
Political	Political embeddedness refers to the impact of power struggles and sanctioning mechanisms on the economic actions of the social actors	The political embeddedness in Islam is represented through the concept of <i>khalifah</i> (vicegerent on earth) which represents individual and collective responsibility to implement God's norms. In order to strengthen the political embeddedness, different institutions such as <i>hisbah</i> and <i>akhilik</i> were developed

Source: Adopted and developed from Marx (2004: 65)

IME, thus, recognises and essentialises the importance of social relations and networks, as a Muslim individual is required in his/her actions to consider and include others as essential components of the *falah* process (Bonner, 2001). The essential factor for analysis of a

Muslim society is not to consider individuals independently from his/her social connections such as family, friends, colleagues, members of the community and finally the Muslim *ummah*. All these will define the behavioural characteristics of an individual beyond looking into him/her only as a rational consumer. Thus, referring to the debate on 'socialisation', Islamic morality by definition aims at 'socialisation' in the sense of 'considering others' interest' in the individual decision making process. Such communal behaviour is considered by Hofstede (1991) as well one of the characteristics of cultural (religious) articulation of Muslim societies in economics, finance and management. As discussed, 'socialisation' through *ihsani* social capital is indeed voluntary, but *falah*, as a 'consequential happiness, requires 'socialisation' should be conducted. This indicates highest form of morality by full embeddedness. As discussed, Islamic moral economy emerged in response to the failure of neoclassical economics to promote human centric development and economic growth because it ignores embedded norms of Islam, which identify Muslim societies. Any policies that do not consider behavioural norms and the social relations that are subsequently established on such norms, inevitably will lead to failure.

For Islamic moral economy, social context is an important factor in structuring and functioning the Islamic economy. It can be achieved through the established institutions and developed tools and mechanisms that could lead to assigned expectations of the Islamic society. Such expectations as explained in Table 3.2 aim at creating Islamic morality, which leads to *falah* in the society.

In concluding, Toynbee and Durant (cited in Chapra, 1992:25) state that moral ascension and social good is impossible without religious authorisation derived from the divine sources, the Qur'an and *Sunnah*; these divine sources essentialise the distinguishing characteristics of IME.

3.6.2. Comparing 'Moral Economy', Islamic Moral Economy and Market Economy

The discussion so far aimed at defining and framing Islamic economics, as IME. This section aims to provide an interactive comparative understanding of market economy, moral economy (as articulated by Polanyi) and IME.

Table 3.3: Comparative Overview of Market, Moral and Islamic Economics

Main Economic Features	Market Economy	Moral Economy	Islamic Moral Economy
Embeddedness	Disembeddedness	Embeddedness	Embeddedness in: <ul style="list-style-type: none"> • real economy factors <i>i.e.</i> by essentialising profit and loss sharing, risk sharing and asset based products • non-economic factors <i>i.e.</i> value system
The role of ethics	Ethics free zone; Ethics are treated as exogenous factors	Ethicality is an important factor in defining human relations	Ethicality is based on the value system of Islam
Reciprocity	Stoic; people tend to care about his/her oneself before they care about others	Reciprocity; people care about the members of community	Reciprocity; people have a duty through the concept of <i>islah</i> to contribute to welfare of others as they would contribute to their own welfare
Community	Non-community; a paradigm based on commerce	Community; a paradigm based on serving the community needs	Community, charity and regulated markets; as <i>hisbah</i> is an essential institution of monitoring market performance in terms of morality and <i>Shari'ah</i> law
Individual's place	Individuality; represents self maximisation of material benefit and utility	Collective action of the society (cooperation, labour sharing, gift exchanging <i>etc.</i>) that every participates in to create moral outcomes	Individual actions that one is obliged to perform such as praying, studying, working (<i>fard ayin</i>) but also collective compulsory actions (<i>fard kifaya</i>) such as commanding good and forbidding evil, promoting the welfare of society, establishing justice and so on
Fictitious commodities	Fictitious economic modes of production which does not add value in real economy	Non-fictitious commodities, where modes of production are embedded in real economy	Non-fictitious commodities and decommodification, modes of production are embedded in real economy
Efficiency vs. Equity	Efficiency; the employment of efficient financial models in terms of profit maximising without considering the consequences	Justice; promoting just economic systems based on fairness and real economy models	Justice system based on principles and values of Islam which can only be achieved through the implementation of the Islamic Law

IME, as articulated in Table 3.3, proposes a necessary approach within the parameters of Islam for sustainable growth and development in terms of having harmony between various component of economics and social life. This can be achieved by permanent self-development behaviour through purification of ones attitudes towards God, other human beings, society and other living creatures as well as the environment.

Based on understanding the aforementioned axioms and principles of IME, and considering the nature of moral economy, a number of implications can be deduced from comparing these systems of economies/economics:

- (i) IME not only adopts the concept of embeddedness from moral economy but also defines its practical meaning by essentializing profit and loss sharing as well as the risk sharing in real economy sector.
- (ii) Since moral economy is based on human relations that are established on ethical norms, IME builds on ethical norms that are derived from ontological and epistemological sources of Islam, which provides the authentic economy.
- (iii) Reciprocity as a characteristic of moral economy requires caring after other society members. However, within IME reciprocity obliges to contribute towards the welfare of others as that action increases individual social capital in this world and hence success in the hereafter.
- (iv) The conventional economics completely ignores the needs of society and only considers the market's outcomes in material benefits. The moral economy, as well as IME, is structured around serving societies. Though IME economy aims to respond to the needs of society, it also essentialises implementing Shari'ah norms in the process.
- (v) The distinguishing characteristic of IME is that it benefits from both neoclassical economics for individual actions expressed in *fard ayin* and from moral economy collective actions *fard kifaya*, which both together identify sociotropic individual within IME.
- (vi) The table 3.3 also draws the distinguished feature of moral economies, which is rejection of commodification and embeddedness of economic activities in the real

economy.

- (vii) Similar to moral economy, IME rejects the criteria of economic efficiency based on profitability and request economic system, which is based on fairness and social justice. According to IME, the fairness and justice can only be achieved by implementing the *maqasid al-Shari'ah*.

In short, table 3.3 provides the outcome of IME as a result of implementing the Islamic value system by referring to the main features of economics. It responds to the main features of neoclassical economics: disembodiedness, value-free economy, commodification, individual actions based on utility and profit maximisation. All these have been criticised not only by IME but also heterodox economics family. It builds on the moral economy concepts of embeddedness, ethicality, reciprocity, non-fictitious commodities and justice by introducing Islamic reasoning of these economic concepts.

In further discussion, table 3.4 aims to provide a comparative overview of the final outcomes of market economy, moral economy and IME. The analysed aims are natural outcomes of previously discussed features of these economic systems.

Table 3.4: Comparative Overview of Aims of Market, Moral and Islamic Economics

Type of Economy	Market Economy	Moral Economy	Islamic Economy
Aims of Islamic Moral Economy in Comparison with Market Economy and Moral Economy	Mankind is part of a production process	Mankind is part of a production process and is a beneficiary of cooperation	Mankind has only one aim and it is achieving <i>falah</i> by living life in this world according to principles and norms of Islam
	The ultimate goal of production is the creation of wealth	The goal of production is creating harmony as an outcome of cooperation	The aim of production is <i>adl</i> , <i>ihsan</i> , <i>tazkiya</i> and <i>tawhid</i>
	Created wealth is used for consumption or saving for investment and future consumption	The harmony creates stability, mental peace, love and respect	The outcome of the above mentioned axioms are <i>falah</i> in this world as well as in the world to come
	Contractual arrangements: private rights, institutional trust and market orders	Mutual agreement, equal rights, mutual trusts and implementing justice	Individual and collective responsibility to implement justice and establish equal rights in order to fulfil <i>tawhidi</i> requirements

Beyond the conceptual explanation of Islamic moral economy, evaluating Islamic morality at institutional levels represent the major challenge. The whole objective of the emergence of Islamic moral economy as Table 3.4 emphasises is the fostering of human centric development based on the principles and values of Islam in order to reach *falah*. However, Kuran (1996) argues that the purpose of Islamic economics was not a development project, but a cultural concern due to identity threat. He also argues that Muslim collectivism under singular morality would limit the economic significance and interaction of sub-groups, thus it would thwart economic progressions. While this can be a valid position, this study does not imply imposing a singular morality on the rest of the world; but as explained in a later chapter, this study considers IME as part of the heterogeneous economics by providing plurality in economic analysis; as various forms of economies, moral economies, and hence IME has always been in practice regardless whether it has been called as 'IME' or not.

In the Table 3.4 four main aims of market, moral and IME economic systems are outlined in comparative way. Several distinguishing implications of IME can be deduced from Table 3.4 which identify distinguishing nature of IME. First, for IME, production and consumption are just means not goals *per se*. Second, they are used as instruments to implement justice and create the harmony in the society. Third, justice and harmony will lead towards inner satisfaction and happiness. The outcome of the previous stages brings *falah* in this world and the hereafter. On the other hand, the only objective of market economy is to produce and consume in efficient way without considering any other dimension identified within moral and IME.

Since the objectives of market, moral and Islamic economies/economics are different; consequently, methodological approach will be also distinctive. Table 3.5 comparatively analyse the methodologies of these three systems.

Table 3.5 concludes that Islamic moral economy in its methodology, applies both intentionalist and consequentialist approaches in economic activities. Intentionalism represents the legalistic nature of Islamic knowledge and *Shari'ah* implying the necessity to comply with *Shari'ah* norms in their technical forms. Parallel to intentionalism, the axiomatic nature of Islamic moral economy demands considering consequences where actions are measured on moral outcomes, which is the main aim of *maqasid al-Shari'ah*. Such a characteristics of Islamic paradigm, by definition, hence, produces IME. Hence,

consequentialism should be considered another feature of moral economy, which makes Islamic economics as IME.

Table 3.5: Methodological Approach of Market, Moral and Islamic Economics

Type of Economy	Market Economy	Moral Economy	Islamic Economy
Methodology of Islamic Moral Economy in Comparison with Market Economy and Moral Economy	Individualism based on rationality and utility maximisation	Social Network	Socio-tropic individual functioning on intentionalism and consequentialistic principles
	Behavioural postulates is profit maximisation	Establishing social relations	Establishing social relations based on value system of Islam
	Market Economy	Market Society	Market society purified through the Islamic moral filter
	Disembedded economy as a consequence of financialisation	Embedded economy	Embedded financing in the real economy
	Commodification	Dis-commodification	Dis-commodification
	Financialisation	Reciprocity	Reciprocity based on Profit and loss sharing

In terms of behavioural postulates, IME as table 3.5 shows, like moral economy, places an emphasis on social networks. This network of social relations is engineered according to the moral values of Islam and the institutions essentialised by Islam. The ultimate objective of these relations is the notion of brotherhood and cooperation which go beyond merely profit-maximisation of the market economy. IME, like other moral economies considers a whole range of economic and non-economic activities that are required to take place within the society in order to be able to essentialise an analysis of the market society. Hence, the market society will dictate that all financial transactions must be embedded in the real economy by responding to the needs of the market society given that financialisation and commodification only serve the needs of the market economy.

3.7. FORMS OF ISLAMIC MORAL ECONOMY IN HISTORICAL CONTEXT: *HISBAH AND AHILIK* INSTITUTIONS

Framing of Islamic economics as IME beyond the narrow boundaries of economics relates to Islam as a paradigm aiming to develop a particular social formation as the actual theory of the society. Historically, as Polanyi claims for Western economies, Muslim societies had various forms of IME as part of the Muslim or Islamic social formation in various degrees and within the available political economies. Thus, IME is not a utopian reality; on the

contrary it was practiced in different forms even in modern period in the Muslim society; such as in agricultural the use of *mudarabah* mechanism, the existence of *zakah* and *waqf* system, the unceasing nature of charity can be considered such example. In addition to these, other institutional forms were developed historically to ensure the moral consequences in the Muslim societies. Among such institutions, *hisbah* as a regulative institution in the Muslim world and *ahilik* or moral economy based guild system of Ottomans should be mentioned. These two institutions will be briefly explored in this section to provide examples of IME within the historical context. However, developments of social financing in the contemporary times in the form of *zakah* funds, *waqf* and their use in various forms should be given as emerging examples of IME.

Before the revelation of Islam, the political economy of the Arabian Peninsula operated on many trade routes. The major source of commerce was through small permanent markets and some slightly larger temporary markets which used to move from one city to another on a monthly basis (Razavi, 2004:24). Due to the lack of production and agriculture, the major sources of income were through usury (*riba*) or monopolising (*ihtikar*) and hoarding of goods for generating price hikes in the market (Razavi, 2004:7). The market was governed by customs and traditions while disputes were settled through tribal laws.

The development of the Muslim society around 610 A.D, brought along with it contemporary economic and political concepts and institutions to the region. As discussed, Islam is a set of systems whereby each system has its different sectors and in turn these sectors have their unique functional components (Asutay, 2007). Some of the functional components have a superficial nature while others have a central focus. All the functioning components in the entire range of sectors have independent capabilities, limitations, applications, methods of execution, laws and set priority levels. However the output of the functional components, sectors and the systems is inter-linked and they are dependent on each other. The intersystem linkage and dependability is so complex that neither the resulted productiveness nor arising failure can be pinpointed to the workings of a single system.

One of the sectors in Islamic moral economy deals specifically with market regulations, which attempts to regulate the market through different functioning components. The philosophical base for functioning components in this sector is provided by systems which

deal with faith. The system of faith provides Islamic moral economy with three major principles: “*tawhid* ... (Oneness), *khilafah* (vicegerency) and *adalah* (justice)” (Chapra, 1992:201). The *tawhid* and *khilafah* provide the world-view and awareness towards the creation, while *adalah* provides the bases of interaction with the creation.

Historical sources referring to the *waqf* system indicates the social welfare oriented nature of Islamic moral economy. However, beyond such lip service, historical material indicates that distinctive institutions were developed in historical Islamic societies to ensure moral outcomes were delivered. Since this is not a piece in economic history, it is not possible to delve into details. Nevertheless, in order to substantiate the argument that Islamic economy has always been a moral economy two important institutions historically existed in Muslim societies, which are discussed here: *hisbah* and *ahilik* institutions. While the former theoretically was developed by Ibn Taymiyah but has operated since the time of the Prophet to overcome the failure of the market system, the *ahilik* or the morally oriented guild system operated in the Ottoman territories suggesting that there was a fully functioning moral economy as entire business operations were embedded in the social formation and functioning of Islam. The following sections hence aims to locate the *hisbah* institution within IME context as historical and practical application of IME.

3.7.1. Hisbah Institution: Market Regulation to Ensure Moral Outcomes

The primary function of a *hisbah* institution was to subscribe good and forbid wrong. The institution of *hisbah* identified right and wrong, based on the worldview structured on *tawhid* (Divine Oneness), *khilafah* (vicegerency) and *adalah* (justice), whilst Islamic law provided it with a framework for systematically forbidding wrong and prescribing good within the market and the society.

The function of a *hisbah* official or ‘*amil al-suq*’ (the market inspector) is similar to ‘*agoranomos - aedile*’ from 300 A.D. (Bagnall, 1996:59). In the early days of Islam, *hisbah* provided a systematic method of market governance (El-Sheikh, 2008), which existed in the Prophet’s era and received His sanction according to traditional sources. The classical *muhtasib* (auditor) was a judicial office with a much wider mandate. The mandate covered the broad area of public morality such as checking weights, measures and currencies, investigating and dealing with fraud and generally unlawful market practices including illicit

speculation and misleading information (Al-Sheikh, 2008). In other words, *muhtasib* was in charge of what is now called fair trade.

Fair trade within the *hisbah* mandate included monitoring 'just pricing'. Within the *hisbah* paradigm the concept of just pricing combines economic and ethical episteme to create an ethical understanding of pricing models for the market. While, a clear understanding of supply and demand, and its impact on the market were not discovered during the development lifecycle of this institution. However, concepts like 'just pricing' attempted to cater for market forces, while keeping an ethical dimension to the regulations.

The price mechanism, according to Islahi (2014), has been left to the market forces of supply and demand. Even though the market is considered to be the only exchange mechanism, a number of scholars (such as: Imam Shafi'i (n.d.); Abu Yusuf, 1392; Ibn Taymiyah, 1976; Ibn Al-Qayyim, 1953; Al-Juwayni 1950; Qadi Abd al-Jabbar, 1965; Al-Dimashqi, 1977; Ibn Khaldun 1976; among others) at the same time emphasised on the importance of justice for market players when prices would be abnormally high. Therefore, the *hisbah* institution obliged to formulate a policy and suggest preventive measures or recommend interventions to strike the balance between the interests of buyers and the interests of sellers.

The scholars did refrain from fixing the prices, as the Prophet himself rejected interfering in the markets. However, Ibn Taymiyah explains that the non-interference was not a 'general rule' but the economic conditions were against it (Islahi, 2014). The Prophet recommends 'just pricing' fixation on another two occasions (Ahmad Bashir, 1997), which were institutionalised through *hisbah* later on during the Islamic Caliphate. This implies that price fixation by the authority will be implemented when collusion of market participants or monopolists violate the interest of consumers and inflict injury on them by charging excessive prices (Al-Kinani, 1975).

The *hisbah* institution, thus, suggests a formal relationship in terms of the established norms of the *Shari'ah*, and also an informal relationship whereby customs and practices are governed by social relationships. In such a way, *hisbah* produces group performance where individuals, families and society act in an interactive manner to produce Muslim morality in everyday practice of businesses. Such social relations where *hisbah* is institutionalised

production, consumption, pricing, monitoring of norms and standards of expected behaviour enjoy a high degree of consensus (*shura*).

Even before institutional economics, *hisbah* emphasised on the role of formal and informal norms - contracts (avoiding prohibited structural forms which violate *Shari'ah* norms and the creation of profits through synthetic financial models), property rights (*i.e.* transfer of ownership through the lawful trade), Islamic law and regulations (selling only what you possess and forbidding debt sale) and the state which has the function of empowering individuals and creating social justice – in structuring the framework of Islamic moral economy. Hence, through the *hisbah* framework, social relationships solve the issues of opportunism and expanding trust, which markets and its hierarchy have overlooked.

Hisbah institution, by establishing social relations, has posited that economic exchanges are in the words of Polanyi (1944, 1957) in a 'matrix of institution'. This embedded framework through *hisbah* led to the establishment of economic life based on network ties and centrality of personal relationships, which are articulated through customs, laws, regulations and the economic role of the state. In that way *hisbah* adopted formal institutional arrangements in regulating the market in overcoming the excesses and shortcomings of the market, and their enforcement have been backed by informal constraints of embedded Islamic morality.

It should be noted that *hisbah* institution did not only rest on the structural configuration of social networks but also on the relational embeddedness articulated through the quality of one's relationships. The quality of such relationships will matter to establish better moral outcomes in society considering that economic theory put emphasis on Pareto-optimality as the ideal economic and financial outcome. However, the Pareto-optimality tool technically failed to address the issue of equity and distribution, and has limited application in the real world. Recall that the prevailing market economy is a product of second-best solution due to the failures in the perfect market mechanism; and one such areas of market failures has been on the distribution and socially optimal resource allocation. While Pareto-optimality might in a technical sense refers to optimal outcomes, the choice along such optimal outcomes are left to 'benevolent dictators' by the neo-classical economics' romanticised notion of state. This implies that the necessary normative tools lack in neo-classical economy, which resulted in the emergence of welfare state. Beyond such romanticised view

of the state intervening and correcting the market failures, civil society based *hisbah* institution relates to the quality of relations with its social tools; and therefore, as an institution, it has an advantage in implementing the optimal distribution in line with the IME expectations, as IME also recognises the failure of market and its operations. Introducing *hisbah* will help to inject the substantive morality of a given society, in this case Islamic substantive morality, into the operation of market mechanism with the objective of fulfilling the moral filter. Such an institution can, hence, overcome the ‘one-armed’ analysis of Pareto-optimality by also considering social preferences and optimal social outcomes in line with the prevailing notion of justice. In such an organisational setting, *hisbah* simultaneously accommodated and rewarded individuals and institutions which pursue assigned moral strategies in their operations in market, while punishing those which violate them.

In reflecting, it is important to state that while there might be attempts to utilise *hisbah* to shape individual morality, *hisbah* is mainly a market oriented operational institution aiming to develop attitudes around substantive morality of Islam. This is the distinguishing nature of *hisbah*, as it represents an embedded institution in the social formation of society shaped by Islam. While some might establish resemblance between *hisbah* and the market regulators of the contemporary time, embedded nature of *hisbah* makes the difference; as market regulators are mainly legal institutions which as exogenous institutions can only provide legal frame, while *hisbah* refers to endogenised behaviour and hence is expected to organically emerge from the social formation of the society.

3.7.2. *Ahilik* Institution: Individual Development and Market Regulation Link to Ensure *Tazkiyah* and Market Morality

As mentioned the history of the Muslim world shows that IME remarkably developed moral institutions embedded in society and social formation of Islam, which includes *hisbah* and later during the Ottoman rule, *ahilik*, in accordance with the *maqasid* objectives of Islamic law in order to promote intra-and inter-generational justice. In particular *ahilik* institution had an effect on human functioning in terms of ‘being and becoming’ individuals as suggested by *tazkiyah* axiom, which fits into Sen and Nussbaum (1993) paradigm of developmentalism. Thus, historically, IME through these institutions delivers a moral

economy based on ‘*ihsani* (beneficence) social capital’ on a macro level and ‘*falah* (salvation)’ on a micro or individual level (Asutay, 2007).

The *Ahilik* system is a kind of a ‘guild’, whether trade or manufacturing guild, which had not been seen in the Islamic world except only in Anatolia from the 13th century to about 19th century (Öztürk, 1993). Linguistically it means ‘brotherhood’, which was the first vocational education institution as an organisational and community education institution, which is not confined to vocational training alone but also included religious, moral, societal, cultural, and political functions (Sanal and Güçlü, 2007; Kiziler, 2015; Bayram, 1994). This was the union of both artisans and merchants who spent all their energies trying to gather young people and craftsmen under an organisation and tried to train and exalt them morally as well as developing their skills (Sanal and Güçlü, 2007; Ramazan, 2014).

Neither Qur’an nor *hadith* refer to guilds in any places. The early document found in a Cairo synagogue contains scattered references to groups of artisans exercising the same craft and to the foremen of a few trades (usually ‘*arif*’) (Kuran, 2000: 44). However, these evidences point to the beginnings of some form of professional organizations. The earliest records of full-blown guilds in the Islamic worlds (*esnaf*, *hirfa* or *ta’ifa*) are from the fifteenth century (Kuran, 2000: 44), which had spread across the Ottoman Empire afterwards. In seventeenth century, guilds formed a comprehensive system in every major town of the Islamic world.

Since its very foundation, the *ahilik* system had an impact on social and economic customs, besides military and political areas. It had played a crucial role in forming business and work ethics as well as being the pioneering institutions for contemporary institutions such as social security organisations, trade organisations, workers’ unions and city counselling (Öztürk, 1993). Therefore, the guilds of Islamic world displayed distinct characteristics stemming from the unique cultural milieu in which they originated and evolved: a milieu shaped, in significant measure, by Islamic law, practice and ethical values of Islam (Kuran, 2000: 43).

Both moral and cultural values had been rooted in the principles of *Ahilik* institution. It has provided, according to Ramazan (2014: 94), “advices as well as sanctions for people yet these advices and sanctions are not of a personal nature but are social in their focus”. Aiming

to articulate IME in everyday life with the objective of forming Islamic social formation, institutions of *ahilik* had also aimed at regulating the social life of people.

Ahilik institution, on the one hand, is perceived as a structure, which generally arranges economic life, and on the other hand consists of the value system which is based on the conception of ‘*uhuwwah*/brotherhood’ in social life. Accordingly, the development of the *Ahilik* institution came from the Islamic tradition, and therefore Islamic norms such as self-denial, generosity, sincerity, friendship, protecting the others’ rights, being fair to everybody, *etc.* defined the operating nature of this institutions in business and everyday life (Akcik, 2003; Aydin, 2015; Kiziler, 2015). Therefore, the concepts of ‘*adalah*’ (justice) and ‘*haqq*’ (right) are the core objectives and operational principles around which the *hisbah* and *ahilik* institutions of Islamic economic system have been formulated.

Even though, the *Ahilik* institution is known as a trade organisation, it also became an important element to reach a societal peace (Koçak and Gürün, 2015). The *Ahilik* system with its customer-oriented approaches functioned as a moral tool for solving the marketing problems of organisations (Erbasi and Ersos, 2011), which created imbalances in society. Thus, *Ahilik* institution developed customer-oriented bazars serving the needs of real economy and hence society, with the aim of developing human qualities to ensure IME.

As Yazgan (1986) lucidly articulates the working mechanism of *Ahilik* institution with the objective of identifying its embeddedness and IME nature, *Ahilik* institution remains one of moral and business institution, which can help to develop a better future. According to Yazgan (1986), the root of *Ahilik* institution lies in its success of transforming individual with Islamic social formation in ensuring the success of business in prioritising Islamic ethical principle so that Islamic morality can be delivered in everyday practice of life and business.

According to such an embeddedness, Yazgan (1986) narrates that *chiraklik* or apprenticeship is the core of *Ahilik* institution, as young individuals were taken to *chiraklik* in a particular field, let’s say shoe making business, and at the same time that person was registered with the *madrasah* of the mosque where the market was based, which provided education and also required that person to take certain responsibilities in the running of the mosque, such as being a ‘cleaner’ in the form of *qayyum* (the servant of a mosque). Thus, training in a

particular work area (shoe-making) as a *chirak*, education at the *madrasah* and contributing to the running of a mosque as *qayyum* constituted an integrated and embedded human development process indicating that it was an embedded system of developing humans in ensuring moral economy, as interaction between all these three spheres provided the system through which development in each sphere impacted the development with other spheres of life.

Being a dynamic process, when a young individual had completed the *chiraklik* in a particular sector, he was also elevated into *khalfa* (foreman) position. Such a promotion is only possible if the individual concerned had also completed the relevant education at the *madrasah*, which included education in sciences, religion and spirituality. In addition, such an individual was also expected to have the same success in the duties assigned for him in running the mosque. Hence, success in three spheres had to be simultaneously; otherwise promotion would not be possible.

In the next level working as *khalfa*, the individual would move to the next level of education in the *madrasah*, and consequently also they were promoted to *muazzeen* (the person who call for prayers or *azan* and supports the *imam* in conducting the prayers). The simultaneous success in these three spheres would result in another promotion leading the individual to become *ustha* or master in the work place, graduate from all his educational requirements and completing his spiritual training, and upon being successful as *muazzeen* with the developed Islamic knowledge and spirituality, the person was promoted to become an *imam* to have the right to lead prayers at the mosque where the bazaar of the relevant production was. Thus, individual would become master in all these spheres resulting in becoming a respected member of the business and society. As Yazgan (1986) lucidly demonstrates, such a system ensured human development, spiritual development and business development to develop in an interactive manner to ensure morality in the market, individual behaviour and ensuring the development of Islamic social forms to develop so that the progress can be achieved.

The success in the work place most importantly was measured by the quality of the work individual either as *chirak*, *khalfah* and *ustha* demonstrated rather than the quantity of the work. This ensured quality of the products to be provided to the customers, as their *haqq* or right was essentialised, unfair competitiveness was prevented, instead of competitiveness

co-operation ruled the bazaar or the market. The failure in ensuring these would have huge consequences, as individual had to leave the *ahilik* and would be known for the shame he brought to the practice and unless moves to another city would not be able to find work. Thus, if a member had broken the trust, they had been punished via social exclusion and public embarrassment. In other words, the moral consequences of failure in subverting the social formation through malpractice in business, education and mosque related duty had huge consequences. Due to such integrated morality in all spheres of life, *ahilik* developed a spiritual *tazkiyah* process in ensuring the Ottoman success. Their contribution in the military sphere should also be added as the fourth sphere in which individual development run in line with the other three spheres (Yazgan, 1986).

As Yazgan (1986) lucidly demonstrates, *ahilik* institution was an essential body, which connected work, education, religious duty, and military contribution in producing an interactive and integrated sophisticated system of Islamic social formation developed around authentic Islamic norms. At the core of this system was *tazkiyah* or human development. When the *Ahilik* system failed as part of the political-economy system failures of Ottomans, the entire Ottoman Empire collapsed as the moral foundation of the system collapsed. Hence, *ahilik* constitutes an IME institution indicating that IME is and was not a utopia, which is still practiced in peripheral and small circles of guilds in different part of the contemporary Turkey despite the fact it is close the extinction as a practice. The, emergence of contemporary ‘Anatolian tigers’ (emerging companies) in the central Anatolian cities of Turkey, such as Konya and Kayseri is attributed to the legacy of *ahilik* tradition, as these new businesses have changed the economic and social structure and realities of Turkey by also taking into account Islamic values (Asutay, 2013), albeit in a Calvinistic manner (ESI, 2005; Asutay, 2013) of transformation away from the *ahilik* spirit in essence.

It should lastly be stated that *Ahilik* institution is embedded into the social formation of society, and is a product of essentialising Islamic morality in everyday practice in addition to the normative ethical stance of Islam. As the process explained above, the work environment is directly embedded in one’s development in religious and social sphere. Therefore, religiosity in *Ahilik* is not an exogenous variable of making ‘one’s business ethical’, but rather moral practice is an organic and natural consequence of embeddedness

or submerge of *Ahilik* institution. This is an essential distinguishing nature to understand in comparison to trade and business associations that operates in the Muslim world in present times.

3.7.3. Reflecting on *Hisbah* and *Ahilik* in the Context of IME

Emerged *hisbah* and *ahilik* institutions with their introduced social policies aimed to protect and care against the problems of free market economy and making people more productive and importantly to develop moral behaviour in work place, in religious sphere and practice, as well as in educational sphere.

In identifying the moral economy nature of Islamic economics, *ahilik* and *hisbah* as a historical system of economy and social practice, offers particular social formation and modes of production, which can be theorised as a moral economy. Thus theorising *ahilik* and *hisbah* as a practice of IME results in a framework that can be developed through historical experience to identify the viability of IME as a distinct production and consumption system based on Islamic social formation, with its particular modes of production through embeddedness among other features of moral economy. Thus, the legitimacy of all historical economic institutions such as *ahilik* and *hisbah* is founded on norms that defined its rights and responsibilities; thus, values and norms are embedded in economy to ensure moral outcomes in the process. Thus, in a Polaynian sense, the Muslim history demonstrates practices of Islamic morality in articulating IME. This, perhaps, can provide some microfoundations for contemporary business within Islamic circles, such as Islamic banking and finance, so that their operations and moralities can be shaped by Islamic morality in producing an emergent IME.

3.8. ISLAMIC ECONOMICS MOVEMENT FOR CONSTRUCTING MORALITY OF ISLAM

Religions had a powerful role in the past both in Europe and the Islamic world. However, the secular movement that rose from the religious conflicts and inability to find a religious solution between intellectuals presented an alternative in a form of social sciences and detachment of religions values (Zaman, 2008). On the other hand, Muslims would often regard Islam as ‘the way of life’ (El-Ghazali, 1994) due to the fact that Islam is an order of the totality of systems that fulfils the systematic understanding by having a distinct

framework paradigm, a value system, foundational axioms, operational principles/mechanism, specific methodology and functional institutions (Asutay, 2007). Moreover, Islamic worldview provides 'the universal ethical system' for the articulation of IME (Asutay, 2007; Chapra, 1992, 2000, 2007, 2008; Zaman, 2008; Naqvi, 2003). Thus, the emergence of Islamic economics movements in the post-colonial period should be considered as a deconstructivist movement to develop substantivist understanding of economy and society (Ozay, 1999 and Mehmet 2003), which is based on Islam representing an alternative system of morality.

Consequently, IME is respond to Western reasoning grounded in empiricism that seeks to portray human progress not as holistic but as linear, male and deterministic replication of Western strategies and taxonomy, using reductionism in time and space, dating and classifying events with European eyes. It also responds to Western demands to judge everything non-European by European norms. Thus, IME rejects prescribing Western theories for the Third World based on abstract paradigms, techniques and values made for salvation of human race (Ozey, 1999: 13). When prescribed theories fail to work, the new theory or abstract model is introduced without considering the social context where these theories are supposed to work.

IME suggests that ethical principles should be embedded in running an economy towards forming IME (Asutay, 2007). Hence, the IME model aims to establish a cooperative society in order to accomplish the 'ethical oriented society' (Naqvi, 1997). That society will consist of individuals who will balance the satisfaction between material and spiritual needs (Chapra, 1996). In that way, individuals and societal behaviour and the fulfilment of essential needs will be reconciled by articulating *al-maqasid al-Shari'ah* which would lead to socio-economic justice (Chapra, 1996).

Chapra (1996) explains the application of Islamic teachings to shape individuals in facing Islamic moral economy by consciously engaging with moral filter, having effective motivation and engaging with reformation of the socio-economic context which would lead to conducive environments for human well-being. Maintaining consistency between self-interest, where the choices made by an individual rely on principles of egoism, and social interest of the good moral end, Islam requires the possession of a moral filter to establish equilibrium. In ensuring this, a Muslim's belief in the Hereafter is what creates a long-term

goal for individuals and persuades them to think beyond self-interest by providing a strong motivation for people to be more concerned with social commitments. Thus, possessing such a state of understanding will help society to determine their priorities as defined by *al-maqasid al-Shari'ah*.

In addition to creating the balance between individual and societal interests, Naqvi (2003) emphasises on the positive impact that Islamic values and ethics have on economic and financial activities. First, by believing in Islam, it means believing in a way of life and in the moralities that Islam demands to be implemented. Such a belief system controls the daily activities of human beings. Second, belief in God's presence aims to prevent people from having bad intentions since they know that God is watchful over them. Third, since Muslims believe that everything belongs to God as the *amanah* axiom suggests, people will not be forced to maximise profits because the way in which wealth is spent is also regulated. Fourth, the principle of commitment maintains people's behaviour according to bounded rationality of Islam to create moral outcomes. Lastly, is the right of a poor person's access to the wealth of the rich; as for the rich person he gives not because of self-satisfaction, but due to the recognition that the poor have a right to part of the wealth of the rich in the society. Hence, these postulates as the outcomes of IME axioms intend not only to become potential forces to improve Muslim society in economic and financial domains (Trip, 2006) but also essentialise the nature of Islamic morality which symbolise the embedded character of Muslim society.

Even though, Islamic economy serves as an alternative system to the market economy system (Asutay, 2007) which is grounded on the religion of Islam, it does not necessary imply that the system constitutes as a moral economy. To be considered as a moral economy, a system must focus on the morality of both the process and the consequences of the system. Therefore, regarding Islamic economy, it is important the process is religiously complied with but further to this, the outcome or consequences of that process is morally accepted. Hence, Utvik (2006: 89) defines the weak moral economy which has only 'faith in God' whereas strong moral economy involves 'inflicting every act in a morally and ethical acceptable way' in the sense of considering the process and consequence of actions despite belief in God.

As discussed, against the emergence of self-regulated market economy, various societal

movements emerged in the post-World War Two period with the objective of re-embedding economy in society and rescuing labour, land and money from the 'fictions commodity' or 'commodification' (Polanyi, 1977) This has been the aim of protective social movements and anti-liberal discourses. For example, trade unions aimed at rescuing the rights of the labour, while the development of a welfare state aimed at responding to the essentialisation of social justice.

Many other small and pragmatic attempts have been made to make the capitalist economy more moral (*e.g.* fair trade, social investment funds, the development of renewable energy sources, recycling, cooperatives, *etc.*) which have grown from the same impulses that drove the moral economies. However, these developments did not fully realise their intentions, being fundamentally at odds with the mechanisms in the capitalist economy, such as cyclical consumption, the inherent duplicity of goods in competition, and the process of externalising those costs, which are not directly pertinent to an actor's finances.

IME, hence, is another part of the Polanyian double movement/counter movement to re-embedding the economy to ensure the dignity of labour, fair distribution of resources and freeing labour with the objective of developing an alternative modes of production based on risk-sharing and profit-and-loss sharing. This challenge should be considered as important, as the Islamic ethical values of society were detrimentally affected by the capitalist changeover. Polanyi articulated this situation in the case of England and argues that the morals of society - dignity, honour and values - were destroyed in the process of capitalisation on the streets of London and other parts of the country, when people were caught up in social and political economy transformations, such as from feudal, traditional, agricultural and household economy into the industrial, modern and capitalist mode of production. This has been the narrative in the Muslim world as well; and hence, IME or Islamic economics emerged to re-shape the economy in creating an Islamic social formation to define economy, banking and finance within Islamic embeddedness.

Islamic economic institutions, which existed in the Muslim world in a pre-money and non-capitalist mode of production based on Islamic commercial law agreements, represent the moral economy version. However, the market involvement of people and the 'commercialisation' of agriculture, manufacturing, trade and finance, abolished already established social norms for production and distribution based on market forces instead of

moral forces of justice. Even though, the market economy tries to reject the values, it constantly builds on the social modes of production, such as sharecropping for agriculture, or craft-organisations for manufacturing, trade unions, fair trade organisations for trade as it is practised in social relations, to be articulated as a functional unit of the capitalist system. This attribution may be useful for an understanding of why there is emergence of IME as a proposition, which endeavours to essentialise social networks and relationships in economics and financial transactions.

3.9. CONCLUSION

The notion of the moral economy rests on a central principle: 'embeddedness' in terms of being embedded in real economy but also in values and norms derived, in the case of IME, from the Qur'an and *Sunnah*. As a pre-modern economy, Islamic economies were (should be) moral because they were/are an integral part of social relations and noneconomic institutions as indicated by its Islamic ontological sources and epistemology, namely substantivist economies. How economic and social relations work together will differ depending on various contexts, but the common thread running through is an understanding of a premodern moral economy, in that its aims, objectives and processes were informed and directed by the noneconomic factors, in this case by Islamic norms in constituting Islamic social formation. Thus, moral economy's features, in summary, are: 'embeddedness' in the social formation of the society, non-economic factors determining economic and financial decisions including values', 'reciprocity', 'community and charity', 'convention and coordination, and 'collective action and cooperation' (Polanyi, 1957; 1960; 1968; Scott, 1976). At the same time, these are the features of the socially constructed nature of IME (beyond Islamic finance). In other words, these are the values of Islamic economics that justify to 'conceptualise and frame' Islamic economics not as an economics but as moral economy leading to IME; as economics, by definition, cannot comprehend such moral qualities. Therefore, Islamic economics construct is beyond 'economics' and it is a 'moral economy' embedded in the Islamic social formation. The construct of IME in modern times will benefit from such features and contents of moral economy in transforming Islamic economics into IM implying that IME is not only a historical reality and its features remained in the past, but such features and qualities echo to present and future in constructing new imaginations. Therefore, IME should not be

considered as part of history, but its features and contents relates to today and the future imagination to make a better economy essentialising human well-being.

As discussed, the concept of moral economy is related to the normative frame of reference, or all the values of unity, ethics, redistribution and common good. Thus, grounded on the essence of Islamic economics, its principles and value systems we can assert have all the components to be characterised as a moral economy. Moreover, it is deeply concentrated on these values to provide social justice and human welfare, which is its objective. Despite the fact that, it is considered as a utopian model, it is an endeavour to solve the issues that stand in the way of economic development. Many secular economists have recognised the failure of the economic development and the need of alternatives that can contribute to its revival. In order to be so, IME, should be considered as part of such alternative systems in developing functioning individuals, being individuals and doing individuals so that the becoming process of Muslimness can be achieved.

As the discussion in the previous section indicates, Islamic economics in essence suggests a moral economy not entirely because it is sourced in Islamic ontology, but due also to the consequences expected from economic and financial activity being moral.

Sayer (2007) argues that all economies are moral economies, but some may not be seen as moral and others may be seen as 'more' moral than normative concepts such as wellbeing, moral division of labour, property rights, patents and environment. However, neoclassical economics in its approach tries to give meaning to reality by extensive use of mathematics or positive methods where values and norms are considered as unscientific (Zaman, 2012) while the practice aims at *homolamicus*. Therefore, the Polaynian critique of market economy and its institutions is acceptable because the modern market institutions did not preserve social formation, de commodification and embedded norms and values within society (Sayer, 2007 and Edelman, 2005).

In being critically reflective, it should be noted that such moralities are not extensively shapes the Muslim societies today; and therefore, the ontology of IME can be questioned. This study recognises the failures in the Muslim societies not upholding the objectives of IME and failing to embed such normativeness in their everyday life and actions. However, reform is an important axiom of IME, which should help to transform the Muslims societies

to develop qualities in ensuring IME wholly or partially. Islamic finance has commenced to transform financing aspect, but entangled with capitalistic forms and norms; while it managed to be successful to a certain degree in expanding the transactional base of the society; it has failed to become an instrument of transforming the social formation of the society. Thus, in a Polaynian sense of being a counter movement against the immoral hegemony, IME aims to transform the society to re-emerge Islamic normativeness in determining economic, financial and business base in the society according to Islamic social formation. It is hence a political economy matter; for which Islamic Political Economy is the frame and structure and IME is the substance and the contents of this frame.

Chapter 4

HETERODOXY AND ISLAMIC ECONOMICS: LOCATING ISLAMIC ECONOMICS IN ECONOMICS ORIENTED KNOWLEDGE MAP

4.1. INTRODUCTION

Islamic economics emerged in the post-colonial period as a response to developing a system of Islamic economics authenticating through the norms and principles of Islamic ontology. This aimed at creating a new paradigm through a new metaphor constructed through Islamic economics, whereby much needed socially and economic development can be achieved; as the main thrust of Islamic economics is its strong emphasis on developmentalism through social justice and provision of social good.

Considering that 'economics' is a science based on positivist philosophy, one may consider the paradox of formulating Islamic economics, which is based on revealed knowledge within 'economics' as a science. However, since late 1960s, economics as a science has gone through a transformation through various branches, which identified themselves as part of heterodoxy as opposed to modernist paradigm articulated by neo-classical economy, namely homogeneity in understanding economic worldview. This is also related with the failure of modernism as a philosophy but also failure of neo-classical economics in explaining differences in individual behaviour in various cultural forms. In other words, despite the 'convergence discourse of economics as a science' in the sense that all individuals in the world will act according to Eurocentric economic understanding, various understandings have developed to look into economic reality since 1960s, a period when post-modernism as a discourse set in to emphasise the cognitive rationality of all local knowledge as opposed to the universal reading of modernism. Islamic economics, hence,

should be considered as part of this heterodoxy in mapping the body of knowledge relating to economics we have around us.

By defining the substance of heterodox economics and its borders, different approaches are identified and allocated. Since heterodox economics is determined in pluralistic way by including 'alternative economics understandings' as well as radical departures within neo-classical economics, in this paper it is argued that Islamic moral or Islamic political economy is argued to be considered as part of heterodox approaches. This paper, hence, aims to locate the knowledge of Islamic economics, as expressed with Islamic moral or Islamic political economy within the existing body of knowledge related to economics understanding and science through the use of heterodox tradition. In other words, this paper aims to situate Islamic economic in the map of the existing knowledge through heterodox approach.

In doing so, this paper argues that Islamic economics should be considered as a part of a heterodox economics family with its distinctive ontology and methodology rather than hybrid knowledge of neoclassical methodology and the conventional economics tradition. As the developments in Islamic finance indicate converge towards conventional principles, Islamic political economy aimed at overcoming such convergences by aiming to develop an authentic moral economy understanding within its own philosophical and ontological framework.

In developing the argument, the nature of heterodox economics, as well as its departing point in contrast to mainstream economics is defined and explained which can help to reach a common point with defined borders under which different traditions fall, which can therefore include Islamic economics.

However, this paper recognises the fact that branches of heterodox economics are still articulated within the positivist philosophy. Therefore, this paper distinguishes Islamic economics through its particular ontology and epistemology in relation to the branches of heterodoxy by locating it within the *tawhidi* worldview. By doing so, this paper extends the borders of heterodoxy into religious realm and expands its explanatory power in explaining everyday happenings of economic matter by endogenising religious knowledge in shaping individual economic and behavioural norms. By this, the research establishes, therefore,

that since Islamic economics approaches the economic reality from a religious perspective in a deductive sense it does not negate its value as a science. After identifying the nature and borders of Islamic economics, this paper search for Islamic economics' place within the existing body or the map of knowledge relating to economics, and then concludes by suggesting its location within the expanded heterodoxy by identifying the communalities.

4.2. HETERODOX ECONOMICS AS A DEPARTURE FROM MAINSTREAM

The emergence of heterodox economics mainly came in 1960s, which coincides with the emergence of Islamic economics discourse as a post-colonial positioning. In the emergence of heterodox economics, the inadequacy of orthodox economics based on scarcity, rationality, equilibrium methodological individualism and positivist and deductivist methodology (Lee, 2007:9) failing to explain or predict real-world events efficiently played an important role. There is clear disparity between mainstream theory and practise, which was criticised by Coase (1999) as it floats in the air and bears little relation to what happens in the real world. In responding to this dichotomy, heterodox economics by incorporating social reality provides more realistic approach, hence opposes current practice of the mainstream economics. With this, heterodox economics establish the bridge between economic theory and orthodox economics' ignored reality.

Heterodoxy is an increasingly coherent whole, which comprises critique of orthodoxy but also includes theories and explanations developed within their own frames, which stand independent of mainstream economics. Hodgson (as cited in Bogenhold, 2010:3) explains the main criticised characteristics of mainstream economics, from which heterodoxy departed in building its theory:

- (i) Atomism and reductionism in economic analysis *vis-a-vis* institutionalism posing holistic or organismic alternatives.
- (ii) The rational and calculating agent of neoclassical theory against institutionalists who see human action normally driven by habit and routine, occasionally are interrupted by acts of creativity and novelty.
- (iii) Intensive focus on individuals as units of analysis whereas institutionalism regards self-reinforcing institutions as additional or even alternative analytical units.

- (iv) Mainstream economics theory exclusively focus on mechanical equilibrium, where heterodox conception of the economy is of an evolving, open system in historic time, subject to processes of cumulative causation.
- (v) Preference functions are given and fixed in mainstream economics while in heterodox individuals are situated in and moulded by an evolving social culture so that preference functions are in a process of continuous adaption and change.
- (vi) Technology is taken as fixed and exogenous in socioeconomic development opposite of heterodox approach where technology is seen like preferences in constant evolvement and as a primary motivating force for development.
- (vii) In both approaches, there is a pervasive concern with the role and significance of power and of the conflict between both individuals and institutions in socioeconomic life.
- (viii) Mainstream economics adopts an utilitarian framework that evaluates human and welfare in terms of individual utility or pleasure and separates considerations of means from those ends, whereas heterodox economics focus on the identification of real human needs and on the design of institutions that can further assist their identification and clarification.

The heterodox economics critiques and rejection of orthodox theories mainly focused on methodological abstractness that was developed after the marginal revolution, narrowing the scope of economic research. With the Marginalist revolution, the emergence of equilibrium models and mathematization of social science have narrowed the “socio-economic explanation on the level of individual agent” (Arnsperger and Varoufakis, 2008:13) leaving aside the variety of informal and formal institutions that defined human beings’ environment for the sake of mathematical tractability. The result of that has been the emergence of abstract science independent of the realities of society and behaviours and behavioural norms of individuals and organisation resulting into disembeddedness state. Before the Marginalist Revolution, in classical period, economics, as a political economy, was part of broad social science inquiry that included and drew heavily upon sister disciplines such as history, politics, philosophy and sociology which, as an interdisciplinary approach, provided an embedded way of looking at social reality. However, by entering

20th century, the subject of political economy was transformed into the science of pure economics which resulted in a confined scientific approach with the elimination of other branches of human learning.

The strong rejection that heterodox economic raised against neo-classical economics also relates to the methodological individualism of the latter as a methodological base, where all behaviour is considered as preference-driven, as a means for maximising preference satisfaction. This implies that individual and collective preferences are given, current, fully determining and strictly separate both from belief, ethics, and from the means employed (Arnsperger and Varoufakis, 2008:16). This further reduced and narrowed the scope of rationality in neoclassical theory where all human activities and behaviours are instrumental to preference satisfaction. Therefore, ordinal utilitarianism took over methodological rationalism, there is no sense in narrating behaviour in terms of agents acting rationally but further reducing rationality to the consistency of one's fixed endogenous ordering and to which extend preference satisfaction is maximised. However, Arnsperger and Varoufakis (2008: 17) bring a reconsideration of the standard assumption that agents' current preferences are separate from the structure of interaction in which they are involved. They, by adopting a political economy approach, claim that since the second-order beliefs are depend on the social structure in which decision is embedded, the agent's very preferences could not be linked with outcomes, they depend on the structure and history of interaction.

The third important feature of neoclassical economy that has ben often criticised is the axiomatic imposition of equilibrium, the need for which came after the failure of methodological individualism and methodological instrumentalism. As Arnsperger and Varoufakis (2008: 18) explain determinacy requires more where agent's instrumental behaviour is coordinated in such a manner that aggregate behaviour become sufficiently regular to give rise to solid prediction. Thus, neoclassical theoretical exercise begins by postulating the agents' utility functions, specifying their crux, their constrains, and stating their 'information' or 'believe'. The reason for imposing axiomatic imposition of equilibrium is that neoclassicism cannot demonstrate that equilibrium would emerge as a natural consequences of agents' instrumentally shaped rational choices but rather by presuming that behaviour hovers around some analytically discovered equilibrium and then ask on the likelihood that, once at that equilibrium, the system has a propensity to stick

around or drift away. Thus, the main questions of economic theory become, whether rational agents behave according to the theory's equilibrium prediction, the reason for deviating or doing so? Therefore, the predictions of economics can only be possible in highly restrictive special cases in which theoretical markets will generate equilibrium on the basis of rational acts on behalf of buyers and sellers. This, as raised by heterodoxy, is not possible.

Heterodoxy by rejecting pure economics' stance on methodological individualism, methodological instrumentalism and methodological equilibrium, pave the way for the return of political economy in which history, politics, sociology, morality and psychology, among others, can provide an integrated analysis of social reality (Boetke *et al.*, 2006:15). Not only these, importance of institutions, in the process of shaping social outcomes by which institutions themselves were shaped has also been emphasised with the heterodox tradition.

In reiterating, in the last decade of 20th century, by the accumulation of critiques of heterodox approaches, the collapse of communism, the lingering problems of underdevelopment caused by the failure of mainstream theory and excessive formalism for explaining social realities secured a transformation of mainstream discipline by bringing history, institutional environment (law and politics), cultural factors (ideology, beliefs, social pressure, gender, *etc.*) into economic analysis in order to move economics back to its original roots. Not only this, heterodox economics by building on the critiques and appealing to disciplines outside of economics, widen the scope of economics discourse to be more realistic and appropriate to respond to the challenges and questions of the complicated world.

In the process of re-directing economics through its critical stance, the heterodoxy has been defined in negative way by orthodoxy due to being different from orthodox or mainstream economics (Lee, 2008:24; Bogenhold, 2010:2; David, 2007:11 and Lawson, 2005:2). Even though, Colander *et al.* (2004) argue that mainstream economics represented by neoclassical economics is moving away from a strict adherence to the holy trinity – rationality, selfishness and equilibrium – to a more eclectic position of purposeful behaviour, enlighten self-interest, and sustainability. The departure began by heterodox rejection of economics on the ground that economic and societies are not filled by abstract

but by real entities coordinated to time and space (Ostrom, 2005). The concern of time and its academic equivalent, which is history, and concern for spatial dimensions and its variations match with the slogan that 'culture matters', which is an important concern of heterodoxy (Harrison and Huntington, 2000).

The heterodox economics argue that mainstream or neoclassical economists rejects the cultural influence in economics and focus on how asocial and ahistorical individual choices among scarce resources to meet competing ends given ultimate wants and explain it using fictitious concepts and deductivist closed system methodology (Lee, 2008:3). Marshallian economics, for example, brought the evaluation of the partial equilibrium supply-demand diagram to centre stage. Within supply-demand view, economic issues are not complex: they are simple and could be answer in reference to the supply-demand diagram. Institutions are not important: they are simply frictions that slowed the forces of supply-demand. The market exists: it drove the economy to a desirable equilibrium (Colander and Landreth, 2008:37). Quite opposite heterodox economics focus on human agency in a cultural context and social process in historical time affecting resources, consumption patterns, production and reproduction, and the meaning of economic activities engaged in social provisioning utilising empirically grounded concepts and an open system grounded theory as a methodology (Lee, 2008:3).

Furthermore, heterodox economics aims to highlight that, among other, different social organizations and institutions, including religion, values, ethics, language, law, family structures and networks, systems of education, and industrial relations make differences. O'Hara (2002:611) explain that 'the main thing that social economists bring to the study of heterodox economics is an emphasise on ethics, morals and justice situated in an institutional setting. Through such a (new)political economic approach, where many ignored factors are again reintroduced to modify general principles of capitalist societies and economies in more realistic way.

The return to the old style of reasoning by heterodox explanations implies recognizing variety of above mentioned players and behavioural motivations, which was more comfortable with non-Walrasian (equilibrium) settings implying the old political economy approach. Heterodox schools of thought, such as Post Keynesianism, Old Institutionalism and more traditional school such as Public Choice in 1970s and 1980s argued more

prominently within economic analysis for the older style of reasoning by referring to the original political economy approaches.

Another departure from orthodoxy has been on the intellectual level: as neo-classical economics through the dominance of modernity imposed common theoretical, methodological or political ideas, while heterodoxy by challenging dominant school and with the help of diverged heterodox schools brought plurality and different cognitions to economic analysis (Dequech, 2007:294). However, this does not mean that heterodox economics as intellectual category necessarily have shared methodological, theoretical, or political features that are accepted by every dissenter from the orthodoxy at any particular point in time. In other words, heterodox schools may have widely different resonances and methodological positionings. Hence, as part of post-modernist project, heterodox schools are or can be divergent from one another, while they are altogether are in opposition bloc to the neo-classical analysis and its assumptions.

Good example of heterodox position is Islamic economics, which does not share methodological and theoretical features that are commonly accepted between heterodox schools. Reason for that, those heterodox schools come from different philosophical backgrounds that lead accordingly to certain economic system. For example, philosophical foundation of Marxism is dialectical materialism from which socialism was developed as an economic system opposite to mainstream economics. In a similar manner, philosophical foundations of Islamic economics are built on socio-tropic individual in the role of vicegerent of God on the earth with objective to achieve *falah* or salvation in this world and the hereafter with spiritual accountability through expanding *ihsan* or beneficence. Such an ontological position and methodological approach oppose the mainstream and Marxian approaches. Islamic political economy opposed historical determinism in which it is closer to mainstream economics; however, it opposes methodological individualism, in which it is closer to socialism.

Generally, economists characterize mainstream by a mathematical predisposition through formalistic-deductive framework (Lawson, 2005:7). However, it should not be understood that heterodox economics reject completely mathematical-deductive approach. It only sees that the methods on which the mainstream economics put emphasises are not appropriate for dealing with social reality. From this position, Heterodox schools, hence, departed from

this position to build their own ontologies. Lawson (2007:11, emphasis in original) shares this position when he states that “it is appraisal that mathematical methods are mostly inappropriate to social analysis that ultimately underpins the heterodox opposition. Therefore, ...*the essence of the heterodox opposition is ontological in nature,*” even if this ontological orientation is often only implicit. This ontology presumably systematizes “the implicit preconceptions of various heterodox traditions” (Dequech, 2007:298).

In short, modern heterodox economics refers to a broad range of disciplines that touches upon issues in history, politics, sociology, religion, and philosophy, among other disciplines. It is a movement back towards original political economy to respond to big questions, after the failure of mathematical modelling by narrowing the scope of economics to such an extent that discipline become more and more precise about less and less. Once again through influence of heterodox economics discipline of economics was transformed into political economy discourse.

The heterodox economics, hence, has been recognized as an umbrella term to cover the coming together of, sometimes long-standing, separate projects or schools of thoughts that opposed mainstream. It is important to state that all these traditions share a general open-system ontology, observing reality as it is, but they differ how the nature of reality has been understood (Dow, 2007:18). They are identified according to whether their vision of reality is primarily individualist (neo-Austrian), class based (Marxist), faith based (Islamic economics), and so forth. The coherence of each separate project as a form of heterodoxy is achieved just by recognising each project as being committed broadly to the sort of ontological conception (Lawson, 2007:17).

4.3. UNDERLYING THE NATURE OF HETERODOX ECONOMIC THEORIES

Over the history, there has been an ongoing debate between ‘formalists’ those who believe that the study of economics should consist of formal characteristics in the form of individualism, instrumentalism and equilibrium, in order to be labelled as science. On the other hand, ‘nonformalists’ believe that a less formal, process-oriented analysis of the economy, including relevant historical, institutional and even religious elements, is the more appropriate model for economic analysis. As a result of persistent debate, the bulk of

critics and approaches levelled against mainstream economics have created heterodox economics as an alternative to orthodoxy confirming the plurality of theories, methods and knowledge that compasses economic discourse in opposition to any sort of monism and hegemony over the other positions (Harvey and Garnett, 2008:1). An opening up of economics through intellectual debate within the field created plurality of economics, which are represented through the various heterodox schools of economics.

The plurality of heterodox economics comes from ontological position and critique of an orthodox methodology, which represents real world in closed-system independent of the values and institutions, such that empirical testing would provide a definite answer to the question of theory (Lawson, 2008:18). Any attempt, which does not fit into the mainstream methodology, the narrow self-defined standards is automatically rejected by the universalist stance of neo-classical economics (Novarse and Pozzali, 2010:3). Therefore, heterodox economists by adopting open-system ontology where the economic system is embedded in society and social-scientific research tools are accordingly tailored to suit the nature of the socio-economic reality under scrutiny (Lewis, 2004:3) allows pluralism to take place in discussion of all different points of view.

In pluralistic debate, same totality has been approached by the various heterodox traditions but with distinguishing set of concerns, emphasis, motivating interests and questions (Lawson, 2007: 19). In this case the heterodox schools of thought are seen as a segmentation of heterodox system that identifies different open-system ontologies (with respect to one reality), or emphasise different aspects of reality, and so chooses different segmentation for study – some focus on market relations, some on long-term relations between macroeconomic aggregates, some the religious concepts and principles in building economic system on, and so on (Dow, 2008: 21). In other words, each heterodox school of thought builds up its own theoretical systems based on their own categorisations, connections, and lack of connection, adopting the different methodologies accordingly in explaining different opportunities and weaknesses of mainstream economics.

It is important to identify that the whole goal of plurality with the emergence of heterodox schools was not to create anti-mainstream approach, separated community of paradigms (Garnett Jr, 2000:186) designed from different perspectives but to go beyond the mainstream hegemonic position which hinders debate and development of pluralism. In

doing so, it is aimed at developing an economics with a better balance, and a better conception of how the economy is integrated within society in open-system (Tomer, 2001:290) so that better solutions and suggestions of the current problems in a particular society can be provided through an embedded economic analysis. Globally applicable models are not any more welcomed in this pluralistic approach, which refers to the postmodern nature of the knowledge in the sense of various ontologies leading to different knowledge.

On the basis of shared views about open-systems economies and economics, the pluralistic nature of heterodox economics could be manageable. Since according to Adam Smith, knowledge is built on the basis of identifying patterns, emphasising some connections while disallowing others (Dow, 2008:22). In that evolutionary process of creation of knowledge, competing sides are of relatively equal strength. Thus, the unpluralistic formalism that emerged in the later half of twentieth century, with its rigid formalism was a temporary state, which is already changing (Colander and Landerth, 2008:28), and again moving towards political economy. The schools of heterodox economies are good example in pattern formation, and knowing the characteristics of segmental entities encourage conversation within heterodox totality and outside promoting dialogue and hence pluralistic approach in economic analysis is ensured.

Since, the real world is open-ended system of institutions and processes is so complex and heterogeneous and therefore it is subject to change both from within and without what cannot feasibly anticipated, and since social system is made up of individuals and groupings that change both in their nature and in their intellections, and there are external forces for change that, being outside the system that cannot be determined (Dow, 2008:15, Garnett Jr, 2008:57), therefore, the ideas of theoretical monism is rejected. This justifies segmental pluralistic policy in building knowledge. If the world is too complex to capture in a knowledge system, then knowledge may be build up in a variety of ways around those realities in relation to ontologies and/or epistemologies of those 'worlds'.

In this regard, open-system realism plays a critical role, as a shared ontological vision that both enables and constrains the play of pluralistic difference among and within paradigm communities. Dow (2007:21) describes this as a 'structured pluralism': a pluralism that promotes difference and unity by giving individuals (or individual school of thoughts) "the

capacity to follow different routes simultaneously – united by common goal” (Garnett Jr, 2008:58).

The result of this conversation is monistic approach at the level of theory of knowledge should be rejected by arguing that pluralism is undoubtedly the best way to build up knowledge, and also that philosophically dualist approach corresponding to the pluralism should be essentialised by rejecting orthodoxy of hegemonic economics. Thus, the crucial element of conversation within the heterodox schools encompasses the conscious *fablilism* implying that absolute certainty about knowledge is impossible (Dow, 2008:16). Considering the recognition of complexity of open-system subject matter, there is no expectation that we can identify absolute truth which allows accommodating different ontologies and/or epistemologies.

In substantiating this argument, it is argued that even, when it comes to empirical inquiry object depends on the conceptual framework through which it is viewed. It requires viewing the object from more than one perspective, because knowledge accumulation often depends upon investigating empirical domains through more than one narrative (Fulbrook, 2008:84). Due to limitation of human beings to surround the whole object from different angles, pluralistic perspective beyond “neoclassical economics by mimicking the lure of religion in being a relatively simple way of organising one’s understanding” (Colander and Landreth, 2008:34) becomes more appropriate. Consequently, revealed knowledge, which provides insight to behavioural norms for religious individuals and society within their respective ontologies and epistemologies should be also considered in economic analysis.

Another important characteristic of heterodox economics is its rejection of the current value-free economic theory due to its critical realism. In neo-classical theory, as Söderbaum (2008: 121) illustrates human beings are only regarded as consumers and wage-earners limited to market relationships. For example, the idea of utility maximisation excludes other form of ethics, as it assumes that the creation of a value free science can help in making world better place by ensuring independence of anyone and anyone’s ethical positioning. However, the history of financial crises shows us absurdity of value-free theory and remind us that different social organizations and institutions, including religion, values, cultures, language, law, family, structures and networks, system of education, industrial relations and so on does matter. In other words, economy cannot be isolated of the social

reality and cannot be supposed to operate in rational equilibrium way. Therefore, heterodox economics, as explained, calls for building method of analysis based on political economy assumptions, where the political and ideological aspects of human behaviour are endogenised and economy, economic and financial behaviour and action is considered to be embedded in the social formation of the society so that a more realistic in presenting and explaining social reality.

The heterodox response to mainstream is not only in terms of including omitted variables, such as values, in economic analysis but also bringing back the values such as equity, quality of life, securing the future and need to recognize the economic meanings of power and institutions, into economic analysis (Lawson, 2008:39). That's why, contextual economics, as part of heterodox economics, clearly states that the economic system can only be understood when it is seen operating within social-physiological context that includes ethics, norms and human motivations, culture, political institutions and history and a physical context that includes the build environment as well as the natural world (Godwin, 2008:43).

Even the founding fathers of classical political economy referred to issues of values and morality as final arbiters in matters of social organizations and behaviour. Adam Smith, for instance, in his *Moral Sentiments*, which preceded *The Wealth of Nation*, set out the ethical framework for market economy (Babe, 2009:13-14). Therefore, ethicality and morality as distinguishing factor is considered as important unit of analysis for some of the schools within heterodox economics in their pluralistic approach.

Since the schools of heterodox economics in their nature emphasise the wealth of nation, accumulation, justice, social relationship in terms of class, gender and race, full employment, and economic and social reproduction, heterodoxy is not concerned with prediction *per se* but explanation of the actual process that provides the flow of good and services required by society (Lee, 2008:27; 2008a: 10). Hence, for heterodox economists, economics is the science of the 'social provisioning the process', which is the general agenda of their research.

In the process of explaining social provisioning, human agency in cultural and social process in historical time affecting resources, consumption patterns, production and reproduction,

and the meaning of the market, state and non-market/state activities are involved (Lee, 2008a: 11). Therefore, heterodox economics is concerned with explaining factors that are part of the process of social provisioning, including the structure and use of the resources, structure and the change of social wants, structure of production and reproduction of the business enterprises, family, state, and other relevant institutions, organization and distribution (Lee, 2008a: 11).

Not only this, heterodox economics extend their theory to examine issues associated with the process of social provisioning such as racism, gender and ideologies and myths. Because their economics understanding involves issues of ethical values and social philosophy, the historical aspects of human existence, heterodox economists, therefore, make ethically based economic policy recommendations to improve human dignity, that is, recommending ameliorative and/or radical, social and economic policies to improve the social provisioning and, hence, well-being for all members of society and especially the disadvantaged members (Lee, 2008: 7). Therefore, the nature of heterodox research, according to Lee (2008: 27), is the science that explains the social provisioning process in open system methodology where many institutions are included implying that it constitutes modern political economy approach.

The reason for considering heterodox economics as social provisioning process rather than as a relationship between ends and scarce means is explained by Jo (2011):

First, heterodox economics in its inquiry of social provisioning starts with domain of the capitalist socioeconomic system that includes social agency, socio-economic structures, and causal mechanisms. Then economic activities, market and non-market activities, such as self-interested and cooperative behaviours, control and resistance, accumulation of capital, and provisioning of welfare are explained in a comprehensive manner. Therefore, market provisioning is studied as a subset of social provisioning but not as independent totality.

The material basis of social provisioning or the social formation of a society in heterodox economics is the structure of production, technology, and natural environment; the social basis is socio-economic classes; and the cultural basis is the society specific value system including a set of norms and beliefs (Lee and Jo, 2011). Social cohesion and environmental concern are emphasized over the business principles based on efficiency and profitability,

while the production and distribution of surplus goods in heterodox school understanding are coordinated following a different causal mechanism. Consequently, the social surplus consists of the goods and services determined by the values and forces that create the social activities that the provisioning process underwrites (Adam, 1991; Clark, 1992, as quoted in Jo, 2011:1101).

Second, in reflecting on methodological debate, heterodox school understanding iterates that both methodological individualism and methodological holism are irrelevant to the explanation of the social provisioning process. Neoclassical economics tries to explain relations between individual and commodity or structures, whereas heterodox economics tries to explain the genuine interaction between social agency and structures, as it iterates that economic and financial behaviour and action should be embedded in the social formation of the respective societies. In the course of such an interaction, there emerge institutions, for example, rules, values, norms, and conventions that constitute and transform the structure of society. Therefore, the primary subject of heterodox economics is the qualitative linkage “between the ‘social’ and ‘systemic’” or “between ‘action’ and its ‘environment’” (Archer 1995: 11), or in other words interactions between active social agency and evolving institutions (Veblen, 1909: 629). Therefore, Bogenhold (2010:6) rightly considered economics as a box of tools where economic history, statistics, economic sociology are considered as theories of economic analysis which bring us to political economy understanding of a wide social science based on exploring how economy and society are linked together.

Third, it comes from above discussion that social provisioning process, as domain of heterodox economics, requires heterodox microfoundations of macroeconomic outcome, which could offer more than the fallacious micro-macro dichotomy of neoclassical microfoundations. Heterodox microfoundations begin with the active human agency embedded in the social provisioning process. And the theoretical focus is the in-depth analysis of the historical or evolutionary process. As a result, real social agency and emergent institutions are taken into account as the driving force of social provisioning. Therefore, in the complex and open social provisioning process, the free transition between micro and macro (aggregation or disaggregation) is not possible (Jo 2007; Lee 2010 and Wallace, 2015).

Forth, when it comes to the ‘capitalist’ social provisioning process, the understanding of class, dominance, power, control, and regulation becomes important for heterodox economics. Unlike the market provisioning process in which marketable goods and services are exchanged through the price mechanism, the analysis of social provisioning in heterodox understanding calls for explanations on how the social product is generated, how the social surplus is created, how agents gain access to and engagement in the social provisioning process, and how social institutions including market institutions are organized and controlled so as to ensure the class interests, the reproduction and stability of the capitalist system (Jo, 2011:1102).

In short, the nature of heterodox economics distinguishes itself from mainstream economics in its critical approach of neoclassical economics by analysing social reality in the open-system pluralistic debate and using methods and tools which are tailored to suite the nature of social-economy. In other words, in heterodox thinking, social constructivism nature of social theory and life is considered as essential. In the process, in referring to the post-modern aspects of heterodoxy, they argue that values and ethics are final arbiters in shaping economy and behaviour of individuals and society. Finally, it adopts the social provisioning process as core methodological approach of heterodox economics. With change of discourse and bringing political economy approach back, heterodox economics provide with a more realistic and comprehensive account of the economy as social reality.

4.4. THE DOMAIN OF HETERODOX ECONOMICS

Heterodox economics as general term, which comprise of a concatenation of different critiques that generate mainstream dismissal, share pluralistic attitude towards heterodox theories without rejecting contestability among heterodox theories, adopt social provisioning methodology under which different institutions fall, among others include (Lee, 2008:24): Austrian economics, feminist economics, Sraffian economics, social economics, Marxian-radical economics, Post-Keynesian and Institutional-evolutionary economics.

The intellectual agenda of these schools share three common goals:

- (i) to develop a rigorous critique of mainstream economic theory;

(ii) to develop a logically complete alternative theory; and

(iii) to codify the unique premises of their alternative approach.

Post-Keynesian economics, for instance, is a dissident school of macroeconomic thought, which has been built on specific interpretations of Keynes's *General Theory*. It represented an attempt to recover misleading interpretations of Keynes and extend neglected questions such as income distribution, social conflict, economic growth and inflation (Steven and Blume, 2008:533).

The core of Post-Keynesian theory is the principle of effective demand, according to which output and employment are generally demand constrained rather than supply constrained. For them, demand constrains upon output and employment are not restricted to short period and are not result of market imperfections or wage and price rigidities, but must be explained instead in terms of the characteristics of money and the pervasive influence of fundamental uncertainty. Post-Keynesians, therefore advocate the systematic use of fiscal and monetary policy to regulate aggregate demand, and deny policy ineffectiveness propositions of mainstream macroeconomics.

Post-Keynesians have paid special attention to methodology, which was strongly influenced by Keynes' writings. It is identified with his insistence on open-system thinking and organic rather than atomistic models of human behaviour, distrust of formalism in econometric modelling (Steven, and Blume, 2008:533). It also includes rejection of rational expectation under the concept of uncertainty, which leads them to assert the importance of habit, convention and social institutions in the formation of business expectations. Including to all these attractiveness to critical realism make Post-Keynesian economics, through endorsement of open system thinking, denial of event regularities of the type needed if standard econometric estimation techniques are to be generally reliable, and stressing on the importance of ontology and identification of causal processes and mechanisms, as the key to explanation in social science. By adopting these and especially critical realism, Post-Keynesianism becomes the part of large family of Heterodox economics.

As regards to *Institutionalist Evolutionary Economics*, the fundamental *institutionalists* position is that it is not the market but the organizational structure of the larger economy, which effectively allocates resources. For them the primacy of the problems are not the

neoclassical position of allocation of resources, the distribution of income, and the determination of the level of income, output and prices; but the organization and control of the economic system or the structure of power (Robinson, 2016). Thus, mainstream economists have a strong tendency to identify the economy solely with market, whereas institutionalists consider the market itself as an institution, comprised of a host of subsidiary institution, and interactive with other institutional complexes in society benefiting or affecting from the cultural and political realities of the society. The difference in the nature and liberty of market from one country to another is a clear indication of this.

The central features of institutionalism are its holism and evolutionism. Thus, the further principal theme of institutional economics include:

- (i) the substantive impact of institutions on economic performance and the processes of institutional change treating institutions not as given but as man-made;
- (ii) formation and operation of institutions as both cause and consequence of the power structure and societised behaviour of individual', and, the 'subgroups as mode through which economies are organized and controlled;
- (iii) treatment of government;
- (iv) law and the system of rights being treated as both dependent and independent variables but not always as aberrational', and
- (v) understanding the process by which values are changed in contrast to the orthodox assumption of given values through understating questions such as where the values come from, how they are tested and how they are changed.

As a result, institutional economists abstain from, methodological individualism and from puzzle-solving research in the context of models, equilibrium, optimality and purely competitive markets, and attended to theoretical and empirical analysis of real-world problems, such as operations of particular institutions, business-government relations, and the conditions of economic development. Due to different methodological approach and principle theme it emerged from and developed upon, institutional economics has become principal school of heterodox economic thought (Samuels, 2008:369).

With regard to *Austrian* economics, as a heterodox school, it advocates methodological individualism and a deductive approach to economics called praxeology. From this stand, it rejects mainstream mathematical formalism in developing economic theory. It is, therefore, found on the firm believe that the most effective means for understanding economic phenomena is to examine them in terms of the purposive actions of individual human beings. Other characteristics of Austrian thought are the subjectivity of knowledge, the spontaneity of evolution, individual liberty with limited government and favour of free economy (O'hara, 2001:23).

It should be noted that individualism of Austrian economics is an attempt to explain social phenomena as the result of choices made by individual members of society clearly focusing on the central position of the human being. Consequently, the actions of human beings are to be understood only by reference to the knowledge, believes, perception and expectation implying methodological subjectivism.

Many ideas that was developed within Austrian school are incorporated in mainstream economics, such as marginalism, emphasizing the significance of prospective changes in relevant magnitudes confronting the decision maker; the influence of utility and diminishing marginal utility on demand and thus on market prices; opportunity costs recognizing that the cost that affect decisions are those that express the most important of the alternative opportunities being scarified in employing productive services for one purpose rather than for sacrificed alternatives; time structure of consumption and productivity of roundaboutness, market as process of learning and discovery, and the individual decisions as an act of choice in an essentially uncertain context (Kirzner, 2008:316-317).

Therefore, separating Austrian economics from mainstream microeconomics that had been articulated after 1930s by criticizing equilibrium theories of price that neglected explicate the sequence of actions leading to market prices. In order to understand this sequences one must understand the causal genesis of the component actions in the sequence. Another difference between Austrian position and mainstream or neo-classical economics relates to the terms of understanding the market as processes or as equilibrium. As a result of this difference, Austrian economists have refused adopting modern mathematical econometric techniques, which orthodox economics use largely as a result of equilibrium. Lastly, the emphasize on the radical uncertainty that surrounds economic decision making, led it

virtual rejection of much received microeconomics. With this stance Austrian economics adopted generality in its research caring serious reservations concerning the possibility of systematic theoretical conclusions (Kirzner, 2008:318).

As an important strand of heterodox economics, *Feminist Economics* is a study of gender role in the economy from a liberator perspective and critical work directed at biases in the content and methodology of the economic discipline. It challenges economic analyses that treats women as invisible, or that serve to reinforce situation oppressive to women, and develops innovative research designed to focus on human development rather than economic.

Feminist Economics came as response to rational choice theory of neoclassical economists, which simply defended traditional sex roles in the family, women's segregation into a narrow range of paid occupations, and women's lesser earnings in the paid labour market. Traditional economists saw household and labour market outcomes as reflecting only sex differences, feminist economists raised the question of how much these outcomes might, instead, reflect misleading stereotypes and rigid social constrains. As a school of thought, they questioned the mainstream definition of economics, its central image of economic man, and the exclusive use of a particular set of methodological tools. Many feminists have found that traditional formal choice-theoretical modelling, narrow focus on mathematical and econometric models plus masculinist bias in creation models had weakened the discipline's ability to explain real-world phenomena (Nelson, 2008:283).

Feminists also contributed in the analysis of national and global economies. Studying the effects of including unpaid production in GDP and the analysis of government budgets according to their effects on the gender equity, they challenged the definition of development in terms of industrialization and GDP growth, drawing attention to issues of growth in human wellbeing and capabilities.

Feminist economist by confronting the mainstream economics in various mentioned points and sharing similar aims and methods with various heterodox economics including institutionalist, radical and Post-Keynesian economists, is located within heterodox economics (Nelson, 2008:284-285).

As for *Sraffian Economics*, like other heterodox economics, it came as a critique of orthodox

economics with particularly criticizing the marginal theory of value and distribution. In that way, it aimed to review the standpoint adopted by the old classical economists, which is surplus approach to the theory of value and distribution.

The most important difference between the surplus approach to the theory of value and distribution and the neoclassical one concerns the treatment of capital in analysis. Sraffian or surplus approach starts from the position that the size and composition of social product, the technical alternatives and the ruling real wage rate, are the data that determines long-period commodity prices and the normal rate of profit compatible with cost minimization in conditions of free competition (Wallace, 2015 and Robinson, 2016).

A fundamental characteristic of the surplus approach is asymmetric treatment of the distributive variables, which is in sharp contrast to neoclassical analysis. Neoclassical economists accept the initial endowments of economy with respect to goods and factors of production and their distribution among agents, the preferences of economic agents and the available technical alternatives as given. This different way of reflecting on the data represent a fundamental difference in terms of the distribution of income in capitalist economy under conditions of full competition (Gehrke and Lange, 2001:1091). Thus, due to adopting a particular methodological approach to economics related matters beyond neoclassical economics makes Sraffian Economics as heterodox economics.

Social Economics, as another tradition in heterodox economics, responds to neoclassical position of a value-free positive economics, stating that social values operate in economic life and that all economic explanation makes implicit use of social values. They argue that homo-economicus position of neoclassical economics reflects only one dimension of human personality, and neglect whole person, whereas homo-socio-economicus which will include cooperative behaviour, altruism and regard for others, their sense of having responsibilities and duties, adopt more open and realistic approach.

Social economics as member of heterodoxy rejects fact-value of neoclassical economics and rely upon wider range of social values assumptions. In addition, it rejects neoclassical assumption that individuals are atomistic self-interested what includes among other assumptions that alone explain choices, that interpersonal comparisons fully characterizes economic life, that neo-classical economics reduces economy to a market process, that

markets work reasonably well, that markets are impersonal, and that more is always preferred to less. In contrast, Heterodox social economics often begin by explaining individual behaviour in terms of richer social-historical frameworks that helps to explain a variety of types of individual motivation. This helps social economics to focus on excluded or less focused facts from mainstream economics such as power, equity, market failure, distribution of income, history, the production process, gender, culture, the family, institutional context, custom and other dimensions. In other words, social economics works in term of value framework that make reference to social justice, fairness, equality, human dignity, human rights, and the common good (Davis, 2001:1042-1043). Therefore, it is human-centred economy.

Social economics explains relationship between ethics and economics, including explaining the nature of value judgment and the value-loadedness of economics. Including to this, due also to the mentioned critique of mainstream economics, it comes under the banner of heterodox economics together with institutionalists, humanists, feminists, solidarists, Post-Keynesianists, radical political economists, cooperativists and behaviourists. Thus, in a narrower approach, social economics is member of heterodox family.

As regards to *Marxian*-radical economics, like many other heterodox economics it also came as a respond to unrealistic classical models based on assumptions of atomistic individuals optimizing under conditions of complete information and perfect foresight. Its fundamental project has been identified as the construction of realistic representations of the capital system, grounded in a stable set of uniting principles; the importance of history, embeddedness of individual choice in an institutional environment and the centrality of conflict to understanding capitalism.

The first principle of radical economics is focus on the importance of history, as it considers that the past shapes the present through inherited initial conditions. Accordingly, they argue that projections into the future must eschew assumptions of perfect for knowledge and for some radicals even a known risk embodied in a fixed distribution of outcome probabilities.

The second principle of radical economics is that social construction of norms and endogeneity of preferences to institutional constrains where individuals make choices on the basis of background criteria are derived from these norms which in turn rise from stable

institutions. Radicals do not only criticize exogenous preferences and replace it with endogenous rather they assume interactions between individual and social structure.

The third conflict by radicals is seen as endemic to capitalism and a cause of chronic inefficiency. For instance, conflict at the workplace makes capitalism operate at less than maximum achievable output (Bowles and Jayadev, 2005 and Robinson, 2016). At the macroeconomic level, conflict over distribution is implicated in lack of stability or consistent growth (Bhaduri, 2006; Pollin, 1997 and Wallace, 2015). They theorise that chronic conflict periodically and unavoidably rises to an acute level, crises emerge and institutions once supportive of growth fail to resolve the crisis (Flaherty, 2008:836).

The body of radical research most clearly embody three main critique of capitalism: the concept of exploitation at the point of production moved to include broader inequality beyond both production and class; secondly, the role of individual choice relative to structure which become more prominent in explanation of the nature and development of capitalism; and third critique is movement away from a still virtual radical representation of capitalism to ever more realism. Thus, *Marxian*-radical economics due to its methodological and thematic opposition falls under heterodox traditions.

Reflections:

Carefully looking on the nature of these heterodox economics traditions, we observe that they came as a respond to particular principle or position in the mainstream economics. They are all represent an individual respond to the formalistic rigidity of atomistic methodology, inherited biases, uncomforted position at looking at social reality, gender discrimination and so on. However, the critical attack was not the only goal but on the contrary, they have, presenting different heterodox position or even critique, developed the pragmatic approach in explaining the social reality each according the perspective, which has been initially adopted for.

The paradigm quest for a single correct alternative to neoclassical economics has inspired aforementioned schools of thought to survive and reclaim valuable space within academia relating to economics. However, heterodox approach in its struggle has become out-dated and self-defeating on several accounts that are identified below:

- (i) It presumes neoclassical economics as a monolithic enemy, which has ceased to exist; however, mainstream economics is no longer purely ‘neoclassical’ (Garnet Jr, 2008:56; Colander, 2000:129:130; Dow, 2000:159) in the way that used to be perceived. Consequently, many standpoints from heterodox criticism of neoclassicism are ‘off the mark’, because mainstream economic thinking has changed. Economic thinking is under constant change which ultimately ended to moving away from holy trinity of rationality, selfishness, and equilibrium to a more heterogeneous position of purposeful behaviour, enlighten self- interest, and sustainability (Garnet Jr, 2008:56).
- (ii) Radical paradigms encourage an obsessive concern with the uniqueness and separation of one’s own theoretical approach *vis-à-vis* others. It creates a bunker mentality of ‘us versus them’, where one’s own paradigm community behave as a self-sufficient intellectual universe (Garnet Jr, 2008:56). However, intersections are inevitable.
- (iii) The Kuhnian notion of a single dominant paradigm and single dominant rival encourages an all-or-nothing view of intellectual change: it is never enough for radical paradigmists to oppose the prevailing orthodoxy – they must provide a complete alternative. Heterodox economists of all persuasions continue to burden themselves with the burden of offering a new master framework that would fully supersede neoclassicism. However, this perspective only fuels unduly intense rivalries over which rebellious paradigm is best equipped to battle with the enemy obstructing exchange and collaboration among intellectuals (Garnet Jr, 2008:57).
- (iv) A paradigmist approach weakens heterodox economics’ commitments to pluralism. To certain extent all heterodox schools embrace pluralism, but for a radical Kuhnian, pluralism is only secondary priority, something that is honoured only insofar as it does not conflict with the first-order imperatives of scientific or ideological victory (Garnet Jr, 2008:57).

The recent trajectories of heterodox economics show remarkable shift where philosophically, analytically, organisationally, and culturally, any heterodox school could possess final or total solution. Pluralism of these heterodox schools represent a normative commitment in the minimal sense.

Pluralism of heterodox schools also offers open-system approach for economic analysis

(Lawson, 1997, 2003; Dow, 2000; Fullbrook, 2001, Wallace, 2015 and Robinson, 2016). The object of economic inquiry is envisioned as an open-ended network of institutions and processes so complex and heterogeneous that simplistic presentations cannot adequately represent it but diminish our knowledge of it (Garnet Jr, 2008:57). On these ontological and epistemological premises, open-system realists reject the ideas of theoretical monism and theoretical universalism and insist that plurality of theories and methods is scientifically essential way forward for non-mainstream schools.

Davidson (1999: 23) suggests that the principle aim of heterodox economics should be establishment of a logical or ontological fault line between heterodox and orthodox approaches so that heterodoxy is differentiated and also identified as a single discourse in terms of its difference from mainstream economics. It is necessary for heterodox economics to define its positive identity, besides being identified “in terms of what is not, rather than what is it is” (Colander, Holt and Rosser, 2004:11).

Therefore, the further development, progress and expansion of heterodox economics can be grounded within ethics, epistemology of classical liberalism and acceptance of religious values and guidance. Such new traditions in addition to existing heterodox schools, among others, Sen (1999: 28) with his capabilities approach to human development, McCloskey with her notion of economics as a pluralistic conversation, and the founding fathers of Islamic economics, namely Ahmad, Chapra, Naqvi and Siddique, with their developmenalist approach based on religious axioms and values are often considered as allies of the heterodox economics movement offering the scientific virtues of a pluralist economics.

Most orthodox and heterodox economists still subscribe to modernist Cold War epistemologies in which science is a primarily tool of demarcation and exclusion and a way of separating valid from invalid ways of knowing (Garnet Jr, 2008:66), whereas, among others, Sen, McCloskey and Islamic economists try to shift science from intellectual victory towards expansion of intellectual freedom to be heard within learning communities whatever the sources of such learnings, respectively, are.

With regard of pluralism, among others, Sen, McCloskey, Islamic economists and heterodox economists all clarify the conceptual meaning and requirement of a pluralistic

economics. However, the question remains the capabilities-oriented pluralists to exercise leadership in movement towards a genuinely pluralistic multi-perspectival (*hetero-dox*) economics (Garnet Jr, 2008:70). In stead of bearing the heavy burden of an oppositional anti-mainstream stance, heterodox economics approach should be empowered to operate from the positive intellectual open position of liberal political economists – committed, perhaps to their own paradigm-based projects, but also to a pluralist vision of economics as a ‘civilised conversation among equals’ (Garnet Jr, 2008:71) and further acceptance under the heterodox umbrella new schools and approaches. Therefore, as the following section aims at, this paper argues for Islamic economics or political economy to be considered as part of the heterodox economics traditions due to sharing the ‘uncommonality’ of assumptions through open system understanding of ontologies articulated by ‘heterodox economics’.

4.5. SEARCHING A PLACE FOR ISLAMIC ECONOMICS IN HETERDOX MAP OF KNOWLEDGE

The resurgence of Islamic economics or political economy over the last four decades after a deep slumber lasting several centuries calls for an emergence of moral economy paradigm within socio-politico-economic system of *Shari’ah*. Islamic economics/political economy deals with the allocation and distribution of resources among their infinite uses in order to realise the purposes according to the normative world of Islam by going beyond the analysis developed by conventional economics. It essentialises broader set of variables, mechanisms and methods employed for distribution and allocation of resources so that the essential purpose being the *maqasid al-Shari’ah* in the form of ‘human well-being’ can be achieved. It builds on different experiences and philosophical understanding than other heterodox economics traditions to lay down a broader framework for analysis of economic behaviour.

Islamic political economy is a systematic understanding of the production, consumption, exchange, and distribution patterns and norms through the principles derived from the rules and laws established from the sources of Islam (Asutay, 2007: 3; Nomani and Rahnema, 1994: 41) so that *maqasid al-Shari’ah* objectives can be achieved by individuals and society as a whole to realise their aim of *falah* and *ihsan* respectively. The vision of Islamic economics relates to implementing *maqasid al-Shari’ah* objectives beyond the narrowed maximisation of wealth within the neoclassical philosophical understanding.

Table 4.1: Commonality and Differences among Economic Schools

Orthodox Economics	Heterodox Economics Schools	Islamic Economics/Political Economy
Economics is the study of choice under condition of scarcity.	Economics is about the social process of providing for people's needs; not merely choices and scarcity.	Islamic Political Economy is an approach to, and process of, interpreting and solving the economic problems of human beings based on the values, norms, laws and institutions found in, and derived from the sources of Islam.
Economics actors are motivated by rational self-interest to maximise their satisfaction from consumption (based on a given set of preferences).	Both scarcity and wants are socially defined and created.	Self-interest is a natural motivating force in all-human life. But self-interest has to be linked to the overall concept of good and justice with Islamic moral filter.
Economics, practiced correctly, is a 'positive science' premised upon value-free, 'objective knowledge. The role of the economist is to engage in the sciences of 'positive' analysis of the economic process described above.	Economics is not 'value-free' and ideology shapes our analysis and conclusions as economists.	It is a fact that no human endeavor is value-free, which implies that including the economic reality is socially constructed. Thus, economics and finance are value-loaded, since at the most abstract level, our values are derived from our worldview.
The history of economic thought is a specialist subject inessential for the study of contemporary economic theory.	The history of economic thought is critical to the study of 'basic principles' of economics.	In addition to epistemological and ontological sources of Quran and Sunnah, knowledge developed over history has been utilized in economics and finance related matters.
The individual – understood as an entity separated from others – is the principal unit of economic analysis.	The individual should be understood, but as complex and connected to others (society) and as a means to understanding the operation of the whole economy.	Sociotropic individual, not only individualism but social concern is a prerequisite, which is essentialised societal level based <i>ihsan</i> .
Economics and markets tend to be in equilibrium. Equilibrium is a foundational concept in economics.	Although equilibrium can be a useful concept, economies generally do not tend to equilibrium. indeed, there may be no equilibrium to tend to and thus, economics should focus on dynamic processes rather than equilibria.	The foundational axioms of Islamic political economy establish the most important spiritual elements that should be in one's inner soul but also articulated in everyday acts including in economic and financial acts, which constitute the dynamic nature of the Islamic micro economic system in the hope and anxiety of receiving consequences in the hereafter.

Orthodox Economics	Heterodox Economics Schools	Islamic Economics/Political Economy
<p>The market values (price) established in a 'free market' economy are the critical guide to economic efficiency. Anything that 'distorts' free market values reduces efficiency, thus imposing costs on society.</p>	<p>Valuation is a social process.</p>	<p>A moral filter (moral values plus market-determined prices) that would moderate and humanise the pursuit of wealth and power.</p>
<p>Although a free market is believed to be the ideal way to achieve efficiency and maximum social welfare, there are many failures in the market requiring intervention by the government.</p>	<p>Markets are social institutions which could never work as posited by the orthodox theory. Many of the failures described by the orthodox theory are essential features of markets.</p>	<p>Market is the main feature of economic operation of the Islamic system; however, this system is filtered through an Islamic process to produce a socially concerned environmentally friendly system. In this process, socialist and welfare state oriented frameworks are avoided not to curb incentives in the economy.</p>
<p>Distribution of wealth and income rests on marginal production of individuals, determined by their characteristics.</p>	<p>Distribution is shaped by membership in groups according to race, gender and class, and relative power exercised by those groups.</p>	<p>Following principles of Islamic political economy the goals in the area of distribution can be summarised in the following three points: guarantee of fulfilment of basic needs of all; equity but not equality in personal income, and eliminating extreme inequalities in personal income and wealth.</p>
<p>The natural world, the source of all energy and material and the repository for all waste, is not a necessary (complementary) element in production.</p>	<p>Ecological literacy (economy- ecology interface, unit between biophysical first principles and economic sustainability) is essential to understanding the economic process.</p>	<p>The creation of wealth brought work, earning and production is necessary and good. What makes wealth bad is firstly, its single-minded pursuit; its misuse, abuse, conspicuous consumption, wastage or <i>israf</i>; and squandering or <i>tabdhir</i>; its exclusiveness to oneself and denial of the share of the society (<i>zakah</i> and other forms of sharing); and the use of socially and ethically wrong or unjust means to produce it – the immoral, prohibited modes, oppressive exploitation of humankind and creation of ecological imbalance or environmental disruption;</p>

Source: Adapted, modified and enhanced version of Knodler and Underwood (2003); Asutay (2007; 2012)

Islamic political economy, from its emergence came up with an alternative system understanding, similar to other heterodox traditions, aimed at responding to the observed failures or the shortcomings of neoclassical economics. In its discourse, it has criticized the failure of neoclassical economic development, its disconnection from real economy, and important lack of human centrality (Asutay, 2014; Nersisyan and Wray, 2011). Therefore, an attempt was given to develop an economic system of Islam to respond to the mentioned failures with a distinctive ontology and methodology. Since it was established on critical rejection of mainstream economic theory, Islamic political economy shares common unity within heterodox economics, which is a critique of the holy trinity of orthodoxy whereby it expands the heterodox map of knowledge by building upon the axioms of revealed knowledge through Islamic ontology and epistemology.

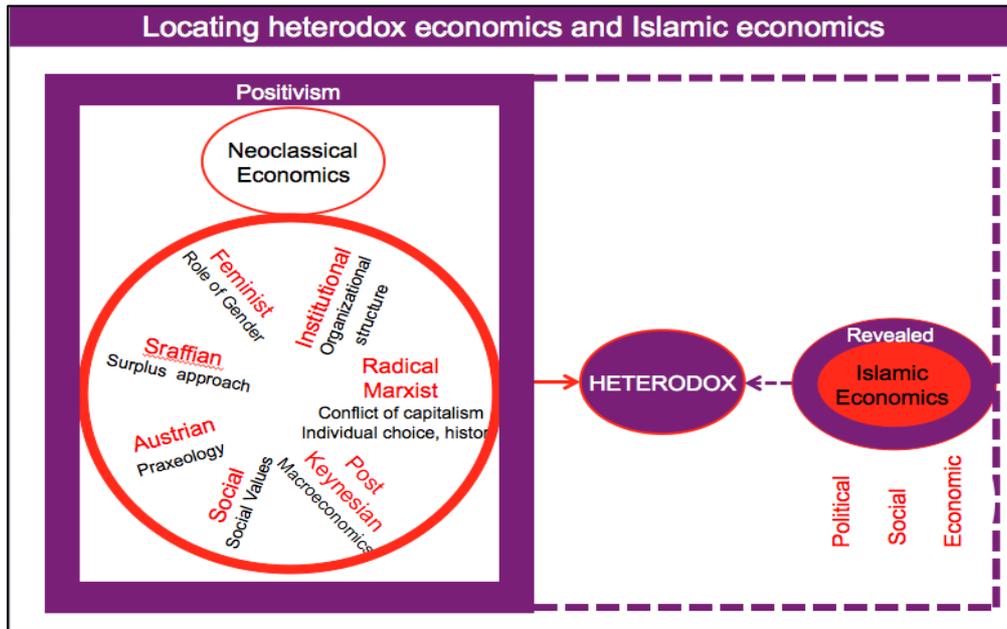
Table 4.1 provides comparative explanation of orthodox, heterodox and Islamic principles, which clearly identify similarity between heterodox and Islamic economics. The only distinguishing factor of Islamic political economy to heterodox schools is in acceptance of revealed knowledge and building upon it in its normative and positive analysis.

As can be seen in Table 4.1, Islamic economics has particular methodological and ontological position which are in opposition with conventional system of economics; however, it has convergences towards heterodox economics positions in many areas. Therefore, Islamic economics, despite its revealed knowledge type of ontology, can also be placed within the open system ontology of heterodox economics.

Figure 4.1 proposes expansion of the heterodox open system ontologies by adding Islamic revealed knowledge to its pluralistic understanding.

As depicted in Figure 4.1, heterodox schools and neoclassical school share the positivist philosophy in their knowledge construct. Adopting Al Zeera's (2001) suggestion, a constructive paradigm with a subjective interpretive philosophy in an hermeneutic sense shapes the Islamic approach to knowledge construct, which also includes *ijtihad* or independent reasoning. The Islamic transformative method of deriving knowledge is holistic, drawing on the personal, social, and spiritual levels. This methodological approach includes not only material but also spiritual aspects of human life (Ahmed, 2009:179) and this is the distinguishing nature of Islamic economics compare to all others.

Figure 4.1: Expanding the Circle of Heterodox Economics



For Islamic economists in their methodology, the study of history is important for two reasons. First, all hypotheses and statements are affected by philosophical social, and even political undertones (Blaug, 1980:152). Second, *Shari'ah* encompasses both descriptive statements and normative principles, where most of the focus of Islamic economics is on the later (Asutay, 2007). Therefore, Islamic economics can benefit from the rich contributions in the Muslim history. Kahf (1989: 45) points out that the history of economic thought in Islam helps in discovering the roots of contemporary Islamic economic thought on one hand, and it would allow us to obtain a better understanding of the journey of Islamic economic throughout time, on the other. In this methodological approach, it equates with a radical economic approach, since both consider history in creating the present and the future.

Islamic economics like heterodox economics rejects and criticizes the core principles of mainstream economics, such as: the basic assumption is that human beings are selfish by nature and behaves rationally, material progress is a supreme goal and every person has an inherent tendency to maximize their individual material welfare and they have the knowledge and ability for deciding what is good for themselves individually (Khan, 1989:50). The Islamic economics viewpoint is different on these foundational principles, which is clear in Table 4.1.

Firstly, on the essential foundational pillar of neoclassical economics being self-interest, Islamic economics suggests that it cannot be a general driving force for all human activities, because altruism has been a motivating force through all civilized societies (Chapra, 2000). The existence of built-in social justice oriented instruments, such as charity organizations that are engaged in philanthropic activities is a good example. For a long time, in Muslim societies, the institution of *waqf* and *zakah* has been praised. Even the Qur'an itself praised Muslims because they preferred others above themselves although themselves were in difficulty, and hence the essentialisation of *ihsan* is derived from the ontological notion of Islam. In summary, to assume the selfish nature of man is not supported by evidence in real life (Khan, 1989:50).

Secondly, material progress is not a supreme objective in an Islamic society. It is desirable so far as it helps one to perform individual's duties towards God, family society and one's own self in reaching individual *falah* and societal *falah*. This inferior attitude towards the material things was the practice of the Prophet and his companions who also adopted an arduous life-style. From an Islamic moral economy perspective, poverty (*faqr*) is not desirable neither blindly pursuing wealth (*ghina*) which is acquired wrongly or which leads to extravagance and vain-gloriousness and inequalities. Thus, a balance between material and spiritual pursuits and between self-interest and social interest according to Al-Mawardi (d.1058) and Ibn Khaldun (d.1406) is essential to ensure that society develops on values of righteousness. It practically means that the fulfilment of one's own material needs is not enough but also needs to be considerate of others in a balanced manner for *falah* to take place (Chapra, 2000). Hence, Islamic moral economy essentialises social good and justice as an important axis of articulation of its axis.

Since current ideas and the economic paradigm within conventional economics are biased towards material and individualistic postulates without considering human beings with various needs and responsibilities towards God, family and society, then the revision of these ideas within the order of Islam is an important part of Islamisation of knowledge (Aslam and Furqani, 2011). Since Islamic economics builds on normative postulates, which shape human behaviour, their incorporation in analysis becomes essential for development theories of Islamic economics.

Thirdly, since human knowledge is incomplete and it is disposed to continuously

discovering new facts and rediscovering the same ones with new dimensions of the discovery of new methods and technology, the result of that constant change has considered man as incapable of knowing what is best for him/her. Islamic ontology predicate that only Allah has perfect knowledge, and therefore His guidance is necessary for making various decisions in life.

Since mainstream economics does not accept any sort of knowledge other than human knowledge derived through mental hypothetical-formalistic-deductive processes, which claim universal validity, Islamic political economists like heterodox economists have opposed this position by adopting the open-system methodology evaluating historical facts, culture and values, and avoiding the inheriting biases of mainstream economics including mathematical abstract approaches. Asutay (2007: 6) argues that universal applicability of economics is not accepted where “different worldviews exist leading to different systems for different peoples” and societies.

Forth, the concept of utility and social contract theory, which provide the universal values that are accepted as given and which no one challenges, have faced wide rejection by many including Islamic moral economy. Conventional economics’ hegemonic implementation of universal values has not received wide acceptance and has been criticised by heterodox economics for rejecting pluralistic often radically different worldviews of each society. Therefore, Islamic moral economy in its system of understanding builds on values of Islam that define meaning and implication of utility from an Islamic perspective as well as the social contract theory.

Important issue in terms of mathematisation of economics, has been adopted by Islamic economics in the segments where these results would be beneficial. For example, Ibn Khaldun (1058) discusses the methodology of analysing history, emphasising the importance of verifying historical events in relation to physical realities and the practicalities of the environment in order to judge their truthfulness (Ahmed, 2009:181). On the other hand, when it comes to measuring values, ethics and the impact of customs, like heterodox economics, it refuses it and adopts a more argumentative approach based on the *usul al-fiqh* and other methods for testing the theories.

Furthermore, Islamic economics challenge the mainstream economics’ universality by

universal applicability of God's revelation, which is for all time and for all people.

It is important to mention that Islamic economics like heterodox economics do not ignore or refuse completely orthodox scholarship but call for more mutual understanding and acceptance of others. Ahmad (2009:180) mentions that as long as concepts and the principles of conventional economics do not contradict Islamic principles it could be used and adopted, as is the case with heterodox schools, which adopted the principles that are not in confrontation with their principles and ideas and refused, criticised, and confronted others.

The Islamic political economy builds on many diverse ideas and models including neoclassical economics. However, many of the standards within Islamic political economy are more consistent with theories such as the complexity theory, evolutionary economics, behavioural economics and ecological economics including the heterodox family since they are the products of non-neoclassical frames.

Islamic political economy, similar to heterodox economics, is not just a reaction to orthodox theories but a comprehensive approach to dealing with the methodology of economics. It views human actors as social beings before they are perfectly rational players. As an overall frame, Islamic economics presents a system of economics which is complex, evolving and unpredictable to be constantly in equilibrium. In addition, it analyses individual as well as aggregates as one whole while, methodologically, it builds on history and time and their relevance in understanding economics. Furthermore, Islamic economics accepts pluralism as multiple perspective. Moreover, it considers that supremacy of statistical methods should be removed from their perceived position but not abandoned. Finally, being based on revealed knowledge, that is Islamic ontology, is an important determinant of economic behaviours and outcomes.

Referring to Figure 4.1, while it is true that despite its opposition in various dimensions, heterodox schools and neoclassical hegemony shares mainly the same ontology based on Enlightenment. This is the case with Marxism and neoclassical economics, for example, as both come from the same source yet they developed through different methodologies of approaching knowledge. However, Marxism, similar to other heterodox traditions, rejects the neoclassical approach to modes of production and explaining economic activity. Despite

the ontological differences, it is these rejections that bring Islamic economics under the umbrella of heterodox map of knowledge relating to economics. Thus, the way Islamic economics develops its assumptions, methodology and models within Islamic ontology identifies a common point with heterodox traditions within the latter's open system knowledge understanding. The similarities between Islamic economics and heterodox traditions, and their common rejections of neoclassical positioning on various articulations of modes of production provides an opportunity space to consider Islamic economics within the map of and articulation of economics knowledge of heterodox economics.

4.6. CONCLUSION

In critically reflecting on the recent developments in heterodox economics and finance literature in the post-global financial period, the emergent literature focused on the debilitating role of excessive debt and growing inequality representing a convergence towards the theoretical ideals of Islamic moral economy. For example, among others, Rodríguez (2014), Wallace (2015) and Robinson (2016), identified the neoclassical nature of economic theory contributing to the ever growing nature of debt and its impact on inequality, which are the main issues that Islamic and heterodox economic theories endeavour to address. Therefore, the recent financial crisis indicated as to how financial capitalism is being trapped within a fictitious capital (debt) paradigm with adverse implications for redistributive, ecological, and political spheres (Spash, 2012; Elsner, 2015). Such debate has opened new opportunity space for alternative heterodox economic theories (Wallace, 2015) including sharing economy of Islam.

It should be noted that such novel discourses have opened a debate on the role of debt in the financial system and providing a pathway to building a framework for Islamic finance, which is consistent with the objectives of Islamic economics. Thus, by aiming to provide critical explorations on the dominance of power capital as a system, they demonstrate the unsustainable nature of a debt-based economy through identifying the nature of financialisation. Within this 'disembedded economy', financialisation created through a constant debt cycle has come under many intellectual attacks including through new economic and political thought. Among many other studies, Marazzi's (2010) in his *The Violence of Financial Capitalism* identifies that capital accumulation in a fictitious manner as an important reason for financial crisis. In a similar line, Lazzarato (2011) renders heavy criticism

on the consequences of debt in his *The Making of the Indebted Man*: around the debtor and creditor relationship, Lazzarato (2011) identifies mechanisms of exploitation and domination. He further argues that debt creation is the essential survival nature of capitalist economy, as it represents the political construct of capitalism. Therefore, Lazzarato (2013), demonstrates the shift in political economy determinants, which is dominated by conflicts between creditors and debtors producing a new political economy in itself.

In sum, the emerging critical perspectives, on economy and finance in general and economics in particular, developed by heterodox and radical traditions in the post-financial crisis have demonstrated essential and structural difficulties of capitalism mainly around the concept of 'debt' and its socio-economic-and-political implications. Since Islamic moral economy aims at embedded economy in the form of normative world of Islam determining economic relations along with producing a real economy beyond fictitious commodities, commodification and importantly beyond debt through profit-and-loss sharing and risk sharing economic paradigm, it should be noted that Islamic moral economy represents a dynamic aspect of heterodox tradition in the face of unsustainable neo-liberal hegemony.

In conclusion, since Islamic political economy rejects many mainstream economic stances or builds upon them by allocating them within a broader picture of a systematic approach that is based on Islamic ontology and adopts many communalities with heterodox positions (where social, cultural and other important elements play role), Islamic political economy should be mapped within the heterodox economics umbrella. In this way, heterodox economics' range is further expanded ontologically where revealed knowledge can be part of economic consideration. For clarification, several reasons should be mentioned again:

First, Islamic economics and heterodox economics shares a general objection of mainstream economics by criticising the core principles which common feature of all heterodox economics.

Second, in explaining the social reality, Islamic economics adopts an open-system methodology which incorporates in its analyses history, cultures, values, demographic and other differences within societies (*i.e* gender and so on) and this is what makes it more realistic. Add to these, adoption of divine knowledge, we end up with an even more realistic and appropriate economic system.

Third, Islamic political economy rejects only positivistic theories where values and ethics do not have a place. Since orthodox economics does not recognise an existence of value within its economic theory while heterodox economics does, then Islamic political economy shares the same sphere with heterodoxy.

Fourth, the main objective of orthodox economics is maximisation of profit and efficiency. Islamic political economy does not ignore profit and efficiency but emphasises that these should not compromise on the environmental expense.

Fifth, orthodox economics contributes even more disparity among agents whereas Islamic political economy like heterodox economics places as its main objective equity.

Sixth, a characteristic of heterodox economics is that they criticise the mathematisation of social science through building deductive formative models by which social reality is explained and generally applied in all societies. The principles of Islamic economics dictate that if there are benefits of using mathematical formulation in studying the subject matter, it should be used. However, the use of overly complicated mathematical models that lose touch with reality should be avoided (Ahmad, 2002:129). In addition, there are areas where the divine knowledge explain social reality and use of the same will not bring except probabilistic explanations. In the same context, some areas of social research cannot be put in equations and analysed.

In sum, in searching for a sphere in the knowledge map for Islamic economics, heterodox open system provides an opportunity for Islamic economics to be treated within mainstream academic knowledge and activism relating to economics.

Chapter 5

AN ATTEMPT IN CONSTRUCTING ISLAMIC SOCIAL WELFARE FUNCTION IN ISLAMIC MORAL ECONOMY

5.1. INTRODUCTION

The fulfilment of basic needs, such as life, food, shelter, education and freedom to choose over certain alternatives have helped humanity to evolve and innovate with the objective of ensuring welfare for individuals and essentialise social justice for the larger society. However, the wellbeing of nations is different from the economic wellbeing, which mainly focuses on the short-run economic growth and eradication of poverty. Economic and financial inclusion, empowerment, quality of life and long-run development are major concerns of Islamic moral economy (IME). Its values and attitudes are determined by the sources of Islam and they distinguish Islamic social welfare (ISW), which is based on an equitable, just and human-centric world system functioning both intra and inter-communally embedded in institutions and mechanisms established by *shuratic* (consociational or consensus based) processes within civil society. To attain such a desired social welfare, a systemic understanding of political and economy sphere interactions is essential and in the IME paradigm this also requires Islamic morality and *fiqhi* spheres to be consistent with other systems of the Islamic order.

The neoclassical economists have a particular definition as to what constitutes the objectives of welfare: attaining economic growth and restraining income inequality by emphasising ‘rationality, self-interest and utility maximization’ (Mueller, 1989). For that reason, all institutions and mechanisms in a society are operated and accordingly employed to serve the market system where prices determine modes of productions. The efficiency of market-based instruments has been central in determining individuals’ desires and preferences. In this paradigm, ethicality and morals have no place, since

harmonisation of individual and social choices are left to the 'neutrality' axiom implying the price mechanism as being efficient in making choices due to its value-free nature. Considering that neo-classical economics in its construction of SWF overemphasises self-regulation, neutrality and a value-free notion, Islamic Social Welfare Function (ISWF) based on IME goes beyond the constraints of the economics tool to provide a comprehensive understanding with the objective of endogenising the implications of different stakeholders in the society.

The starting point of neoclassical economics is a rational economic man who is equated with unhindered freedom of the individual to pursue his/her self-interest. The self-interest later became identified with the maximisation of wealth and want-satisfaction, independent of its impact on the well-being of others. Hence, social interest or realisation of normative goals such as serving also the interest of society is completely ignored (Chapra, 1990:15).

Neo-classical economics rest on the assumptions of positivism, which is conceived as amoral, apolitical and atheoretical. Such features are translated into unrestrained individual freedom, where welfare became entirely neutral between ends and independent of any particular ethical position or normative judgments. Accordingly, the preferences of individual members of society is taken as given; and, also, no-value judgment could be passed on any preferences in terms of consistency with normative goals. All these above-mentioned characteristics determine the materialistic nature of the welfare function by completely ignoring the spiritual emotional aspects of humanity.

The free interaction of utility-maximising consumers and profit-maximising producers would, under perfectly competitive market conditions, determine the market clearing prices for goods and services and lead to the production of that configuration of goods and services which maximises not only consumer utility but also the income of factors of production on the basis of their contribution to output and revenue. At the point of equilibrium, consumer satisfactions (utilities) would be maximised, suppliers' cost minimised, and factor earnings maximised, thus ensuring harmony between public and private interest. This equilibrium is termed Pareto efficiency (Chapra, 1990: 17-18).

However, Keynes effectively demolished the belief that every market equilibrium was consistent with even one normative goal such as full-employment policy. The possibility of harmonising between different goals, without effect of any value-system, could only be achieved if certain conditions are satisfied: (i) harmony between individual preferences and social interest; (ii) equal distribution of income and wealth; (iii) reflection of the urgency of wants by prices; and (d) perfect completion.

In responding to the construct of ISWF, Islamic economics goes beyond all these, and considers the importance of understanding the nature of society itself. The overall direction of the society, where the values, culture, language, customs, geographical position and money as well as other social factors play an important role in determining the mechanism of electing the preferable social choice.

Considering the Muslim society where religion, as a strong factor, defines the social life of its members on individual, and, also on society levels, understanding the religious impact becomes necessary for defining the nature of ISWF. In other words, Islam within its paradigm offered tools to construct a SWF which prevailed for many centuries before modernity. As part of such a religious paradigm, the economic system of Islam approaches the problem of preference aggregation from a moral economy perspective. Distinct values and norms consider and evaluate economic activities of human beings by reference to the tenets of Qur'an and *Sunnah* so that by conforming to these tenets people reach *falah* in this world and the hereafter.

The starting point for the construction of ISWF as proposed by IME should be considered as a task beyond the *fiqhi* form; which is based on the mechanistic understanding proposed by *Shari'ah* scholars. Axiomatic economic system understanding of Islam is all value-loaded, where *tawheed*, which implies that all available social preferences should be elected to satisfy proclaimed surrender to the unity of God; *al'adl wal ihsan* implies justice and equilibrium; *fardh* indicates mandatory responsibilities; and *ikhtiyar* refers to free will (Siddiqui, 1981; Ahmad, 1994, Naqvi, 1994; Chapra, 1992; Asutay, 2007 and others). Thus, the value-loaded nature of Islamic economics as expressed through its axioms constitutes the foundational pillars, which constitute the characteristics of operating tools of the salvation or *falah* process. Therefore, all sorts of alternatives that fall outside the axiomatically defined bundle

cannot be considered as alternatives since they do not satisfy the condition for salvation (*falah*).

Under axiomatic norms, *tawheed* represents the independency condition where the preferred choices of Muslim individuals would only concern alternatives in set that satisfy God's unity or are complementary to the *tawheed* condition. Under this assumption, Arrow's condition of 'pairwise independence' also known as 'independence of irrelevant alternatives' holds. It means in order to determine the social choice from A (bundle that satisfies the condition of *tawheed*) and B (which does not satisfy it) individuals only need to know about preferences between A and B; their preferences about other pairs of alternatives may change, but this will not affect the social choice from (A, B) (Craven, 1992:33).

This study attempts to discuss and hence construct Islamic social welfare function (ISWF) through defining it by public choice within Islamic political economy. While Islamic banks and financial institutions are expected to fulfil social expectations, the nature and functional formulation of such social expectations have not been defined. Therefore, it is ambiguous for Islamic banks and financial institutions as to which social welfare function (SWF) they need to maximise beyond the mentioned social goods that Islam essentialises in the form of *zakah*, or mandatory alms giving. This paper claims that one of the reasons of the observed divergence between the aspirations of Islamic economics and the practice of Islamic finance is due to the fact that the theoretical formulation in defining the social welfare is not developed and hence there is a gap in the literature which has practical consequences for the functioning of Islamic finance.

While Arrow's theorem indicates that SWF is impossible to achieve, Islamic political economy prioritises and insists on social welfare. Therefore, the possibility of ISWF taking into account the contemporary realities within the Islamic political economy should be examined. This is also important in relation to the objections raised against the social performance of Islamic banking. This paper attempts to analyse whether construction of ISWF in Islamic political economy is possible and therefore attempts to explore if such an expectation is imposed on Islamic banking without any justification on the ground to see whether or not ISWF is also impossible as in conventional economics. This paper is expected to contribute to the development of the knowledge in the field

but also should be considered as an important contribution to the theoretical framework of Islamic political economy.

In order to complete the micro dynamic system understanding of Islamic political economy, an attempt is also made to construct Islamic public choice framework in constructing ISWF by benefiting from the underlying aspects of Islamic moral economy. Considering that such a theoretical framework is also missing in Islamic political economy, which is an essential part of the definition of SWF, this paper is considered as an essential contribution in theory making in Islamic political economy.

This research stems from the debate in the literature that the Islamic banks and financial institutions are no longer attached to the aspirational worldview of Islamic moral economy and hence, there is an observed gap between the ideals of Islamic moral economy and the realities of Islamic finance. The main contributors to this debate are Choudhury (1992a, 1992b, 2001, 2007), Siddiqui (2004), El-Gamal (2006), Khan (2013), Asutay (2007a, 2007b, 2012), Hassan (2007), and Shinsuke (2007, 2010) amongst others. This research will revisit their contributions in rationalising this research.

The paper imposes the simple question as to whether social welfare function is impossible in Islamic political economy. If the answer is not as opposed to the Arrowian position, then, what are the building blocks of the Islamic social welfare function.

In the initial writings by the founding fathers of Islamic economics and mainly in the writings of Choudhury and Naqvi, initial ideas related to social welfare function are found. However, since the 1980s, there has not been any attempt to develop this further. This is also true for the public choice dimensions of Islamic political economy, as Said (2002) remains to be the only study on the subject. Thus, this study aims to fill this gap by attempting to complete the theoretic base in relation to SWF.

For example, in relation to public choice in Islamic political economy, the *Quran* and *Sunnah* have defined for Muslims the general principles of Islamic law and the Islamic moral economy, but if society is faced with a problem for which the *Shari'ah* sources provide no clear guidance, there is a need for process-making social choices regarding

the *mubah* or permissible activities. Arrow's theorem could be adopted with adding special conditions excepting *haram*/unlawful and *wajib*/mandatory activities from considering suiting the soul of the *Shari'ah*.

There is a need for a rule by which society could reach a social choice, such that this is grounded firmly in individual preferences and is also consistent with the tradition. These preferences should refer to the values of individuals rather than their tastes as Arrow suggested.

5.2. OVERVIEW OF CONVENTIONAL AND ISLAMIC SOCIAL WELFARE FUNCTION THEORIES

The aim of this part is to conceptualise SWF, which has remained a contended issue for many centuries, on which there is yet to be a consensus. In this context, the conceptual definition, the philosophical background and description of SWF are dealt with to highlight different understandings of this complex social phenomena.

Before delving into the discussion, the important distinctions between the terms welfare and wellbeing should be clarified. 'Welfare' is considered as a broader concept than that of 'wellbeing', since the former appeals to societal considerations whereas the latter remains limited with the individual level. In other words, wellbeing relates to individuals' standard of living, consumption of material goods, which is a function of personal income. On the other hand, welfare is attributed to society's wellbeing represented through a function of national income adjusted for inequality (Islam and Clarke, 2001). This distinction is vital in terms of constructing a SWF in which the preference amalgamation process is pursued from individual level preferences ordering to the societal level to produce public choice.

In a broader understanding, welfare economics is the study of the optimal allocation of resources for explaining and coming up with policies of maximising social welfare, by considering many Pareto efficiency allocations. The premises on which the methodology of social welfare analysis is based are the structure of preferences and tastes of the individuals, who comprise a society and the societal preferences of rational alternatives formed by the pleasure/pain calculus of the individuals (Choudhury, 1980:1). Therefore, the philosophical underpinning of welfare economics relates to harmonising between two competing agents, the preferences of individuals and society's priorities of orderings its preferences according

to individuals' needs and desires.

The founder of modern welfare economics Pareto (1906) based his philosophy and model on Walrasian General Equilibrium models commonly containing structural preferences and behaviours measured in optimal income/output distribution, optimal technical efficiency, optimal technical allocation of resources and optimal output. The main idea of maximum welfare in the Paretian perspective is that “no change could make anyone better off without making someone worse off” (Nechyba, 2016:9), which applies under specific conditions as follows (Chugh, 2014:269):

- (i) All agents have identical marginal rates of substitution between pairs of goods;
- (ii) Optimisation of marginal rates of technical substitution between factors are equal;
- (iii) and marginal rates of substitution between each pair of goods are equal to the marginal rates of transformation.

However, Paretian welfare economics does not really address distributive justice of the resources and goods, which also narrows the picture of welfare within material needs. Therefore, sticking to the material aspects of welfare only (which constitutes only one dimension of choice in Islamic Political Economy among a range of possible sources of preferences), ISWF considers social, moral and spiritual preferences and their ordering alongside material aspects whereby it expands the normativeness of the welfare model by providing more comprehensive aspects and determinants of human life, wellbeing of all individuals and societal welfare. However, going back to neo-classical welfare function as expressed by the Paretian model, economists hooked by the simplicity and logic of Paretian welfare analysis, have had their works result in static and conditioned analysis of welfare, which ignores the complexity and dynamics of human life. Whereas, Islamic economists in contrast, propose the analysis of welfare functions by considering changing conditions according to time, place and circumstances as well as endogenising values and ethics.

Limiting the broad concept of welfare to the economic dimension, started with Robbins (1938) who advocated a complete independence of modern welfare economics from ethical value judgments (Choudhury, 1980:2). The emphasis on value-free economy resulted in individualistic philosophy, which in relation to welfare, formulated social welfare function

in terms of the consumption and production mechanism alone. In other words, it only concerns the individual consumers' preferences by adding them together to construct some kind of social preferences.

Historically, academic interest in welfare economics before 1930 was divided between two traditions, one associated with Pareto and another with Pigou. Pigou whose two books *Wealth and Welfare* (1914) and *Economics of Welfare* (1920) effectively define the subject in terms of aggregative and utilitarianism following his predecessors such as Marshall, Sidgwick and Bentham (Backhouse and Nisizawa, 2006). His theoretical conceptualisation is based on the assumption that different individual utilities could be measured and compared to each other. For that purpose, he used measures of national income and its distribution in order to understand how wealth and welfare are related. The distribution process, as far as Pigou is concerned, must include both efficiency and equity tuned to serve the social justice. However, equitable distribution is not a critical point of his theory, but savings are strongly recommended and consumption is discouraged. Therefore, according to Pigou, savings, property or bequests and progressive incomes should not be taxed, whereas the consumptions should be.

Another associate with welfare economics in 19th century was Hobson who was a strong supporter of government intervention and a believer of economic imperialism. The imperialist imaginary alternative had been brought to deal with the changes of poverty, poor housing and health, cruel working conditions and low education, where the laissez-faire philosophy had failed to ensure normal human life. However, Hobson's imperialism did not focus only on the welfare but had significantly contributed to the expansion and development of colonialism and generally capitalism (Lloyd, 1972). Hobson argued that society as a social organism has an interest in each member's individual development and well-being in order to remain healthy. In other words, he viewed the individual as a means to an end, the end being a healthy society with social progress, akin to an organism depending on healthy cells. Although he focused on the economic dimension through a Eurocentric view, he left unanswered questions of how to measure social welfare (through subjective or objective criteria, or by quantifiable results) as well as letting community values, seemingly at times prevail over individual liberties. Hobson contributed to liberal thought by departing from the exclusive focus on the individual and concerning himself with

social reforms.

As a further development in welfare economics, the Austrian school of political economy through the works of Von Mises also contributed to the understanding and shaping the concept of ‘real choices’ or ‘demonstrated preferences’, which demonstrates the actual preferences deducible from the actual chosen actions (Rothbard, 1956). According to this school, actions are the result of choice among alternatives, and choice reflects values, that are, individual preferences among these alternatives. Consequently, the revealed preferences represent the consistent behaviour of individuals, which is further identified with his/her rationality.

Von Mises further employed, ‘constancy’ and ‘consistency’ as two entirely different things in his modelling of preferences and their aggregations. Accordingly, ‘consistency’ means that a person maintains a transitive order of rank on his preference scale (if *A* is preferred to *B* and *B* is preferred to *C*, then *A* is preferred to *C*). But the revealed preference procedure does not rest on this assumption so much as on an assumption of ‘constancy’ that an individual maintains the same value scale over time. While the former might be called irrational, there is certainly nothing irrational about someone’s value scales changing through time. Hence, no valid theory can be built on a constancy assumption.

The general framework of Von Mises’s political economy represents the liberalism from a government hegemony and determination of welfare. Until his death, Von Mises was fighting against government regulation and *etatism* for individual liberty and market economy. He was critical of ‘the idea of mixed economy’ and explained that any expansion in the size of government does not have a positive impact on growth and economic development (Von Mises, 2010).

Oscar Lange has been given much of the credit for the development of ‘decentralised socialism’ or communal federalism or market socialism, which in his opinion, should outstrip capitalism’s productive capacity and ensure an egalitarian distribution of income (Lange, 1936). His market socialism theory has been characterised by private ownership of consumer goods, free choice of occupation, state ownership of the means of the production, markets for goods, services and labour, but not for capital and intermediate goods, as in this theory economy is closely connected to real goods. In addition to all these,

a central planning board sets the prices of capital goods by changing prices to eliminate shortages and surplus. To secure the social justice, workers are paid a market wage plus a share of the social dividend, which comes from yield on capital and natural resources.

Due to the collapse of socialist economies around the world, Hayek and other neo-Austrian economists argued against Lange's market socialism theory. In their argument, the focus is on the difficulty to achieve efficiency in large economies through central planning and at unavailability of necessary information to the planners. Lange's socialism also does not give participants sufficient incentive to allocate resources efficiently or pursue opportunity, which market economy handles perfectly.

Lange also worked on proving fundamental theorems of welfare economics, what later Arrow would formalise as the proof. For example, he derives conditions for maximising person i 's utility subject to the constraint that all other people's utilities be held constant, that is, conditions for a Pareto optimum. He uses calculus with Lagrange multipliers to do this. The equations he derives "contain *in nuce* most theorems of welfare economics", *e.g.*, all the propositions in Pigou's welfare economics (Feldman, 1980:63).

In the light of Lange's *Foundations of Welfare Economics*, he pointed out that only pure rankings could be revealed by acts of choices, through judgment of individuals as well as the rankings themselves (Rothbard, 1956) whenever money can obtain goods. This implies that by combining all utilities into the vector, subject to technological transformation possibilities, total welfare can be maximised (Lange, 1942). Accordingly, money, which is highly divisible, can be lumped in the value-scale like commodities in order to measure interpersonal utilities indirectly.

Arrow's approach as well as Arrow's Impossibility Theorem and the various conditions he put forward for the preference aggregation in developing SWF, have contributed to studies on aggregated individual preferences in forming a collective preference. His welfare economics theory blends elements of voting schemes and simultaneously respects the personal preferences of the voters, ensures achieving maximum welfare and does not depend upon the order that issues are voted upon.

Arrow attempted to determine as to whether people who have different goals or preferences could make collective decisions by using the voting mechanisms. For this

purpose, Arrow put forward four criteria to be considered for voting:

- (i) Social choices must accurately reflect the preferences of the individual voters;
- (ii) Social choice must be transitive;
- (iii) The group choices must not be directed by anyone inside or outside the community;
and
- (iv) A social preference made between two alternatives must depend only on the preferences toward the two alternatives, and not on people's opinions of other options.

In a nutshell, these conditions cannot be satisfied and therefore Arrow's theorem was named the 'impossibility theorem' (Bernholz, (1973).

The founder of the public choice movement and constitutional economics, Buchanan, was one of the main critics of conventional welfare economics, who argues that government officials, who have an independent authority most of the time, are viewed as pursuing their own interests and benefits. That is because individual preferences are only known to individuals and no one can discern a collective or SWF from an unknown preference and their orderings. In other words, he criticised the romanticised view of the state by arguing that the state is organic; consisting of people with self-interests and therefore, one could not develop a SWF from such diverse and un-disclosed preferences.

Buchanan's public choice theory analyses the microeconomic foundations in which individuals' rational expectations are figured into macroeconomic models. It assumes that although people acting in the political marketplace have some concern for others, their main motive, whether they are voters, politicians, lobbyists, or bureaucrats, succumb to self-interest. Therefore, the romantic illusory view about the working of governments as well as institutions brings even more scepticism after the recent global crises.

In bringing back, political economy to an economic analysis, Buchanan and Tullock in their *The Calculus of Consent* (1962), focused on the interaction between economics with political sciences in order to develop predictive theories of behaviour (positive approach) and to derive principles of an appropriately organised set of public decisions (normative approach).

Using the methods of modern economics and the game theory on the economic and political organisations, they, as opposed to neo-classical economics, concluded that government policies and decisions are part of the economy (endogenous) and are not a separate entity (exogenous). They therefore argued that methods of collective decisions should be studied as part of the public sector and constitution should draw the line between private and collective action.

Buchanan and Tullock (1962) are credited with an original view on 'collective ordering', according to which the decision in the public interest should be the one that is truly just and supported by all voters unanimously. However, as Arrow (1963) identified, the unanimity rule is considered as unworkable and leads to a rejection of many decisions. They, therefore, challenged the widespread assumptions that majority decisions are inherently fair. They then considered modifications to the rule, what they called 'workable unanimity'.

Obviously, formulation of SWF consists of incorporation of different philosophical understandings; measurements of a wide range of individual preferences and constant intergenerational improvements by research to suit and comprise for the needs of every place and time. However, the question that is raised is whether the constructed welfare function of one time and place could suit and perform within another social, cultural, environmental and special place.

Islamic Political Economy, as an extension of political economy yet diabolically at the opposite ontological position, emphasises on the necessity of recognition of the existing social values, which distinguish each society; hence, their incorporation in the model of welfare development is essential. For example, Islamic Political Economy model considers that the Islamic value system has to be included in proposing any welfare economics, where individuals are freed from their inner-self and directed through revealed knowledge to work not only for his/her own self but also towards society in order to reach the blessing of God in ensuring individual *falah* (success) and societal *ihsan* (benevolence).

In short, the conceptual definition of social welfare in conventional economics has its roots in liberal value judgments assumed by neo-classical economics, hence different types of social welfare statements exist mostly around the neo-classical economics perspective of

which individual pluralism of values, importance of rights and equality represent the basic tenets (Sugden, 1981).

5.3. MAIN PHILOSOPHICAL DIVISION OF SOCIAL WELFARE

Finding the appropriate ways, whether in terms of economic and social policy or academic modelling, for achieving optimal social welfare has always been a difficult task over centuries. Founding father of economics, Adam Smith theorised an invisible hand as the mechanism to maximise individual interest and social good (Skinner and Tully, 2009); he theorised that market players motivated by self-interest would contribute to their individual wellbeing through which general welfare can also be achieved. Bentham, following Smith's claim that 'individuals are the best judges of their own welfare' (Bentham as quoted in Bonner 1997:63) developed a utilitarian approach towards welfare, from where neoclassical welfarists are mostly originated. Among many other contenders, Marx though his conceptualisation of SWF is quite different from that of classical economists as he sees 'alienation, commodity fetishism and labour theory of value' as the main barriers to social welfare (Hunt, 1996).

During the period of Classics, welfare issues remained less attractive, since scholars primarily focused on seeking appropriate ways for industrial growth of nation states which were already flourishing amongst the world. However, it was only after World War II when scholars, conceding the failure of the proposed prescriptions for economic growth, gave much attention to welfare issues. Thus, Neoclassicals have benefited from the Classics' views on welfare and suggested different kinds of SWFs which can be categorised into four parts; real-valued, axiomatic, contractarian and utilitarian' (Mueller, 1989), which can be re-classified under 'contractarian or Paretian' welfare economics (Sugden, 1981). There are other kinds of classifications with regard to 'cardinality and ordinality' (Mandler, 2006).

As regards to the utilitarian philosophy, it mainly assumes that every individual has identical desires and the social good is a composition of these desires. Unlike the Platonic social philosophy, social state ranking does change with respect to a change in individual values, so there is no objective social good independent of individual desires (Arrow, 1963).

The classical utilitarian or Benthamite aggregate function is presented through the sum of all-individual's utilities or the weighted sum-of-utilities. It provides a way to rank different allocations that depends only on the individual preferences, which are considered as the increasing function of each individual's utility (Varian, 1999: 617). However, this way of understanding social welfare defines humanity as beasts who only concern to increase their utility volume, regardless of their ethical values and positionings, beliefs, habitual activities, compassions and feelings for others or altruism. However, the Islamic economics imagination incorporates and considers also other aspects beyond benefit or utility within its value system.

Harsanyi (1955) aligned with the individualistic postulate of utilitarian philosophy construct by offering an additive SWF which rejects the organic view of state. One of the assumption he makes is that; 'If two prospects P and Q are indifferent from the standpoint of every individual, they are also indifferent from a social standpoint' (Harsanyi, 1976: 14). Together with the implications of these preferences which assign 'equal probability of being put in the place of any individual in the situation chosen', the impartiality is, then, provided by assuming that every individual behaves with regarding others in society and with respecting their preferences, resulting in emphatic views constituting the ethical basis of Harsanyi's SWF. In terms of cardinality or ordinality issues, Harsanyi defines 'a cardinal SWF equal to the arithmetic mean of the utilities of all individuals in the society' (1955:55).

The second type of welfare function is the contractarian or Rawlsian, which has distinguishing features as a social welfare model, especially from that of utilitarian philosophy, in the sense that it concentrates its agenda on process rather than end states. As a result, the aim is to create appropriate just institutions which will lead to continuous collective decision making processes appropriately. Therefore, these institutions are not supposed to maximise the social good but are a set of principles to maintain and improve the main constituents of the social contract (Mueller, 1989).

The conceptualisation of the Rawlsian term 'veil of ignorance' implies that 'a person in the original position behind the veil of ignorance knows nothing about his own prospective position under chosen rules of social order – under selected and potentially operative principles of justice ... however, the person allegedly knows everything about the general characteristics of the outcome under such rules' (Brennan and Buchanan, 1985: 31). Behind

the 'veil of ignorance' where every individual's thoughts are shaped, and predictions are made, they are also obstructed to make judgments about the current position and potential future benefits. Under such conditions, equality is achieved amongst people by means of information restrictions so that all individuals have equal preferences and agreements (Syensson, 1989). Therefore, social contracts exist under environments through which justice is integrated into decision-making processes, and this brings out the notation of 'justice as fairness' (Rawls, 1985).

The contractarian social welfare of an allocation depends on 'lexical ordering relations' (Moldaou, 1992) through which the primary concern of welfare maximisation is given to the worst-off agent in the society. The worst-off agent is the person with the minimal utility (Welfare, 33:618). The minimal utility and comparison between different agent's welfares will be presented according to different ethical judgments from individual to individual. This ordering which is derived from the 'maximin principle' is the main distinction of contractarian welfare from Arrowian preference ordering (Sen, 1970).

The main critique of Rawls mainly comes from his assumption about 'information availability in original position and economic conditions society faces' (Mueller 1989: 1).

Third, Bergon-Samuelson's (BS) framework of the social welfare function (BS-SWF) is the kind of real-valued SWF which assigns numerical values to a social state so that it can be maximised (Mueller, 1989). In other words it represents a direct function of individuals' utility levels and indirectly a function of the individual agent's consumption bundles (Welfare 33:621). The bundle of these functions is not restricted to strictly economic factors, but extends to be more general, which is a function of an infinity of cardinal indices or bundles; some economic and some non-economic. The cardinal indices are not all independent of each other. There are between them a number of relations limiting the freedom of varying all the indices independently. The relations will be determined by the value judgments in respect to the technological constrain of consumption and production and other non-economic constrains of the state or the individuals.

Since each agent's utility depends only on his/her own consumption, then there will not be consumption externalities. Thus, an intimate relationship exists between Pareto's efficient allocation and market equilibria in the sense that all competitive equilibria are Pareto

efficient, and under appropriate convexity assumptions, all Pareto efficient allocations are competitive equilibria (Varian, 1999: 621). This individualistic approach to welfare, which depends on market efficiency in equal distribution of consumer preferences, has already failed and therefore it is away from any consideration.

The cardinality and interpersonal utility plays a vital role in constructing the BS-SWF in the sense that they both enable one to choose the best alternative among the Pareto set. Otherwise, there is a need for a dictatorial solution for selecting the Pareto optimal outcome (Mueller, 1989). Comparing to other types of SWFs, especially to the Arrowian type BS-SWF has ‘one particular profile of individual preferences orderings’ (Pollak 1979:76), while the Arrowian SWF emphasises multi-profile preferences orderings. This led Pollak (1979) to think that the only solution for getting social preferences orderings to construct a SWF in the Arrowian sense (which is dictatorship), is not different in BS-SWF, since it has adopted single profile preferences orderings. In other words, the impossibility of an Arrow type SWF is also subject to the BS-SWF (Kemp and Ng, 2001) due to this reason.

BS-SWF stands under the Paretian welfare economics and by adopting Paretian value judgments, BS-SWF creates an ethical observer who decides goodness or badness of social choices on behalf of the society. However, this Paretian value system is bounded with ‘individualism and liberal ethic’ (Sugden and Weale, 1979).

Fourth, Arrow’s axiomatic SWF, which is in conjunction with his contributions to the public choice theory, attempts to deduce some rules for public decisions and essentially chooses a social preference ordering method for analysis. The derivation of his SWF is based on ‘the basic engagement of social choice where evaluating and choosing from the set of available social states (x, y, z, \dots) with each $x, y, z, \text{ etc.}$ describing what is happening to the individuals and the society in the respective states of affairs. The aim was to arrive at an aggregate ‘social ranking’, R , defined over the set of potential available social states such as $x, y, z, \text{ etc.}$ With his democratic commitment, the basis of social ranking R is taken to be the collection of individual rankings $\{R_i\}$, with any R_i standing for person i ’s preferences ranking over the alternative social states open for social choice. This functional relation is what Arrow calls SWF. Given any set of individual preferences, the SWF determines a particular aggregate social ranking R in the Arrowian sense (Sen, 2009).

For the achievement of such an aggregated social ranking, Arrow stipulates an axiomatic approach, within which an amalgamation process from individual choices to public choice is reached. Therefore, the derivation of social state ordering from individuals' orderings is reached through establishing appropriate rules and processes. This is what Arrow (1963) calls 'general possibility theorem' in which he develops four conditions as conditions for the achievement of SWF. As long as these four conditions are satisfied together, then, an axiomatic SWF becomes possible to construct. A violation of any one of these axioms leads to the impossibility of creating a SWF as a social ordering; this is what he proved at the end of his discussion by stating that "there is no social welfare function that can simultaneously satisfy all these four conditions" (Sen, 1970: 81), hence the birth of the term Arrowian Impossibility Theorem.

The underlying assumptions he made about the individual and social orderings are that these orderings must have the features of 'transitiveness and connectivity'; given that this relation is satisfied, then, there exists a 'weak ordering' (Arrow, 1963). In addition to this, a social ordering, according to him, is 'reflexive and complete' (Sen, 1970). It is important to note, at this point, that the orderings reflect individual values instead of individual tastes.

For Arrow, the four conditions of SWF as "a procedure for passing from a set of known individual tastes to a pattern of social decision-making" (Arrow, 1963) is constructed and can be listed as;

- (i) Unrestricted domain;
- (ii) Pareto principle;
- (iii) Independence of irrelevant alternatives;
- (iv) Non-dictatorship.

Before delving into further discussion on these conditions, it should be noted that the only inapplicable circumstances of the Arrow's Impossibility Theorem are such that (Buchanan, 1954: 115):

- when there exists unanimous agreement among all individuals concerning alternative social states,
- when the required majority of individuals possess identical orderings of social alternatives, or

- when individual orderings are characterised as singlepeaked.

The condition of the *unrestricted domain*, implies that “each individual should be free to have any preference ordering he might select and the collective choice process should be capable of reflecting these preferences in accordance with the other axioms” (Mueller, 1989: 392). One of the shortcomings of this condition is that there can easily break out a conflictual situation, because the condition embodies, together with the transitivity assumption, the possibility of contradiction of orderings among individuals. In such situations, the common way of escaping from this route is to assert the ‘singlepeakedness’ assumption or forming a ‘committee system’ to resolve the problems (Mueller, 1989: 392).

It should be noted that the *Pareto principle* is a vital assumption for Arrow as most other thoughts of welfarists also adapt to this assumption. The condition states that the Pareto optimality is achieved, as long as it is in the circumstance in which a person cannot be made better-off without making someone else worse-off. Thus, in a society, if everyone prefers one state to the other, then this preference of the state over another has to be generalised to the societal level (Black, 1969: 230). It can be inferred from this condition the ‘neutrality’ (Ubeda, 2004), which drives for the content of the Pareto condition such that efficient solutions are the only goals to be reached irrespective of the financial position or capability of any individual during the search for solution. It is mainly this condition that makes Arrow’s SWF impossible to satisfy. More generally, all conditions require a harmonious, non-conflictual relationship among each other so that one satisfaction of a condition does not leave another violated. However, Arrow proves the impossibility of such a relationship. Thus, many scholars relax the Pareto assumption by giving more weight to others (see: Murakami, 1968; Wilson, 1972; Malawski and Zhou, 1994).

Another condition, *independence of irrelevant alternatives*, requires that only the relevant social states can be considered on the ranking of individuals and the irrelevant alternatives should be excluded from the domain (Arrow, 1963: 27), thereby any alternative external to the individual’s set should not affect the ordering.

Finally, the *non-dictatorship assumption* does not let any situation arise that will allow the imposition of a state upon the individuals. In other words, the society cannot be forced to choose an outcome by any single individual since the individual sovereignty plays a major

role over Arrow's SWF.

By asserting the four conditions, Arrow states that “a [SWF] that satisfies unrestricted domain, independence, and Pareto principle has to be dictatorial” (Sen, 2009: 34-35) as there is no other way individual preferences can be incorporated into a SWF. His address to the dictatorship as a solution for the impossibility theorem (in the sense of making SWF possible) raises the role of state over individuals' preference orderings, as, in this analysis, the state can be considered as the benevolent or omniscient dictator to overcome the impossibility by imposing its own will due to knowing everything about individuals' preferences, which, as a neoclassical position, was criticised by the founding fathers of public choice. This romantic view of the 'benevolent state' has prevailed among imperial states and even among nation states of the twentieth century. However, Arrow rejects this on the ground that “the state cannot be seen in analogy to a person, because the aggregation of individual preferences into a collective ordering runs into basic consistency problems” (Blankart and Koester, 2005: 2). However, since the state is an organic entity consisting of individuals with particular interests and preferences as the public choice theory assumes (Mueller, 2003), the state, has to be, therefore, brought into the analysis since it has preferences.

The Arrowian and the other SWFs, explained above, are all derived from the Western ontology; hence rationality, liberal-secular worldview, capitalistic ideals and unconstrained individual freedom and egoistic behaviour constitute the epistemological basis. As such, in-paradigm alternative arguments to these various social welfare models cannot go beyond the Western discourse on constructing a SWF. Thus, there is a need for a paradigm shift allowing a *possible*, well- functioning, and just social welfare model, thereby, in the next chapter, ISWF will be offered as an alternative to the Western-type SWF which, as a novel construct, is designed to overcome the impossibility theorem so that social good and welfare of the society can be achieved.

5.4. AN ATTEMPT IN CONSTRUCTING AN ISLAMIC SOCIAL WELFARE FUNCTION

As discussed above, the most popular and possible SWF is the Arrowian SWF, which is also not possible due to the reasons explained above. Thus, within the existing body of

knowledge in economics, there is no way a SWF can be possible, which, as a position is asserted by the public choice theory and new political economy movement. Thus, there is a need to overcome the problem by deconstructing the knowledge base of SWF by shifting the paradigm to another ontological base so that the epistemological structure of such an ontology can be utilised to explore the possibility of constructing a SWF.

In overcoming the Eurocentric knowledge base, this study suggests the source of this new paradigm can be Islamic economic (or Islamic moral economy or Islamic political economy); and hence by utilising particular parameters and epistemological tools of Islam an attempt will be made in this study to construct an Islamic SWF or ISWF. Considering that Islamic economics is offered as an alternative moral-based system to economic matters within the normative (substance) and positive (form) or *fiqhi* realms by developing a substantive or embedded moral economy understanding based on social formation rather than 'economics' as defined by neo-classical economics, it might, hence, be possible to construct a workable ISWF at least on a conceptual and theoretical level. Since there were some attempts within the Islamic consumer theory and Islamic social choice theory in the 1970s and 1980s, this paper utilises such early contributions as a foundation and also will utilise the classical as well as historical knowledge in its search for a possible ISWF.

5.4.1. Constructing Islamic Social Welfare Function: *Fiqhi* Approach

The *Shari'ah* provides the fundamental legal system derived from the Qur'an and *Sunnah* and is extended by *qiyas* (analogy) and *ijma* (consensus) of *Shari'ah* scholars during different points in history. The domain of the *Shari'ah* covers all aspect of human life, from the day a child is born until his/her death, as such it remains the main religious regulative body in the everyday practice of Islam. However, the *Shari'ah* only provides legal solutions for daily life activities in terms of lawful (*halal*), prohibited (*haram*), recommended (*mustahab*), disliked (*makruh*) and permissible (*mubah*). However, the *Shari'ah* has dominated the development of knowledge in the Islamic sphere including the Islamic economics and financial sphere, but has however, neglected the essential aspect of substantive morality. Therefore, as the scarce literature indicates, even public choice preferences for welfare as well as the mechanisms of Islamic finance institutions have been articulated within the legalistic propositions. The reason for only considering the legalistic domain is *Shari'ah* scholars' assumption that the injunctions of Islam automatically provide legal and moral dimensions simultaneously in

their *ijtihad*s and *fatawas*. However, there are many examples in the Islamic history, as well as in the current practice of Islamic finance, which disapproves the proposition of marriage between morality and legality.

Prior to the *fiqhi-sation* period after the Prophet's time and the early centuries of the Islamic civilisation, the welfare of the Muslims have been articulated within the wide perspective of *ijtihad* to which everyone was suspected to contribute in an ongoing process of development. However, due to collaboration between the Muslim leaders and *Shari'ah* scholars in maintaining the order and the ideal of a just and virtuous state (Zaubaida, 2005: 100), *Shari'ah* scholars have been honoured with being allowed to privatise the issues of determining the social welfare according to their interpretation and understanding of revealed text.

The explanation and application of revealed knowledge between the *Shari'ah* scholars who are affected by their living circumstances of politics, time, place, state of knowledge and other influences, resulted in following different methodologies and hence the derivation of many opposing decisions. Many schools of thoughts (*madhhabs*) had emerged in constructing the Islamic law, however only five (*hanafi, shafi, hanbali, maliki* and *shi'i*) have survived until now. It should be noted that rather than always having unanimity, different opinions and understandings within the same *madhhab* are very common. Consequently, there is no consensus among *Shari'ah* scholars as to the mechanisms that will provide decisions on social welfare, nor is there an understanding or consensus in relation to the constituents of social welfare.

In terms of individual freedom under the *fiqhi* model of welfare, individuals are treated freely until they accept the Islamic code of life. By accepting Islam, it automatically requires accepting the norms and guidance in private and public sphere of life. In other words, under the *fiqhi* understanding followers of Islam are required to obey certain *madhhabs* and its scholars' injunctions (Aziz and Mahmud, 2009). This, hence, provides the initial constraint on the definition and constituents of the Islamic social welfare function.

5.4.1.1. *Shari'ah* as an indicator of Islamic Welfare Function

Shari'ah scholars consider the social welfare under 'the management of state' and men's

need for the 'state', which will secure cooperation between his/her fellow persons to come with socially agreed patterns of welfare. Justification of such arrangements comes from the divergent natures of individuals and their conflicting interest, the pursuit of one's self interest often result into clashes and very diversified choices (Fakhry, 1991:146). Therefore, some provisions for restraining people from disputes has been proposed through *Shari'ah* scholars' understanding of Islamic sources; the outcomes of that understanding is known as Islamic law.

In the past, the political rulers considered of a person assisted by 'divine inspiration' and charged with the direction of ritual observances (*ibadat*) and conducting everyday social-political-economic practice (*mua'malat*) with the objective of the welfare of the citizens in this life and the hereafter (Fakhry, 1991:147). However, in the later part of the history, the political ruler of the past has been replaced by *shari'* or lawgiver and definer of social welfare. Since, there is a separation between secular and Islamic set of governments in these contemporary times, the Islamic social welfare functions are left to be determined by *Shari'ah* scholars, who until the consolidation of power in the Ottomans remained embedded in the civil society representing the interest of the public in the everyday practice of life in their conceptualisation of social welfare.

In their explanation of social welfare, (that must relate to the whole society), they relegated the matter to the implementation of *Shari'ah* law in all details and segments of human life; and for them, this would automatically satisfy the Islamic nature of social welfare. Accordingly, it is considered that any deviation from the full-fulfilment of social welfare in a society implies individuals' shortcomings in implementing and following the divine law. However, the observed gap, which needs to be fulfilled, is a main instrument of defining cardinal indicators of the social welfare functions and the relationship among cardinal indicators (Choudhury (1980). The four key economic principles of Islamic welfare economics can be derived:

- (i) Individual utility indices are important in developing reordering of preferences for consumption and social states [which must be inspired from *Shari'ah*];
- (ii) Individual actions in this regard are limited to the extend of confronting to the laws of the *Shari'ah*;

- (iii) The progressive assimilation of the laws of *Shari'ah* in the lives of individuals makes social actions and preferences a fair reflection of individual preferences, and this reduces the indeterminacy of the social welfare function;
- (iv) The determination of conditions for optimum social welfare must now be carried out in a non-market environment also (Choudhury, 1980:7).

The first two principles outline the importance of the *Shari'ah* as the cohesive and substantive force of an Islamic society to come out with social welfare. The third principle focuses on the individual preferences for social alternatives which are formulated through *ijtihad* and *ijma'a*. In this case, *ijma'a* or established rulings of a Scholar represents an Islamic social ordering. In order to function, the *Shari'ah* based on *ijtihad* and *ijma'a*, an Islamic society suggests that there must be an Islamic state, having its own economic system and well-defined social welfare function. This implies that political, social and economic foundations of an Islamic state must be established on the basis of *Shari'ah* law.

Rather than constructing a moral understanding shaped Islamic welfare defined by ontological sources of Islam, Islamic welfare function historically was and in limited contemporary attempts are articulated in a hegemonic manner by *Shari'ah* scholars by considering only legalistic or *Shari'ah* defined by interpretation and understandings. The reason for this is that the *Shari'ah* as the understanding of Islamic scholars establishes, is the belief that God is the sole legislator for the Islamic state, society and individual. Based on this, individuals do not possess any power to make the laws except to interpret these laws according to time and place through the process of *ijtihad*. Apart from that individuals are expected to abide by the law of God as embodied in Qur'an and practically explained, confirmed or allowed in the tradition of the Prophet. According to the traditional Islamic political theory, the *khalifah* or the head of the Islamic state is not allowed to make laws. His main duty is to follow, manage and execute *Shari'ah* law with full force in all areas of life.

All these discussions have implications for the construction of Islamic social welfare, which, by definition, should be a product of a social contract as identified by the conventional knowledge we have around us. Therefore, according to the explanation given above, this position of *Shari'ah* regarding the leader of an Islamic state brings us to the first assumption that "Islamic Social preferences are unique and fully determinate in respect to every

effective application of the Shari'ah" (Choudhury, 1980:8), under supervision of the various departments and functions of the state. This postulate of the Islamic social welfare orderings raises the whole question of possibility of building the social welfare function by adopting Arrow's condition of citizen's sovereignty or freedom and therefore raises an existential question.

Arrow's condition of citizen's sovereignty states that the social welfare function cannot be imposed on the society and individuals; they must be left to choose among all forms of admissible alternatives. On the other hand, Islamic economics, following the *Shari'ah* approach, requires imposing on individuals and society the acceptance of the social welfare preferences and behavioural patterns determined and conditioned by *Shari'ah* law in all areas where textual explanation from Islamic sources exist. However, as argued by Choudhury (1980:8), the admissible individual preferences for social alternatives where the text does not have any provisions are formed through *ijtihad* (the process of deriving rules from their sources) and *ijma'* (the consensus of scholars).

The process of developing social preferences through the *ijma'* however, involves the consensus of the scholars on the position that satisfies the conditions of *maqasid al-Shari'ah* (objectives of *Shari'ah*), which, consequentially, identifies the nature and demand of an Islamic society in terms of articulated and expressed preferences. The possibility of constructing social welfare through *ijma'* becomes very small considering that condition and circumstances of one Muslim community to another differs and consequently the scholars from different places or sometimes from the same place consider different factors in determining the best possible outcome. This leads to accept *ijtihad*-based welfare, which contains individual preference formation through individual opinion on the "acceptance or rejection of the findings of some authoritative Islamic policy" (Choudhury, 1980:8). In this case, established rulings and outcomes of *mujtahids* (scholars who are capable of doing *ijtihad*), represents another Islamic social ordering.

Since, the *mujtahid's* role is to accept or reject the findings of previous *ijtihad* or to come out with a completely new *ijtihad*, imposing the outcome of a certain school of *ijtihad* or scholars over another brings the issue of dictatorial form of determining social welfare function in society. Imposition can come out from *khalifah*, society, region and group. There are many examples where certain *khalifah's* adopted a certain *madhab* and imposed

this on others. For instance, the Ottomans favoured the *Hanafi* school over the *Shafi*, *Maliki* and *Hanbali* schools of thought. However, historically, society was also powerful in imposing a welfare understanding through a certain school of thought. A good example is that of the Muslims of Bosnian society where the society itself forces member of the community to follow the *Hanafi madhab* and *ijtihad* accordingly. Furthermore, geographical region can also be a determining factor in adopting certain schools of thought. For example, European Muslim societies historically mainly follow the *Hanafi madhab*, the Asian continent follows mainly the *Shafii madhab* and in Africa the *Maliki madhab* predominates. The most common example is where a certain group or its mainly members or local mosque imposes the *ijtihad*s in the form of a particular understanding of welfare according to certain school of *ijtihad*s or scholars.

The freedom to choose among schools, *ijtihad*s and scholars will get the Islamic social welfare function closer to Arrow's characterisation of the social welfare function rather than the dictatorial form. What follows is that social choices are then based on the constrains of the *Shari'ah*, where individuals are left freely to choose among legitimate *ijtihad*s or *ijma'a*, and the Islamic state or society correctly represent the individual preferences leading to ISWF.

5.4.1.2. *Maqasid al-Shariah* approach for constructing the social welfare functions: Bringing consequentialist morality into the analysis

The early jurists of Islamic state, who form the fundamentals of Islamic legal schools or *madhabs*, expressed their limitations of legalistic understandings of economic matters in their treaties. This is evidenced by their reference to *urf* (conventions) and *aadah* (customs) that change not only over time but across space too (Siddiqi, 2004). There are many examples where *Shari'ah* scholars changed their rulings on the matter once confronted with a different situation, circumstance, place and time. Therefore, the *maqasid al-Shariah* (objectives of *Shari'ah*) approach was suggested for constructing social welfare functions, which provide a comprehensive and holistic paradigm for achieving the Islamic nature of welfare. Being consequentialist, *maqasid al-Shari'ah* is interpreted as 'human well-being' (Chapra, 2008) in the sense that whatever action is taken should be concerned with human well-being as an end result.

The *maqasid al-Shariah* initially were considered as essential ethical (intentional and normative) and moral (consequential and outcomes) functions in Islamic Political Economy, which assume the *Shari'ah* as being a way or system of life, instead of just a legalistic tradition in *fiqhi* nature. In other words, the *maqasid al-Shar'iah* helps to achieve social welfare patterns that guarantee human well-being in the worldly life and the hereafter, as the *falah* axiom states.

It was a remarkable achievement when *maqasid al-Shari'ah* was for the first time brought into attention in terms of its historical progress and development. Various *akham* (laws, rules and regulations) were presented as an integrated body inclined with wisdom of the Lawgiver (Siddiqi, 2004), rather than being disparate pieces commenting on *halal* and *haram*. However, very soon *maqasid al-Shari'ah* in its classical treatment had been narrowed into so-called five necessities (*daruriyat khams*): *al-deen* (faith), *al-nafs* (human self), *al-'aql* (intellect), *al-nasl* (progeny) and *al-mal* (wealth) under Ghazalian and Shatibian understandings (Amin *et. al.*, 2015). These five then were graded into three levels of realisation: *daduriyat* (essentials), *hajiyat* (needed) and *tahsiniyat* (perfections). It is in this same way that Chapra (2008) suggested economic development and social welfare of Muslim countries based on *al-maqasid al-Shariah* determined within these five categories.

However, nature of welfare functions requires a more comprehensive understanding and dynamic approach of *al-maqasid al-Shariah* beyond Ghazali and Shatibi which will extend the presented narrow scope into more diversified segments of human life by being able to deal with every aspect of life. Siddiqi (2004), therefore suggests that the Ibn Qayyimian understanding of *al-maqasid al-Shariah*, which includes broader measures of ensuring welfare by emphasising justice and equity and constructing everything else around these two values.

As Siddiqui (2004) states, the Ibn Qayyimian definition and explanation of *maqasid al-Shari'ah* rightly implies that they cannot be confined only to *hifz* (preservation) but they must include and conceptualise broader measures of social welfare within justice and equity parameters of Islam. In addition, instead of preservation, we need 'progression', which is not considered in the traditional definitions of *maqasid*. Furthermore, traditional (Ghazalian) understanding of *maqasid* refers to individual preservation and therefore, it is not clear how we can move from individual preservation to social preservation by avoiding the Adam Smithian dilemma; given that the construction of social welfare function requires and Islam

essentialises 'social good' as expressed in *ihsan* (*benevolence*). Moreover, 'preserving' does not indicate policy issues but rather individual expectation, while we face social issues such as poverty, inequality, underdevelopment, corruption, illiteracy and so on, which requires policies and strategies of public choice. Thus, a comprehensive well-being can only be articulated within the wide understanding of *maqasid al-Shari'ah*, which look at every segment of individual as well as social life and rather than preserving, proactively partake in progressive policy making. Hence, construction of ISWF requires a dynamic *maqasid* formulation, which can help to embed public choices by interacting with Islamic normative axioms in producing policies that are reflective of the preferences of the individuals with the objective of reflecting 'a social contract'.

In endeavouring to achieve Islamic social welfare in a comprehensive manner, including all aspects of modern life, recent works on *maqasid al-Shari'ah* by Allal al-Fasi (1963), Ibn Ashur (1973), Kamali, (2000), Nyazee (2000) Al-Raysuni (2005), Auda (2008) and others all insist on the primacy of justice and equity to be constantly carried out. This is because changing circumstances and the need to constantly move towards the achievement of the greater benefit for the community in economic, political, religious segments requires from the standpoint of these scholars, evolution and re-formulation of *maqasid al-Shariah* to satisfy the objectives of Islam as a way of life and not the objectives of *Shari'ah* law.

Since there is a difference between objectives of Islam and the *Shari'ah* law, the former involves aspects of personality and society whereas the later does not. Therefore, the construction of IME fits much more with reference to the goals of Islam as a way of life through which issues of poverty and inequality among other public policy issues can be easily handled rather than the need for a legal-based framework.

It is important therefore to state that the public choice and public policy aspect of SWF (and hence ISWF) relates to 'social contract' and hence how society and distribution of power and their public policy implications are arranged, regulated and governed. In developing such a perspective, Ibn Qayyim not only initiated the progressive understanding of *maqasid al-Shari'ah* but also coined the term *al-siyasah al-Shariyah* (policies of Islamic government), through which other issues of social welfare can be tackled. *Al-siyasah al-Shariyah* provides the foundation and interface through which some notions of regulation can be developed to form a social contract in a society. For this, *al-siyasah al-Shariyah*, represents "a broad

doctrine of *Shari'ah* law which authorises the ruler to determine the manner in which *Shari'ah* should be administered” (Kamali, 1989: 71). It provides a space for flexible policies and actions by government in the interests of broader society, as long as substantive principles of *Shari'ah* are not violated.

There are several examples in the history of Islam where *Siyasa al-Shariah* was applied to change existing rulings, because they did not secure the higher objective of justice. On the other hand, there were other examples when *Siyasa al-Shariah* had been abused resulting in the abolishment of the rulings, which only benefited certain circles of people and not the wider public. Therefore, articulating welfare functions within the framework of Islamic axioms and ethicality should preserve the interest of private and public domains beyond certain groups and circles.

It should be noted that the *maqasid al-Shari'ah* understandings of scholars such as Ibn Qayyim (1292), Allal al-Fasi (1963), Ibn Ashur (1973), Kamali, (2000), Nyazee (2000) Al-Raysuni (2005) and Auda (2008) have not attracted the attention of *Shari'ah* scholars in the Islamic finance industry, who still propagate Islamic financial system within the legal rationalism framework of *Shari'ah*, namely *muamalat*. Despite its shortcomings in formulating social good and welfare, *Shari'ah* scholars postulate ‘social good’ (rather than social welfare) through Ghazali’s understanding of *maqasid al-Shari'ah*, by giving themselves the right to decide what is *dharuri* for the modern society and what is not by excessively relying on the constructed or ‘delusional *maslahah*’ implying public benefit.

It is suggested by this study that ISWF requires a dynamic approach to the construction of ISWF by referring to the underlying notions and principles of Islamic Political Economy, which therefore requires *fiqhi* as well as moral or consequentialist contents to fulfil the objectives of Islam. With this, individual essentialisation of *falah* as the individual preference expression can be augmented to produce *ihsan* (benevolence) thus representing the ISWF. According to this understanding, the SWF is not merely outcomes of individuals’ decisions on related issues to the welfare but a virtue-based consequentialist paradigm, which goes beyond instrumental value meaning. In other words, construction of SWF under the paradigm of axioms and *maqasid al-Shari'ah* imposes multi dimensions of benefits encompassing both individual and social benefits, in this world and hereafter.

5.4.1.3. Said's social choice model: An attempt in *fiqhi* domain

One of the examples of a systematic understanding of an ISWF within the context of Muslim society is offered by Said (2005), which is located mainly within the *fiqhi* domain of the *Shari'ah*, which, perhaps unintentionally, negated the importance of morality as defined by Islamic Moral Economy. He followed the Shafi' *fiqhi* classifications as defined by individual actions in his construct of SWF:

- (i) *wajib* (mandatory) referred as *W*,
- (ii) *mandub* (recommended) referred as *Ma*,
- (iii) *mubah* (permissible) referred as *Mu*,
- (iv) *makruh* (undesirable) referred as *M* and
- (v) *haram* (prohibited) referred as *H*.

The bundle of all human actions, or *U*, is then consist of all these categories in a universal set available for an individual:

$$U = U (W, Ma, Mu, M, H)$$

Wajib or mandatory implies the activities that every Muslim has to do individually such as praying, fasting, paying *zakah*, or in congregation for instance Friday prayer. In further discussion, it is denoted as *W*. The actions under this category are obligatory preferences on an individual and society to be performed regardless they are related towards God and his/herself, family and society.

Mandub or recommended bundle of actions does not fall under the strong command but they are strongly encouraged to be preferred. The actions under this category are also related to God, his/herself soul, family and society, but for the shortcomings there would not be blames. The examples of this category are: giving the portion of the wealth in charitable activities, writing a contract conditions when borrowing a loan etc. In the further reference this category will be denoted as *Ma*.

Mubah or permissible refers to the actions that are neither forbidden nor recommended but left to the individual choice to do or not to do. They are mainly related to the

activities of personal life such as to sleep and relax in free time or do some other activities; total free will implies. However, many actions under these activities can change their case such that the *mubah* activity become recommended or even mandatory and sometimes could become undesirable or prohibited. In short it will be referred as *Mu*.

Makruh or undesirable refers to actions that individuals should avoid in their preferences such as wasting water even from a river, eating or drinking over personal need. It refers to all activities that create the harm either towards God, oneself, family and society. This category will be indicated as *M*.

And lastly, *haram* or forbidden activates are strictly restricted preferences, since God has prevented us from choosing them. Qur'an forbids usury, hoarding, gambling exploitation of human and natural resources, any involvement in morally unacceptable activities or any harmful preferences that jeopardise the objective of fair dealing in private, public and market spaces. The actions under this category should not be at any time person's preferences. For the short it will be related as *H*.

These categories of human actions, can then be classified according to the *Shari'ah* into three categories:

- (i) recommended and mandatory (*W* and *Ma*);
- (ii) prohibited and undesirable (*M* and *H*) jointly named 'Islamic ruled' *IR* and
- (iii) permissible (*Mu*) which represents an open and unbound set and becomes the main category in Said's model.

Considering pure *fiqhi* orientation in public choices all actions in universal set *U* will be classified under these five categories; $U=U(W, Ma, Mu, M, H)$. Implementation of these actions under religiously assigned obligations does not leave enough space for individuals to make their 'freely' decided decisions. Said (2005) points that only concerns of public choice set belongs to the *Mu* activities, since it is the only part of the domain where individuals are left without any guidance and impositions by *Shari'ah*. However, this position has been criticised by *Shari'ah* scholars on the ground that the

scope of *Mu* does not exist since the welfare activities are strongly concerned either in *W* or *H* choices.

In addition, dynamics of human life due to changing circumstances, times and places requires individuals to adopt their preferences accordingly. The strict classifications of choices according *W*, *Ma*, *Mu*, *M*, *H*, will hinder betterment of human life to adopt and change according to the situation in addition to obstruction of constant development, improvement and maintenance of human life according to *maqasid al-Sharia* regardless Gazalian or Ibn Qayyim's framework. Bringing together five categories *W*, *Ma*, *Mu*, *M*, *H* as Said (2005) proposes in a bundle of possible choices will reduce differences of opinions and dissimilarities between individuals to a great extend.

Accordingly, both *IR* (Islamic ruling) and *Mu* (*mubah* actions) together generate *U* or all the possible human actions. In summary, four under five categories (*W*, *Ma*, *M* and *H*) are bounded actions from which legality comes directly from ontological and epistemological sources of Islam and therefore only *mubah* or *Mu* remains as a set, which Said (2002) considers as unbounded in his entire work, since it 'is the only part of the domain that individuals can chose freely' (Said, 2002: 104) under *fiqhi* considerations.

In attempt to construct an ISWF, as has been pointed out, *fiqhi* tools play an important role, since they define the boundaries for individual behavioural norms, as classified by the five strict individual choices (*W*, *Ma*, *Mu*, *M*, *H*). Therefore, in an ISWF the condition of unrestricted domain of Arrow still does not hold, since the feasible set of actions are restricted to (*W*, *M*, *Ma*, *H*). Thus, Said (2005) prefers concentrating just on the *mubah* related set of potential areas, thereby there could no longer be a restricted domain. He, therefore, suggests overcoming the problem by bringing the domain into conformity with Arrow's unrestricted domain assumption.

With appreciating the fact that Arrow's axioms are not the ultimate conditions for establishing an ISWF, it is, nevertheless, important to note that Muslims do have a choice even in *wajib* and *haram* activities as contrary to the views of Hallaq (2002). This is because human beings are in a state of divine test in this world, so making sinful activities and, on the other hand, engaging in good deeds with different levels are in the basket of people's available preferences; the availability of sinful options distinguishes human from angels. This

is clear in the Qur'anic (95:4-5) verse stating that individuals have the potential of being the best mould (*ahsan al-taqveem*) as well as the lowest of the low (*asfal al-safeeleen*). In other words, what is impermissible for Muslims does not mean it is also not feasible for them. Although Islam suggests the right path to follow, individuals are allowed to make their own choices, as the *ikhtiy'ar* (freedom of choice) is a foundational axiom of Islamic moral economy. This indicates that a human being must remain conscious of the fact that he/she is responsible for consequences of his choices as identified in the 'social accountability' axiom of Islamic moral economy as implied by *tawhid* and *adalah* with consequences for individual *falah*. Consequently, according to Hallaq (2002), the ISWF does not hold the restricted domain assumption.

When it comes to the modification of the SWF axioms as identified by Arrow with regards to Islamic concerns in terms of the objectives of reaching an ISWF, Hallaq (2002) attempted to reformulate Arrow's conditions by introducing an additional axiom, namely the 'Islamically imposed axiom' which he interprets as adherence to the Islamic tradition. Through this, the axioms for establishing an ISWF are increased to operationalise a potential ISWF, and Hallaq (2002) at this stage assumes that this axiom could opt out what Arrow refers to as the dictatorial solution. Hallaq (2002: 120) rationalises this on the ground that "the compromises in a public issue in a Muslim community would be easier, since therein behaviour is governed by certain values and religious beliefs, such that individuals do not consider themselves an isolated unit of the community".

According to Hallaq (2002) however, even the addition of this assumption is not seen sufficient for the construction of an ISWF based on Arrow's postulates. He therefore, prefers approaching the problem with the Buchananian (one of the leading figures of Public Choice School) framework by arguing that for a Muslim society "it is more important to focus on the process by which the community is willing to reach a social choice that is consistent with Islamic values, more than worrying about the nature of the function itself" (Hallaq, 2002: 114). This process in Islamic Moral Economy can only be through completing the system with ethical norms to close and complete the system, as discussed in the following sections.

5.4.2. *Fiqhi* Welfare Decisions and Ancombe's Paradox

In reiterating the sources of knowledge in Islam, *halal* (permissible) or *haram* (impermissible) is determined according to *Shari'ah* scholars' judgment by elaborating the evidences from the Qur'an and *Sunnah* regardless of whether they agree or disagree; these are referred to as the *Shari'ah* rulings. In addition, the majority of agreement or disagreement among scholars in certain times after the Prophet's death on *Shari'ah* matters (Al-Ghazali, Ibn Baaj, Al-Shastri) is defined as *ijma'a*, which is one of the four sources of legislation and therefore an individual's objection to it would have consequences in this world as well as in the hereafter.

Accepting or rejecting rulings of the majority, according to Islam instils three fundamental strands:

(i) If there is consensus on the ruling (welfare ordering), no one has right to object, since the *Shari'ah* maxim states the 'ummah (nation) will never agree on *dalalah* (misguidance)' (Imam Tabarani in his *Mu'jam al Kabir*, Volume No. 17, Page No. 240);

(ii) Rejecting the scholars' agreements (*ijma'a*) based on their *ijtihadi* accounts, that can lead an individual or individuals to be treated as heretics. Consequently, refusing to follow *ijma'a* is considered as *fisq* (bawdiness) (Ghazali, Ibn Baj and Al-Khatab).

(iii) Muslims are required to seek and follow the guidance provided by *Shari'ah* scholars; as the Qur'an, (21: 6-7) states "ask the people of knowledge if you do not know" (*ahkamu al-fusul*).

Based on these principles, the *ijma'a* of scholars impose on *a'ammī* (ordinary individuals) to accept decisions made in their names as part of their *deen* (religion) (*see*: Ibn Bajjah 1138). On the other hand, agreement of *a'ammī* will not be counted as part of religion unless approved by scholars (*ahkamu al-fusul*). Therefore, human welfare under *Shari'ah* considerations is completely left to the understanding of *Shari'ah* scholars and their ordering preferences.

A mandatory requirement of any *ijma'a* to become a source of *Shari'ah* is to be supported by evidences from ontological and epistemological sources in their decision-making process, as

the majority agreement in itself is not a sufficient argument. However, if a decision is based on a majority rule, without referencing to evidences, then there will be no difference between the *Shari'ah* scholars (*mujtahideen*) and the agreement of the general public (*a'ammah*). Consequently, distinctions between the general voting system and the *Shari'ah* process in making decisions can be drawn, as follows:

(i) Islamic welfare decisions process is based on the *ijma'a* mechanism, which must be justified with evidences;

(ii) General voting system represents every individual vote to express his/her preferences regardless on educational background and provision of supporting evidences;

(iii) *Ijma'a* must be based on a unanimous rule whereas in the general voting system it is based on an agreed percentage for instance fifty per cent or three quarters of the rule. However, objection to *ijma'a* by one or two scholars will not affect the ruling.

(iv) Finally, disagreement with *ijma'a* has implications in this world and the hereafter, while under the general voting system, the only impact will be that the preferred ordering might not be elected. This implies that *ijma'a* does not only represent the majority agreement; it is the application of divine command expressed through the agreement of the scholars and then it is left to human free will to implement the ruling in the manner perceived as most befitting.

It should be noted that decisions and changes made through a voting system are easily replaced and overridden, as they represent the state of mind of individuals' preferences in certain time (Varian, 1999). As such they are not stable and valid for all times. However, *ijma'a* decisions as source of legislation are valid through different times. Consensus of the first generations on certain issues supported with the evidences can only be outweighed by another *ijma'a* of scholars supported with stronger evidences (Muhammad, 2004).

The resolution of Islamic social preferences proposals by *Shari'ah* scholars have resulted in outcomes with very diversified opinions based on linguistic understandings of the sacred texts. *Ijma'a* (majority agreement) among *Shari'ah* scholars on many shapes and transactional mechanism within the Islamic finance industry internationally and even across the same country is an example of this diversification. Disagreement about even

fundamental *Shari'ah* issues has created confusion and controversy in welfare orderings. Therefore, any amendments to the shape of Muslim welfare patterns should be adopted and agreed by majority of Muslims and rectified by many *Shari'ah* scholars (Ghazali, 1332H and Baj, 1986).

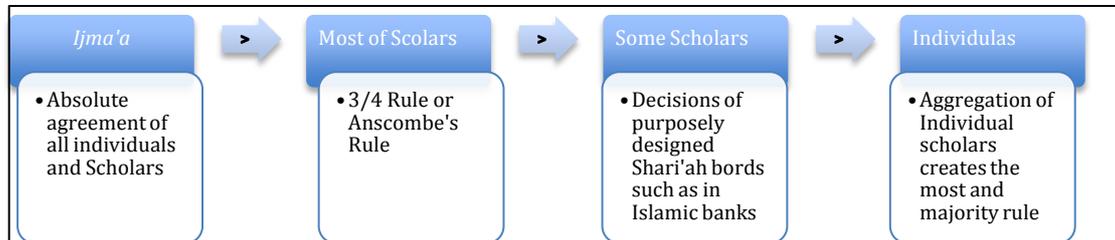
The concept of *ijma'a* refers to the majority-rule method for achieving consensus but in a different way. The meaning of consensus within *ijma'a* is derived from the following statement: "the number of scholars whose consensus on the primacy of a certain rule is impossible to agree on lie" (*tawatur*) (Ahkamul Amidi, 1402H: 366), hence, an established agreement would be a valuable source for Islamic jurisprudence. However, majority of scholars according to Ibn Najjar in his *Sharh al-Kewkeb al-Muneer* (1930: 252 Vol. 2), do not require *tawatur* (authentic narrations) for establishing *ijma'a*. Hence, representatives of *Shari'ah* boards in financial institutions, associations, and other civil society and national communities *etc.* do represent *ijma'a* through issuance of *fatwas*. As a consequence, a minority of scholars end up being appointed by a regime or an industry paid by *Shari'ah* boards, to decide on the outcome of issues and subsequently directly impose their parameters on the remaining members of the society.

The principle of *ijma'a* that '*ummah* will never agree on *dalalah*', implies that the *ummah* will always find what is the best for Muslims' welfare. However, the broader consensus on many issues has been impossible, simply because the environment, life conditions, style of life, geographical area and other factors where *fatwas* are issued dramatically vary from one place to another. *Shari'ah* scholars therefore, mainly focused on issuance of *fatwas* within the very limited group of scholars in order to create an *ijma'a*. However, applying the rule of the three fourth as a benchmark for the majority opinion can contribute in building a wider scope of *ijma'a* by including much larger groups of stakeholders in the process.

The Figure 5.1 shows usual scenarios for issuance *fatwas* (*Shari'ah* rulings). The focus is on the numbers of scholars who will express their opinions. If all scholars within certain time agree on the same ruling in terms of action classification (*wajib*, *mandub*, *mubah*, *makruh*, *haram*) it will represent *ijma'a* (consensus). Considering the place factor as most of the scholars do not live in the same place and what will be the optimal number of *Shari'ah* scholars to approve and disapprove social patters and get proportional division on the issue

then applying the rule of $\frac{3}{4}$ (Anscombe's rule) will be more practical to get next level of certainty after *ijma'a*.

Figure 5.1: *Ijma'a* and the Rule of the Three Fourth



On the next level of certainty and acceptability of *fatwas* after $\frac{3}{4}$ rule comes decisions of a relatively small numbers of scholars, either in the same organization, committee and board or separately in different places and times who expressed their opinions by classifying the actions with the same rulings. These become reality of Islamic financial institutions as the most decisions are based on the opinions of a few scholars. The last category in Figure 1 represents the individual *fatwas* mainly articulated within the local community. This category represents the lowest level of certainty as it deviates from the majority opinions and consensus of *ummah*.

Fiqhi understanding of Islam classifies actions from acceptable to unlawful in the following order; and this ordering preference is compulsory to be followed:

Wajib > *Mandub* > *Mubah* > *Makruh* > *Haram*

However, dispute happens in classification of actions (*Wajib*, *Mandub*, *Mubah*, *Makruh*, *Haram*) within certain time horizon, place and circumstances rulings were issued. *Haram* and *wajib* issues are clearly specified in *Qur'an* and *Sunnah* but exceptions are also made by considering high goals of Islam, which are determined by the same sources. In relation to other classifications *mandub*, *mubah* and *makruh*, dispute is even greater since they are based on analogy in derivation of rulings. Therefore, *tawafuq* (reconciliation) between the opposing decisions on the same issue consider additional aspects. Important aspect, in the process of reconciliation should be the consequences - the moral expectations and ethicality – which certain *fatwas* will have on the public.

Ijma'a rule align with the proposition of mutual discussion and providing the agreement (*shura*), which is working mechanism, through which the welfare of Islamic society was

historically implemented. However, *ijtihad* based rulings on the arising issue which receives opposing classifications of *Shari'ah* rulings creates Anscombe's paradox. Anscombe (1976) the disposition of a set of proposals by majority rule does not preclude the existence of a majority of voters, each of whom disagrees with the outcomes in a majority of cases (Wagner, 1984:233). Therefore, it is intuitively clear, that when *Shari'ah* decisions are adopted or rejected, by consensus or a sufficiently strong consensus ($\frac{3}{4}$) such a state of affairs require implementation. However, if the set of *Shari'ah* scholars disagree with majority outcomes then it cannot comprise a majority, hence implementation will not be required.

Table 5.1: Anscombe's Paradox in *Shari'ah* Ruling

	Issue 1	Issue 2	Issue 3	Issue 4	Issue 5
<i>Shari'ah</i> Scholar 1	<i>H</i>	<i>Ma</i>	<i>W</i>	<i>H</i>	<i>H</i>
<i>Shari'ah</i> Scholar 2	<i>H</i>	<i>Mu</i>	<i>W</i>	<i>H</i>	<i>H</i>
<i>Shari'ah</i> Scholar 3	<i>M</i>	<i>M</i>	<i>W</i>	<i>H</i>	<i>H</i>
<i>Shari'ah</i> Scholar 4	<i>M</i>	<i>M</i>	<i>W</i>	<i>H</i>	<i>M</i>
<i>Shari'ah</i> Scholar 5	<i>Mu</i>	<i>Mu</i>	<i>W</i>	<i>M</i>	<i>M</i>

Note: *wajib* (W), *haram* (H), *mandub* (Ma), *mubah* (Mu) and *makruh* (M)

Table 5.1 identifies that issues within the *fiqhi* framework could be labelled differently as that will depend on methodological reasoning, understanding, and background of scholars. The common parameters used by scholars are *wajib* (W), *haram* (H), *Mandub* (Ma), *Mubah* (Mu) and *Makruh* (Mh). Therefore, *ijma'a* is unlikely to happen within these parameters as that will require unified consensus on the issues. However, as a matter of illustration Table 5.1 depicts the common disagreement among the scholars on the issues arising. For instance *ijma'a* can only be applied in table 5.1 under (Issue 3) where all scholars have agreed that certain activity is *wajib* and as such should be considered in preference orderings. However, for all other cases, characterisation of issues for establishing social orderings lead into diversified patterns and combinations. Applying, three-fourth rule for adopting characterisation for decision-making brings us to accept 'most scholars' second best solution.

Consequently, compound *Shari'ah* scholars' *fatwas* on modern life issues, based on their legalistic rational methodology by interpreting the texts and looking into the letters imposes the rulings and social settings on the Muslim society. For constructing social welfare

function, Islamic ethicality and the consequences of *Shari'ah* rulings need also to be considered.

5.5. ETHICAL COMPLIMENTARITY TO *FIQHI* CONSIDERATION

Hallaq (2002; 2005), in his entire work, in constructing ISWF structured his proposal by adopting Arrow's conditions, and approached the problem with a *fiqhi* method without referring to the moral underpinning of Islamic economics, which, as explained above, is the main distinction of the Islamic economics proposition. Similarly, *Shari'ah* scholars also ignore Islamic ethics and its articulation as moralities as they consider that 'abiding by *fiqhi* rules, moral dimension will also be also achieved'. However, the available *fiqhi* construct, though it determines the behavioural norms, does not imply that it is, at the same time, morally acceptable. This is an obvious issue in the practice of Islamic finance, as the 'form vs. substance' debate in the work of Asutay (2007; 2012) and El-Gamal (2017), among others, evidences. Therefore, there is a need for reconsidering the five ordinances as the layers of preferences and focussing on the implications of these ordinances in the society through the axioms of Islamic Moral Economy. Otherwise, relegation of the problem merely to individual level and non-consideration of the societal implications would produce a partial solution regarding the construction of ISWF.

Fiqhi injunctions articulated as *W*, *M*, *Ma*, *Mu*, *H*, by the nature do not embed the axiomatic norms of IME, and, hence, none of these attributes for individual activities do not hold constantly regarding orderings of preferences. Individual as well social circumstances determine that even *H* and *W* sets are subject to differing preferences during their intra-ordering process. The determination, which order of Islamic preferences should come first and which last in addition to factors that can change ordering hierarchy depends upon the current situation of individuals in which Islamic Moral Economy dictates to consider ethical considerations in decision process. Since, *fiqh* only stipulates permissibility and non-permissibility, consequentialistic implications should be included as the moral filter.

The IME's filtering system obviously in certain circumstances will not align with *fiqhi* orderings in the case of the identified five layers, since circumstances require compromising on legal norms referring *Mu* activities to *Ma* or *M* activities to *Mu* or any such combination in the name of moralities which will bring better wellbeing and social welfare. The choice

of a set over another for the construction of social preference ordering has to address *maslahah* criterion which goes beyond the form based understanding of *fiqh*. According to *maqasid al-shariah* criterion, the layers should be ordered and prioritised by considering their benefits to the society and their avoidance from the *mafsada* (*haram*). However, according to *usuli al-fiqh* or methodology of *fiqh*, ‘eliminating *mafasid* (damages) is prioritised over bringing *maslahah* (benefit) (Ismail, 2009: 70). Therefore, IME works on harmonization between *maqasid al-shariah* and *usuli al-fiqh* positions by incorporating consequentialist considerations in preference orderings. It should be noted that consequentialist articulation of *maqasid al-Shari’ah* is not considered in the literature, as *maqasid* are mostly treated from narrow *fiqhi* position. This study, along with the emerging studies on *maqasid*, considers *maqasid* as part of the articulation of Islamic moral economy. Therefore, it essentialises *maqasid* for ISWF construction to develop moral augmented ISWF.

It should also be noted that there is no room for *maslahah* criterion nor avoidance of *mafasid* principle in the explicit commands of Qur’an and *hadith*. Insofar as the ‘*maslahah* criterion’ and ‘avoidance of *mafasid*’ principle is inherent in the process of rule derivation for social preference ordering, until then the outcome can reflect the implications of foundational axioms of IME. Therefore, the general view of Islam, in this respect, is that, as Ibn al-Qayyim states, “everything that lapses out from justice into injustice, and from mercy into its opposite, and from *maslahah* to *mafsadah*, and from wisdom into the frivolous, does not belong to *Shari’ah*, even if it is inducted into it by interpretation (*ta’wil*)” (Siddiqi, 2007: 6). In line with such strong sentiments, application of *adl* in addition to consequentialism would offer far better solution for the social preference ordering

The adoption of *adl* and consequentialism suggested by IME essentialises the substance orientedness, content and objectives for the ISWF. Thus, social preference orderings, which relates to compliance with a behavioural norm imposed by the form and process nature of *Shari’ah* cannot, at the same time, guarantee its rightfulness, since the consequences and equity of this behaviour has to be included into the analysis. As a parameter for rightfulness, IME emphasise on moral aspect complementing the *fiqhi* base with an entire examination of the decision-making process.

In a practical way, the role of morality in relation to ISWF has many reflections in the real world. Islamic finance industry, for instance, has many operations, which are not in conflict

with the textual understanding of economic related verses of Qur'an. However, these operations including *tawarruq*, *murabahah*, *ijarah* and *etc.*, though being *halal* by definition, are subject to different level of questioning in the sense that they do not well conform to the aspirational spirit or first-best solution of Islam in terms of their substance and consequences. Therefore, something that is *Shari'ah* compliant from the *fiqhi* point may not be put into the social preference ordering or is not preferred to a *Ma* activity. Similarly, by augmenting moral to *fiqh* through IME has to treat *ribawi* contract and a non-*ribawi* contract equally if the former has the same harmful effects with the former over society even it satisfies the formal aspect of Qur'an. In addition to these, there are three more supporting examples, which strengthen the impartiality of moral with *fiqh* significantly, which are:

(i) Khalifah Omar made an *ijtihad* about the distribution of *ghanimah* or bounty gained from the conquering of Sham lands (current Syria) and concluded that the *ghanimah* would not be distributed on the contrary to the Qur'anic verse (Surah al-Anfal, 8: 41) instead it would remain in the hands of the citizens of the conquered land, thereby the income taken as *kharaj* (non-Muslim poll tax) from the citizens intended to be used for the benefit of Muslim *ummah*.

(ii) Junk foods and smoking cigarettes, though there is no unanimous agreement on them being *haram* or *makruh*, are not included into the SWF, since their harmful effects such as obesity or addictions are clear. Therefore, the taste of junk food being delicious or doing *halal* trade by opening fast food buffet should not be introduced in the preference ordering, although it fulfils the individual needs and tastes. At this point, IME paradigm introduces and suggests the concept of *tayyib* (pure and good), which should be considered as another layer of constraint in the preference ordering, since Qur'an (2: 168) strictly stresses the pureness and goodness immediately after the lawfulness. Therefore, *tayyib* (pure/wholesome and good) is level that goes beyond just permissibility as we are required regardless of economic abilities to make certain that our choices to the best of our abilities are maximising our well-being.

Islamic ethical system based on *tayyib* is not based solely on esoteric idealism. It is also grounded in tangible practice. Without struggling against the aspects of our being which are blameworthy, we risk being full of empty talk. Before all the lofty spiritual aspirations is the simple, yet profound advice of the Prophet Muhammad, (God bless him and give him

peace) who advised one of his companions named Saa'd. Saa'd once requested from the Prophet that he supplicate on his behalf asking God to always accept his supplications. The Prophet responded: "Eat [and chose] from [that which is] *al-tayyib* (pure), and your supplications will be accepted" (Tabrani, 6395). Therefore, pertaining to ethicality in the Islamic tradition, a Muslim should be concerned with what comes out of their mouth and what goes in, because both actions have consequences. Being scrupulous in what we eat leads to greater spiritual clarity and proximity to God. In that regard Prophet mentioned (Muslim, 1015):

The Messenger of God (God bless him and give him peace) said, "God Almighty is Pure and accepts only that which is pure. And God has commanded the believers to do that which He has commanded the Messengers. God Almighty has said: "O Messengers! Eat from the *tayyibat* (pure), and perform righteous deeds".

When considering the social choices and their relation to the spiritual realities in human life, morality and ethical consideration influence a majority of purchasing and consumption decisions. If morality and ethical considerations are excluded, then only positive law is considered with regards to human choices. However, given the detrimental practices associated with production and consumption, it is of the utmost importance to include morality and ethics at the forefront of the discussion.

(iii) Purely on macro-level, Islamic community is expected to choose 'profitable but sustainable growth policy' to 'profitable and unsustainable growth policy' as practiced by Islamic financial industry. Hence that will require Islamic financial institutions not only to provide financing for the one percent of the rich Muslim population but also deprived one. Furthermore, there will no longer emerge the "trade-off between sustainability and depth of outreach" (Ahmed, 2013: 206). Consequently, this will imply that Islamic financial institutions have to consider the morality not only the through organizational expectations but they have to deliver the services to the most deprived individuals.

These examples together indicate that morality does not consist of immutable principles as it is articulated by *fiqhi* norms, and, as a result, the vitality of morality should be part of making decisions or deriving a rule for the construction of ISWF.

The vitality of morality under IME is solidly founded on the assumption of Islamically bounded rationality. Contrary to the conventional meaning of rationality, IME stresses the

bounded aspect of it by stating that any individual act has to be in accordance with the *Shari'ah*. As such, it is bounded but also broadened concept of rationality, which incorporates *akhirah* in the form of social accountability into its construct as well, as part of Islamic conception of utility. Therefore, non-monetary rewards become also a part of rational behaviour, since “the act of sacrifice is itself seen as enhancing the individual’s expected welfare” (Naqvi, 1983: 31). This understanding is deduced by the *fardh* (responsibility), *khilafah* and *ukhuwwah* axioms, which necessitate individual, social and spiritual accountabilities so that rational behaviour cannot be reduced to the mere self-maximisation principle (Naqvi, 1994: 56). Thus, the Islamic concept of rationality, in the social welfare context, does not accept individual preferences as ‘supreme and feeding into the social choice’ (Choudhury, 1991: 268). This is one of the main distinctive characteristics of the Muslim public choice construct from the Arrowian sense, which strictly bases the individual sovereignty in his SWF. Therefore, together with this, the Muslim public choice, in constructing an ISWF, adopts “*Shuratic* decision making process through *ijtihad* mechanism” (Choudhury, 1980: 9). The strength and priority of *shura* in the decision-making process is explained in the Qur’an (42: 38). The discussion about the determination of *khalifah* for the *ummah* was made immediately after the death of Prophet, which, as an example, proves the urgent need for establishing a *shuratic* or consultative decision-making framework in the society.

The method of social choice, from this perspective, adheres to the consensus, but ISWF also puts *ijtihad* into the process for the derivation of preference ordering. In this sense, the IPC (Islamic Public Choice) produces a deductive, imposed consensus since *Shari'ah* already determines the framework of *shuratic* decision-making (Mannan, 1982: 17) and aims at actualising the imposed consensus in everyday life, while the Buchananian frame requires an inductive process by engaging with each other to establish consensus. Thus, IPC has only deductive method in terms of rule derivation, namely *ijtihad*, and utilises inductive method in providing the substance of the consensus in the sense of social contract within the derived rule.

In deriving social choice in IME, the representatives (*khalifas*) act on behalf of individuals, hence there appears no such a social choice model in which averages of individual preferences are taken to produce public choice. Further, contrary to the conventional form,

ISWF does not assign equal weights to the preferences, since “the least privileged people need much priority for establishing the distributive justice” (Naqvi, 1983: 34-35). However, what Arrow’s Pareto condition implies is that efficiency is the only condition for the preference ordering irrespective of the concern for equity and justice. These moral considerations are left to market’s self-regulating capabilities; hence, Pareto principle adopts neutrality about distributional concerns (Naqvi, 2002: 115). Therefore, in Paretian economic exposition, “a society or an economy can be optimal ... even when some people are rolling in luxury and others are near starvation as long as the starvers cannot be made better off without cutting into the pleasures of the rich” (Sen, 1970: 22). Beside these unbalanced deductions of Pareto optimality, IME, with a consequentialist manner, assumes that every social preference ordering has to reveal ‘right outcomes as well as efficient solutions’ (Mannan, 1982: 17). This implies that the priority of equality over efficiency is derived from the principle of socio-economic justice (*al’adl wal ihsan*) of IME. Although the efficiency-equality nexus is an indispensable paradox for conventional economics, IME attributes no conflict between them but it rather points out the ‘simultaneity’ of these two (Choudhury, 1991: 273).

In exploring and expanding, similar to Rawls’ (1972) reflective equilibrium notion, Choudhury (1991: 267) introduces the principle of ‘ethical endogeneity’, which mainly asserts that

There is an intrinsic two way relationship between polity (policy variables) and the market system (state variables) in an ethicoeconomic order. In such interrelationships, both policy variables and state variables feed back upon each other in a dynamic labyrinth of social transformations. Such a property of the polity-market interaction generates locally, but not globally, stable solutions for state and policy variables in an ethicoeconomic general equilibrium system.

In IME frame, the polity-market interactions must be in harmony with each other as the outcome of the *tazkiyah* process in ensuring inclusive growth, which is necessary for the establishment of socio-economic justice. At this point, the failure of conventional economic thought with regard to the explicit growth policies emanates from lack of such endogeneity. It, then, makes neo-classical SWFs impossible as can be seen in Arrow’s impossibility theorem. However, due to the observed endogeneity derived from the *tawhidi* framework structures for individual-individual, individual- environment and individual-Allah relationship, the formulation of individual preference ordering and amalgamation of these

preferences for the public choice can explicitly be actualised.

In this, individual-individual relations are determined by *al'adl wal ihsan*, *ukhuwwah* and *khalifah* axioms within the *tawhidi* paradigm and *shuratic* process, in which every individual promotes his wellbeing without a violation of others; and also aims to promote the wellbeing of others according to his/her constraints.

Individual-environment relations are concerned with the development of both intra and intergenerational justice (Naqvi, 1994) and the *islah* (reform) of the old institutions. It is also important to recognise the developmentalist path or a particular *fitrah* given to the environment, individual and society as explained *rububiyah* axiom. Their interaction, in an optimal manner, according to *fitrah*, is essentialised by *tazkiyah* in aiming at growth but in harmony with all the stakeholders including environment. This requires a “continuous reproduction [of resources]” (Choudhury, 2009: 225) for development and sustenance instead of looking for an optimal resource allocation within a competitive environment market.

As for ‘individual-Allah relations’, the bidirectional link between Allah and individual constructs the ontological basis for an ISWF. With this understanding, individual consciously makes preference orderings in line with the Qur’anic teachings. This necessitates the consideration for the *akhirah*, for individual’s mission in this world through *khalifah* and for individual’s conscience of his role as trustee of Allah.

When the ISWF, based on the aforementioned axioms, compared to Arrow’s conditions in terms of its compliance to them, it can be seen that the Pareto condition and unrestricted domain assumptions do not hold in the ISWF. The reason for the latter is that there are some restrictions during the derivation of social preference ordering, since individual preferences are assigned “different weights, and some has zero weights” (Naqvi, 1994: 66). However, when it is considered in terms of five layers of individual preferences, there are no restrictions on the domain, but a filtering mechanism by *shuratic* process through restrictions on preferences is applied in terms of establishment of the Muslim public choice preferences. The non-dictatorship assumption of Arrow, on the other hand, holds with the ISWF, since *al'adl wal ihsan* (justice and beneficence) in the form of horizontal equity rejects the application of choice of any one individual on the rest. But, at this point, it should be

noted that historically there has been an explicit romantic tendency by neoclassicals about assuming that 'state' is an exogenous and mostly neutral benevolent factor in which the state's role is akin to a 'benevolent dictator'. As such, the constructing a SWF, from the neoclassical point of view, implicitly necessitates the attribution of state as an omniscient dictator. Therefore, the impossibility of developing a SWF based on Arrow's assumption cannot be overcome without introducing a 'benevolent state', in which social preference ordering is assumed to be established by state organs and this ordering serves for the refinement of every individual. Muslim scholars, on the other hand, assumed an endogenised 'benevolent state'. However, IME approach, rejecting these two views, suggests giving up this romantic view of state, since the state is constituted by individuals, and individuals by definition, have their normative way of approaching issues. This view is antagonistic to the understanding of seeing the state as an inorganic entity. Thus, IME's response to state oriented solution to Arrow's theorem should be that the impossibility could only be overcome by considering state "as a working part of the economy, not a force external to it" (Downs, 1957; 150).

In concluding, the Arrowian sense of constructing SWF has basic fallacies regarding the IME approach based on the evidence that Arrow's assumptions have no applicability over ISWF as explained above. Thus, the authenticity of ISWF requires the modification and rejection of some conditions by augmenting Islamic morality as a parameter into the model as essentialised by IME.

5.6. SUPPLEMENTING MORALITY IN DEVELOPING ISLAMIC SOCIAL WELFARE FUNCTION: THE AXIOMATIC APPROACH

Islamic political economy like conventional economics gives a similar priority to the allocation of resources in order to fulfil the needs and wants of human beings. However, it differs significantly in the way it answers the core economic questions and in how it defines human needs and well-being. While conventional economics, which emerged within the materialist worldview is solely based on human reason and hence aims only to maximise the utility of individuals by satisfying their material choices and preferences, Islamic political economy, as explained above, is based on human reasoning guided by the value system of Islam where the ultimate goal is the fulfilment of *falah* conditions for success in this world and the hereafter.

Consideration of specific moral judgment in the process of distribution of resources is an important aspect of IME, which is the substance of, and context for the IPE framework. Distributing the bundle of goods, making decision and policies in different times and circumstances, under individual preferences or the preferences of the whole society, may only satisfy the material dimension or individual greed. In contrast, when individual preferences are guided through the divine order of Islam, it aims to establish an equilibrium between material and spiritual dimensions.

5.6.1. The Axiomatic Proposition

Islamic economics by dealing with every aspect of human development and well-being, attempts not only to satisfy material needs, but also recognises spiritual, moral, and social needs of human beings. It extends human happiness into spiritual, moral and social dimensions, which distinguishes and defines the nature of Islamic economics. Islamic economics in terms of the mechanism for distribution of resources and goods, also favours the free market in general. However, it does provide certain filters driven by morality, spirituality and social customs (*hisbah*) to avoid the unfairness of the unregulated market. Thus, as Aydin (2013:27) explains “‘what to produce’ is determined by the comprehensive understanding of human nature and needs, not by self-interest”. Accordingly, self-pleasure is not the final end but rather it is the by-product of God’s pleasure.

In the construction of the Islamic economics concepts, mainly *fiqhi*, non-systemic reasoning of *Shari’ah* scholars are utilised. However, Islamic economists, among others, Ahmad (1980; 1994; 2003), Siddiqi (1981), Chapra (1992; 2000), El-Ghazali (1994), Naqvi (1981; 1994), Sirageldin (2002), Choudhury (1980), and Asutay (2007; 2008), propose a dynamic and systematic approach articulated through Islamic axioms, which are applied in formatting the conceptual foundations of Islamic economics. According to Sardar (1985:210), an axiomatic approach is important for Islamic economics to develop its own tools of thought and analysis and also its unique institutions in order to detach itself from the neoclassical foundation.

The axioms and conceptual foundations “defines an Islamic moral economy and its corresponding ethics as an ideal through which economic and social policies dealing with every aspect of human life are assessed” (Asutay, 2007:7). Therefore, according to Asutay

(2007), the distinguishing nature of Islamic economics is seen as a system of ethics that Islamic economics tries to assess in accordance to reality and provides policies that aim to improve all ethical dimensions.

In an attempt to define the welfare functions from an Islamic perspective, the axiomatic formulation will be used to describe the philosophy and fundamentals in order to explain their constitutive nature in defining Islamic social welfare. The Islamic economics axioms are elaborated upon in this section along with their relation to the construction of Islamic welfare. These principles and axioms are those which aim to lead to the spiritual development along with the economic development that enable human beings to reach the assigned role as vicegerent of God on earth. The first set of axioms was introduced by Ahmad (1980), Siddiqi (1981), Naqvi (1981) and Chapra (1992) with the objective of explaining the framework of Islamic economy. These axioms are briefly discussed below:

The axiom *tawheed* (God's unity and sovereignty), which not only refers to unity of God but also the unity of human life, was a distinguishing point for the departure of the new discipline. Given that it is at the centre of Islamic ontology, *tawheed* refers to complementarity and unitarity in the sense that the benefits and utilities of all the stakeholders are complementing each other in order to create a unitary system between the dimensions of this world and dimension of the hereafter. It is followed by *adl* (justice) as a means for social justice. Justice, as identified by Islam, is one of the main roles of humanity on earth. *Ihsan* (benevolence) implies spreading social good by extending *falah* (success) so that others in the society can also reach *falah*. *Ikhtiyar* (free will) explains human freedom to choose and oppose any power that limits individual choices. *tazkiyah* (purification) essentialises growth but with the objective of aiming towards perfection and in harmony so that the rights of all the stakeholders can be ensured. Finally, *i'mran* (development) is another basic role of humanity on earth, achieved through the purification of attitudes and relationships; it implies further that micro development of individuals, society and the natural environment should endogenise Islamic norms and values in the process of development so that Islamic social formation should be the essential source of embeddedness. Therefore, further axioms such as *rububiyyah* (divine arrangements for nourishment, sustenance and directing things towards their perfection) imply the necessity of sustainable economic growth and development according to a particular developmentalist

path provided through *fitrah* (human nature), and *khilafah* (vicegerency). *Khilafah* defines human beings as vicegerents of God on earth with the assigned roles of ‘*ibadah* (worshipping), *i’mran* (developing), *nasl* (raising the new generation for continuing humanity), *adl* (securing justice on the earth, for which man will be accountable) and finally *al-maqasid al-Shari’ah* (striving towards the highest objectives of the *Shari’ah*) which determine the utmost motivation of Islamic economics, namely, in securing the well-being of humans. Further axiom related to ISWF construction include, for example, *ukhuwah* or solidarity which teaches an individual how to relate and deal with his/her fellow persons in the light of his/her relationship with God so that *ihsan* (benevolence) can be essentialised. In addition, the axiom of *taqwa* or righteousness with its aim of developing individuals so that other axioms can be embedded in one’s actions and attitudes. Finally, *akhirah* or the knowledge of the divine judgment indicates that life has two dimensions and the hereafter is the place where the repercussions of this world accumulate in determining the level and nature of *falah*. The main goal of these axioms in developing Islamic economics in particular is securing *falah* according to a two-utility dimension with success in this world and the hereafter subject to expansion of *ihsan* (benevolence) as a social capital.

It should be noted that Choudhury (1980: 5-10) was the first who attempted to construct ISWF by using the axiomatic approach that stands on the axioms of *tawheed* which is determined by the impact that Islamic actions leave on the heart and soul of the individual. However, the axiomatic approach that Choudhury (1980) proposes limits the welfare only within the spiritual sides of *tawheed*, *ukhuwah*, *taqwa* and *akhirah* and their impact on materialistic actions. It therefore fails to cover comprehensive welfare which should include the four main roles of humans living on the earth.

Choudhury’s (1980: 10-14) attempt in ISWF is also based on a different paradigm: ‘consumption theory of time preferences’. In this framework, attention is given to analysis that “would impart quantifiable dimensions, measured intertemporally, and resulting from the Muslim’s belief regarding rewards from the abstention of the *haram* and the practice of balanced consumption” (Choudhury, 1980: 11). Furthermore, he extended the model by including social relations between production, consumption and exchange by assuming them as forms of *ibadah* (worship) whose effects on the mentioned factors could be measured. Within his axiomatic framework, Choudhury (1980) analyses the

implementation of the principle *la israf* (no waste) to an Islamic intertemporal utility function which results in savings at the initial time period. This would result in the production of capital goods rather than towards the consumption of goods in the following periods of time. The shift from investment into production of consumer goods to capital goods implies that the notion of marginal rate of time preferences is replaced by the more realistic marginal efficiency of capital which is determined under the intertemporal consumption-investment menu. Obviously, the time preferences theory, along with the principles of Islam, only narrow the social welfare orderings of Islam to returns from investment through the given period of time. Hence, it neglects the wide range of social welfare function related contents that relate to different segments of human life.

However, in order to develop a welfare theory based on ISWF on the axioms of Islam, the implications of the above-mentioned axioms should be better articulated in such a construct so that moral consequentialism can be produced as a result, which is missing in Choudhury's proposal. In an attempt to construct a moral-augmented welfare framework from an Islamic perspective in a more dynamic and comprehensive manner, each of the above-mentioned axioms are discussed below with their implications for ISWF.

5.6.1.1 Tawheed (Unity of God)

The Muslim life and Islamic scholarship is based on *tawheed* which outlines the Islamic character, lifestyle and hence the ISWF. As an umbrella concept, *tawheed* is the source of Islamic ontology and suggests complementarity; that in the world everything is related to each other by complementing themselves as the articulation of God on earth. In addition, being the unitarity axiom, by definition of complementarity, it suggests that everything is part of the same reality of being emerged from God. Furthermore, "as [a] vertical dimension and equality of Islamic ethical system, it also manifests itself by the inherent equality of each individual as represented by their paralleling proximity to God" (Asutay, 2007:7) and therefore they are all equal to each other before Allah. Within the broader meaning of this axiom, individuals, society, the environment and planets are considered as one unit that complement each other and therefore, each is charged with the expectation that each of the stakeholders' rights and utilities must be sought for in delivering *adalah* (justice) which can only be possible with *ihsan* (benevolence).

As regards to the implications of *tawheed* for the construction of ISWF, opposite to the neoclassical paradigm where the knowledge and systems should be subjectively value-free, construction and development of ISWF is based on ontological and epistemological sources of Islam. Since the values and the norms are embodied in society, individuals can be easily influenced by these values in their social preferences; given that *tawheed* inspires a system of welfare, which is value-laden and strongly constructed on moral principles.

Iqbal (2008: 154), therefore, confirms that ‘the essence of *tawheed* articulates the meaning of equality, solidarity and freedom. These moral principles require an endeavour to translate into space-time forces to be articulated in [definite human welfare patterns] and institutions’. Naqvi (1994:26) further explains the functionality of *tawheed* in constructing ISWF, by stating that it “link[s] the imperfect and finite institutions [and social welfare patterns] constructed by human beings with a Perfect and Infinite Being”. In other words, established institutions and patterns through the comprehensive regulation of moral and spiritual aspects of human beings as well as the inter-connection of all creatures on the planet as part of complementarity and unitary and their equality before Allah, constitutes the main axis of ISWF leading to *falah*. This makes sure that different preference orderings can be brought together to construct a ISWF. As in this complementarity, all creatures-humanity-God relationships as well as any new ideas or activities rooted in politics or economics, becomes a part of *ibadah* or worshiping. This inner feeling of continuous consciousness and connectedness motivate the individuals to chose social welfare patterns that brings pleasure and reward from God and this decreases differences since all individuals are motivated to achieve *falah*. To this meaning, a vertical explanation of *tawheed*, emphasises the equality of everyone as represented by his/her equal proximity to God. In this way, *tawheed* dismisses a semblance of any superiority of man over man on the basis of race, colour, background or social status but rather by his/her concern of *falah*.

The derived meaning of equality is essential for constructing the social welfare functions adding to the ‘universal solidarity’ or *ukhuwwah* within the framework of *amanah* (trust) and *ikhtiyar* (free will). This implies that in the construction of ISWF, an individual is viewed as an integral part of the whole (*ukhuwwah*). They should be empowered in the decision-making process (*ikhtiyar*) with a concern for public interest and the life of creatures and the environment (because of *amanah* or trust) because they hold a concern for their *akhirah* (a

system of accountability in the life of the hereafter for their conduct in their earthly life) that will lead them to *falah*. In addition, due to complementarity and unitarity, their interests are represented and can be amalgamated to produce ISWF.

5.6.1.2. *Amanah* (Trust)

The concept of *amanah* or ‘trust’ is central to life as Islam identifies; it holds the connotations of peace, safety, protection and trustworthiness needed in order to attain the *maqasid al-Shariah* (Ibn Manzur, 1956:13). It also directly relates to the *rububiyah* and *tazkiyah* axioms within *tawheed*. As part of its trustworthiness meaning, it requires from all individuals to work towards integrating the meaning of *amanah* in daily life and institutions in order to achieve the full meaning of *amanah* and thereby articulate welfare dimensions.

The implication of *amanah* on society are illuminated by self-accountability which guides individual conduct to create inner-feelings of responsibility to deliver their trust by fulfilling his/her roles as vicegerent of God upon earth. On the broader level, *amanah* requires establishing a comprehensive accountable system starting from individuals, society and institutions. It must be the prevailing and viable underlying philosophy for accountability, transparency and efficiency in serving and providing the society’s welfare. In addition, the presence of *amanah* as a value in humans creates the balance of social choices to overlap between identical patterns of welfare and at the same time decrease the dispersing of social choices. Thus, *amanah* relates to ISWF in relation to taking into account the interests of all the stakeholders including society with the objective of accountability to God within a two-dimensional utility function of individual utilities. Thus, *amanah* provides the underlying principles of a governance mechanism to essentialise the welfare of society by considering the rights and preferences all the stakeholders.

Ibn Taimiyyah (2005: 21) commenting on *amanah*, has mentioned that its true meaning can be summarised as the following: “selection and appointment of staff in the public or private sector should be based on trustworthiness and expertise; and [the] second meaning [is] that the distribution of wealth in the community should be fair and prior to agreement of whole individuals”. As explained by the second part of his definition, Ibn Taymiyah in his explanation of *amanah* refers to the social contract which is the essential foundation of ISWF.

A further implication of *amanah* in political economy suggests that God has given the trust to human beings to deliver and promote His guidance (not imposed on them but entrusted on them) through justice and fairness. In that regard, any mischief and evil should be eradicated as part of their responsibility and trust. Applying this concept into welfare functions brings a very important dimension that humanity is capable under the wide meaning of the *amanah* concept to deliver patterns of welfare functions that satisfy the *falah* condition.

Accountability under the *amanah* concept is pivotal and is a starting point in articulating the purity and capability of humanity in socio political life. Accountability, in line with this argument, empowers individuals to come up with the true meaning of ISWF, which are recognised by believers who allow the meaning of *amanah* to confirm the meaning of *tawheed* in their actions. This explains inter-dependency of *amanah* under the *tawheed* concept so that when *tawheed* is missing, *amanah* cannot be established.

In articulating the concept of *amanah* within the ISWF, it should be crystallised that individual choices for the level of his/her welfare are only accepted under the accountability condition. This does not mean that choices are imposed but rather that they are answerable to the choice made under the *amanah* condition.

Practically, in reflecting on the modern world in terms of development and requirements (within the spirit of *amanah*), all institutions, public offices, companies and other bodies should be monitored by the public through freely exercising the meaning of accountability. In the same way, the public or individuals of a society will be controlled through their inner submission to the concept of *amanah*, which manifests their true belief (*tawheed*). This therefore ensures that individual preference orderings can be aligned through mutual agreement under *tawheed* by also essentialising *amanah* so that the essence of social contracts for ISWF can be laid.

5.6.1.3 *Adl* (Justice)

One of the main roles of human beings on the earth is establishing justice (*adalah* or *adl*); as living justly or fairly is the centre of Muslim actions (Naqvi, 2003:151). *Adl* refers to social justice in our context, and denotes straightness and uprightness, which are the state of the

absence of tyranny, corruption, waywardness and deviation, which also implies balance and proportion. Further it is used for equality, equity and fairness (Ibn Manzur, 1956:11/430-31 and Al-Jawhari, 1956: 5/1760-61). Moreover, it is defined as putting things in their right place (Imarah, 2005: 62-64).

From these definitions, *adl* encompasses a comprehensive meaning exceeding the current and limited notion of justice, as it stands for the right of society to up rise against any kind of tyranny and oppression regardless if it has been practiced against human beings, animals or even plants and resources. This implies that humanity and other categories of creation should find a balance when it comes to using the resources created by Allah, as an *amanah*. Any kind of unreasonable, unjustifiable exploitation of resources to satisfy the greed of the privileged will lead to an imbalance and asymmetry which will further lead to social disparities and injustices. Therefore, *adl* requires establishment of divine order between all the categories in order to achieve the full meaning of justice.

The concept of justice, however, cannot stand by itself. The human nature is likely to drive humans to behave in an unjust way if there is no internal belief (*tawheed*) or external public security to control his/her inner soul. The history of human history is full of examples that indicate people were always in control either through the religious dogmas/beliefs they held or from the practice of power and tyranny. Constructing ISWF therefore, should come from *tawheed* which essentialises establishing social justice. While the rights of society are secured through the *tawheed-adl* connection, the closer determination of justice comes from the concept of *ihsan* (benevolence). Given that the Islamic notion of justice is proactive justice, it is a requirement therefore that it is extended to others in order to establish equality in term of access to and use of *amanah* resources within *tawheed*.

In essentialising the ISWF implications of *adalah*, Taleghani (1995) succinctly summarises the meaning of *adalah*:

The term *jihad* is always attached to the locution *fi sabil Allah* (in the way of Allah). What is the way of Allah? Which direction is it? Is it toward the heavens, toward Mecca, or toward Jerusalem? No. The way of Allah is the very path of the well-being and betterment of human society. It is the way of justice, truth and liberty. It is the building of a world in which a specific group or class does not dominate over the destiny of the people, in order to stop people from utilising the natural resources that Allah Almighty has created for the common use of humanity. As Allah has given natural powers and intellectual capacities to man, as Allah has created this atmosphere, light, and land for everybody. *Sabil Allah* refers to the world in which all the people can

develop their human capacities in order to obtain freedom.

5.6.1.4. *Ihsan* (Benevolence)

Ihsan with its instrumental meaning of justice and fairness provides the completion for the Islamic understanding of comprehensive justice. Fairness and benevolence reflects the very meaning of *tawheed* in a proactive way by considering the social good by helping others to reach *falah*. It hence, constitutes the proactive socialisation in essentialising the Islamic notion of contributing to the development of others and hence is a maximised version of social welfare in terms of social contract. The ramification of *ihsan* resembles the *tawhidic*-inspired belief that all creatures are one nation equals to one another.

Ihsan illuminates the pure meaning of the act of benevolence towards other creatures, not only amongst themselves but also between them and nature; not only for the present generations but also for future generations. It also connotes the meaning of striving to reach the best standards of performance in any circumstances or situations. It presents excellence, graciousness and benevolence with comprehensive excellence and perfection which are interconnected with *adl* and *amanah*.

The comprehensive term *adl* and *ihsan* denotes the interconnected application of *tawheed* in economic, political and other dimensions in which justice is the major aim to be achieved. This complexity of *adl-ihsan-tawheed*, aims to establish an Islamic ethos in all dimensions of human surroundings. It insists upon just in order to prevail in a Muslim community through a value-based development by ensuring social welfare is established on the grounds of equality and equal satisfaction for all members of the community by essentialising socialisation through a proactive attitude of individuals. Thus, social justice determined by members will prevail and distribution of wealth, based on the need for a just development and economic growth, will consequently denote a state of social equilibrium (Naqvi, 1994:276).

In the same way, the *ihsan-amanah* connection inspires individuals to be functioning active citizens as part of the public choice in making decision for welfare functions in terms of beneficial decision for not only themselves but also for others. Therefore, a *muhsin* (a person who has a proclivity of inner self-consciousness of *ihsan*) is a person who does not live on the basis of individualistic egocentricity but is also a concerned member of the community

for the social wellbeing of others. Consequently, with such a standard, the improvements of society and nations towards a better social welfare could be easily achieved if every *muhsin* plays their part in contributing to the welfare of others.

Under the *ihsani* axiom, another important horizontal dimension of equality is provided. As Asutay (2007: 7) explains, “intra-and inter-generational equality, human beings and society are expected to establish a balance between the needs of present and future generations, develop policies to fulfill the needs of individuals, enable them to earn a respectable source [of] living, develop policies for an equitable distribution of wealth and provide for growth and stability-oriented policies”. This implies, the virtues of *ihsan* should be integrated within the legal, political and economic atmospheres (Naqvi, 1994:27). Hence in social welfare functions, given that socialisation is the form of contributing to the well-being of others, a part of social welfare function can only be possible with developing virtuous acts, as it is clear in the way in which the Qur’an essentialising spending for others and from the tradition of the Prophet when he encouraged individuals to be generous and considerate of others. For example, the Prophet initiated the institution of *hif al-fudul*.

Hif al-fudul or ‘the league of virtuous’ refers to the pact formed by leading personalities of Makkah including the Prophet before the revelation of the Qur’an with the objective of standing together as one on the side of the oppressed against the oppressor until justice was done regardless of the origin of the wronged. In later years as a prophet, Prophet Mohammed stated that “it was so excellent a pact that I would not exchange my part in it for a herd...; and if now, in Islam, I were summoned unto it, I would gladly respond” (Lings, 1983: 32). This is a clear indication that virtue is essential in socialisation. Secondly, such a tradition would consider everyone to be equal as part of this proactive justice and social good orientedness. Hence, *hif al-fudul* is an important institution in an embedded sense in essentialising social justice and welfare and therefore can provide the moral foundation for ISWF.

5.6.1.5. Ukhuwwah (Universal solidarity)

The axioms of Islam set its own paradigm in defining the social nature of individuals and their relations to society. The social welfare functions are also processed through the same way. The main factor in determining these relations is established through the concept of

ukhuwwah, which in its expanded meaning denotes social solidarity.

Starting with a literal meaning of *ukhuwwah* it reflects association and companionship between believers and defines dimension of brotherhood in which affiliation to the Islamic faith becomes a bond. This concept today extends through the borders of national states of Muslim countries and transcends the exclusive bond amongst the believers towards the universal sense of solidarity.

It should be stressed that *ukhuwwah* differs in its practical articulation from the constricted version of solidarity (socialism), which denies the private ownership under the banner of solidarity. Opposing *ukhuwwah* therefore emphasises on an individual's choice. This is the unique characteristic of *ukhuwwah*; the ability to include the very concept of individualism, ownership and profit with the balances of certain elements of collectivism, social welfare functions, social justice and solidarity by introducing a moral filter, which is the concern of Islamic Moral Economy. In other words, *ukhuwwah* essentialises socialisation within *ihsani* social capital so that the *amanah* considered resources should be shared. This hence provides another functional lutation for the construction and operation of ISWF. In other words, the moral implication of *ukhuwwah* and its specific meaning that combines individuals with socialisation orientedness is a foundational base of social welfare functions within Islam. The spirit of *ukhuwwah* interprets a very functional and institutional concept of welfare.

On a more practical level, *ukhuwwah* defines the meaning of the *adl* system where individuals are required to treat individuals and creatures on the brotherhood basis. Qardawi (2008: 51) also expand the brotherhood to encompass comprehensive solidarity not only amongst Muslims, but also toward other fellow humans, who Islam consider as brethren in humanity. Any kind of enmity that comes with dictatorship, privileges and exploitation, which comes only with satisfying of self-interest, brings failure in implementing this comprehending character of human behaviour.

The concept *ukhuwwah* demands people to stay together as one body. It is a working mechanism, which provides the mood for unity and at the same time disables any possible threats that can cause instability, division and collapse of order. On this basis, *ukhuwwah* secures a long existing welfare pattern, freely chosen and secured by individuals who operate on the brotherhood system.

As for the motivating factor of *ukhuwwah*, these are mutual 'love' between members of the society as well as the virtuous characteristics of *ihsan* for expanding socialisation. The confirmation of existence of love in the economic sphere distinguishes Islamic Moral Economy conceptually from neoclassical economics, in which self-interest dominates. However, this does not mean that Islamic Moral Economy does not recognise self-interest but also it looks upon the social reality from a solidarity perspective. This explains, why the Islamic world is rich with third sector industry i.e. *waqf* (endowment), *sadaqah* (charity) and *zakah* oriented voluntary activities through which individuals search for *homoislamicus*.

The concept of *homoislamicus* lives with inner feeling of an obligation to mutually co-operate with other members of society even though it is not obligatory. Hence socialisation is left to individual decisions while *ihsan* as a virtuous act encourages individuals to act accordingly. This innate inclination is derived from a *tawheedi* worldview that encourages individuals to live with and for such a spirit and embrace it as part of their acts of worshiping. This will subsequently develop socialisation through *ihsan* as a virtuous act. This innate ramification would contribute towards the active role of the third sector for economic development (Mannan, 1989). On the same basis, the construction of social welfare functions come from an innate feeling to transform one's individual preferences according to society's preferences so that the social contract can be established. Hence, social welfare functions can only be determined and agreed if *ukhuwwah* plays a role in individual life.

5.6.1.6. *Islah* (improvement and correction; reform)

Islah is the *raisonson d'etre* of sending messengers as an act of reform to bring about justice and peace and to prevent destruction and mischief in the world. The axiom of *islah* means 'to act with piety', 'to reform' and 'reconcile mutually' (Ibn al Manzur, 1955: 2/516-517).

Through the micro dynamic process, individuals were endowed with the mission of reform to uphold the wellbeing of individuals and society in both their worldly life and the life in the hereafter (Ghannoushi, 2001:110). The process of reform was not restricted to the spiritual side but expanded to reach a wider area to include all kinds of reform such as material, mental, social, spiritual and so on. Thus, only the good and pious element should be acknowledged as the building blocks of social welfare functions, which are in servitude of benefiting the human being. In a more contemporary meaning for construction of welfare

function, *islah* also associates with the world *tajdid* (reform) and *tagyir* (change), as necessary factors for constructing a sustainable social contract for ISWF.

In its original meaning *islah* represents the permanent behaviour of moving towards betterment and perfection, which also means that under the *islah* concept, transformation from the state of bad to good, from good to better and from better to perfection. In the same way, construction of social welfare functions requires a constant endeavour towards a comprehensive state of excellence within the framework of innovation, construction and reconstruction under the constant changes of circumstances, necessary to attain *falah* and creating the facilitatory environment for socialisation through *ihsan*.

The necessary elements of *islah* are *khayr* (goodness) *ma'ruf* (good conduct) and forbidding *munkar* (that which is not recognized as good or indecency), which are the fundamental components of socialisation or *ihsan* as the moral foundations of ISWF. The first element, *khayr*, induces the strong characteristic of initiating a culture or atmosphere of goodness that varies from one context to another. The second, *ma'ruf*, literally means establishing good conduct, which practically implies bringing people towards established good conducts. As for the third, forbidding *munkar* requires a constructive discourse to prevent people from committing *munkar* activities in order to preserve the state of *khayr* and *ma'ruf* as prevailing factors of existing societies.

From these inseparable elements of *islah* is derived the collective responsibility of every individual with a *tawheedi* consciousness in delivering their *amanah*, to create a community based on *adl* and *ihsan* with the spirit of *ukhuwwah*, functioning on self correcting and improving mechanism of *islah*. Without a constant effort of *islah* the other axioms could hardly be put in place in any community.

Working mechanism of *islah* are articulated through the concept of 'enjoinment of good and forbidding of evil'. Every single individual accordingly, is empowered to practice this concept and preserve justice and peace for the public interest. This important element of *islah* was constantly referred to in the Islamic tradition to enhance general justice within a community and hence come up with an ISWF that satisfies the nature of society as a whole.

Another working mechanism of *islah* is *nasihah* (advise and direction) which is used to guide individuals and society in their continuous striving to attain *falah* in both worlds.

Implementation of the *nasihah* element of *islah* in constructing the social welfare function among different choices will secure direction of people striving towards socialisation or *ihsan* (comprehensive excellence) in their daily life, leading to *falah*.

Implementing these two elements of *islah* fulfils the requirements of the horizontal accountability of peer assessment to be implemented within the larger society hence ensuring the establishment of welfare patterns acceptable by all members. *Nasihah* and enjoinder of good and forbidding evil, can therefore contribute towards the emergence of functioning and responsible individuals who will be aware of their responsibilities towards themselves and the society in which they live. This awareness and responsibility comes from a vertical accountability that comes from the concept of *tawheed*.

Important aspect of *islah* comes from the accountability of all members to perform *islah*. It has never been restricted to a certain group of society. Therefore, the freedom of expression becomes an essential condition for *nasihah* and *amr bil maruf wa nahy anil munkar* (enjoinder of good and forbidding evil) in order for individual and society to be accountable. Therefore, freedom of expression is essential to fulfil the social welfare functions given that these functions will be defined under power, which restricts freedom of expression. In addition, social welfare functions in free society must adhere towards the value system of that society which is determined by the axioms.

Within the value system of Islam, *hisbah*, as an important institution was historically developed within the theoretical and conceptual formation of Iby Taymiyah, whose main functions were to correct market failure and prevent hindrances to the natural functioning of the market. Gradually, more duties were added to *hisbah* to include the field of moral policing and preservation of moral stability. In short, *hisbah* was the representation of the *islah* axiom on an institutional level to secure balances in markets and preserve morality in the society. Therefore, development of social welfare function under the wide range of axioms would lead to their institutionalisation for an assigned purpose. Consequently, *islah* provides another foundational norm for the construction of ISWF.

5.6.1.7. Ikhtiyar (Free-will)

An essential component for the development of society and social welfare function is

freedom, which is, in Islam, derived from the concept of *ikhtiyar* or free will. Freedom in an Islamic framework of *tawheed* is bound with responsibilities and denotes the sense of 'free from' rather than the explicit 'free to'.

Both Islamic and contemporary understanding of free will agree that individuals should have political freedom to enjoy their rights. However, Islamic Moral Economy brings to *ikhtiyar* important elements of responsibility and accountability in addition to broad guidelines determined by the value system of Islam to be practiced within a specific societal context and needs of changing times (Naqvi, 1994:31).

In substantiating the accountability and responsibility elements, Sen (1999: 190) explains that "without the substance and capability to do something, a person cannot be responsible for doing it". Consequently, any deprivation from delivering his/her duties and rights by another human being is not acceptable unless it is due to God's ruling which aims to preserve the interest of individuals themselves, either in their worldly life or the hereafter, and it is therefore considered to be against *fitrah* (human nature). Therefore, free will under Islamic wisdom is associated with responsibility within the *tawheedi* framework; where an individual's rights are not confined to the claim on what is his/hers, but in delivering what belongs to the rights of God, society and self. In that case his/her accountability is also before God, society and him/herself.

Technically the *ikhtiyar* axiom implies free choices of what is good or choices for the better among available options in the process of constructing ISWF. Hence, available choices of *ikhtiyar* should be taken from the freedom granted to the individuals benefiting from socio-individual reasons; right, true, just and correct purposes (Alatas, 2003). Consequently any choice for something religiously or socially determined as bad is an act of *zulum* (injustice) either towards the rights of God, or towards society or towards him/herself or all of them. This brings into attention the whole issue of responsibility and accountability.

Therefore, in the process of constructing Islamic welfare choices, there must be presupposed knowledge of good and evil, virtues and immoralities, where the choices of evil and immorality are not choices as they are grounded upon ignorance urged on by the encouragement of the soul that inclines towards the guilty aspects of the animal powers (inner self). Subsequently, they are not an exercise of freedom because freedom means

precisely being free of domination by the power of the soul that incites to evil (Alatas, 2003) and other exogenous powers. In other words, the concept of freedom on Islamic thought is distinct because it qualifies the absolute freedom as being free from internal and external factors, where the internal factors are animal instincts. It is the act of freeing oneself from the restriction imposed from the inside as well as out.

Naqvi (1994:29) further elaborates the concept of *ikhtiyar* under the Islamic economic system understanding, where individuals are believed to be endowed with both unrestricted and voluntary free will. These wills should be advised by broad guidelines in order to “to interpret-reinterpret that freedom within [a] specific societal context, and to suit the needs of changing times” (Naqvi, 1994:31). Acceptance of voluntary will secures the actualisation of functional norms in the Islamic economic system. Similarly, the concept of *ikhtiyar* provides the same impact in constructing the ISWF.

Ikhtiyar also has implications for socialisation or contributing towards *ihsan*; as according to *ikhtiyar*, individuals are free to enjoin or not to enjoin *ihsan* which implies that they cannot be forced. However, within the defined axiomatic world resulting in *homolamicus*, individuals are expected to reach a level of virtuousness and hence voluntarily take up the established maximum level of *falah*, namely *ihsan*. Hence, *ikhtiyar* coupled with morality, as suggested by Islamic axioms, provides a foundation for the construction of ISWF through defining the nature of the social contract and the role of freedom therein.

5.6.1.8. *Rububiyah* (Developmentalist path of perfection)

The term *rububiyah* is closely related to the subject of *tawheed*. So *tawheed al-rububiyah* indicates the sole ‘Lordship of Allah as the only Creator, Owner and Nourisher of the universe’ (Ibn Manzur, 1956:399-400). This theological explanation of *rububiyah* determines the relationship of Muslims with their God and the world around them.

Islamic Political Economics employs the axiom of *rububiyah* in a more functional atmosphere by referring it to “divine arrangements for nourishment, sustenance and directing things towards their perfection” (Ahmad, 1979:12). This means that all choices of humanities should be directed towards establishing sustainable economic growth and development by harmonising the various economic components with environmental, social and individual

aspects of life. Thus, this meaning represents a higher level of the concept of trust, where there is always a requirement for the need of a constant struggle to choose the best social choices..

Therefore in defining the ISWF, *rububiyyah* denotes a constant struggle of individuals to choose the most sustainable patterns for development through adequate policy-making and mutually agreed mechanism operating within the value system of Islam for determining aspects of social welfare. In preserving development under the light of *rububiyyah*, it is imperative for actors, means and operating mechanism, to surrender to moral, environmental and cultural norms in the process of choosing the social welfare functions. This implies that the process and outcome should both satisfy *rububiyyah* conditions in order to attain the holistic well-being of the society.

Rububiyah hence, defines that individual, society and environment have a particular development path defined for them through *fitrah* or creation. As Talagani's above mentioned statement identifies, they should not be prevented in reaching that potential; and therefore socialisation or *ihsan* aims at providing such an opportunity for each individual as well as the whole society and environment its right to develop towards those particular perfections. Recognition of this sets the rules for a social construct in constructing ISWF.

5.6.1.9. Tazkiyah (Purification)

Tazkiyyah is another important principle of an Islamic Moral Economy, which has been highlighted by several Islamic economists, which is therefore, a significant axiom for the development of ISWF.

Tazkiyyah literally means growth and acts of purification in both physical and spiritual states (Ibn Manzur, 1956:6/2368). Technically, it indicates the act of spiritual and conceptual purification of the individual heart and of society from impure elements and undesirable growth through a spiritual-moral struggle (Siddique, 2004). In social welfare functions, it ensures the purity of choices from any non-Islamic elements that can nullify his/her conviction and submission to *tawheed*, which also implies one's growth whether individual, societal or environmental, should not be at the expense of the other stakeholders. This hence provides another important moral foundation of the ISWF.

Within the Islamic Moral Economy, the concept has been articulated as a subject that is “concern[ed] with growth towards perfection of attitudes and relationships” (Ahmad, 1994:20). The whole process aims at directing individuals towards self-development, which will enable them to decide on economic and social choices in harmony with dynamic growth of other stakeholders that require purification.

The result of *tazkiyyah* secure “*falah* prosperity in this world and the hereafter” (Ahmad, 1994:20). In other words, it will determine the standards and policies of welfare that achieve two-utility dimension functions. Therefore, Sardar (1998: 58) points that *tazkiyyah* will dictate standards and policies on individual and social levels consisting of four basic components: self-reliance, self-sufficiency, social justice and cultural authenticity. Accordingly, *tazkiyyah* represents the filter through which social choices of individuals are purified on both the micro-level and macro-level through the constant process of purification (Sardar, 1997:48-51) so that ISWF can be possible through essentialising socialisation or *ihsan*.

5.6.1.10. *Taqwa* (Righteousness Inspired by Fear of God)

Another major postulate of the Islamic social welfare function is righteousness, which is the central element explicitly or implicitly for developing ISWF. This element is fundamental to any individual behaviour, and also the base for formulating any type of social preference orderings (Choudhury, 1980: 9). This axiom works in parallel with the following axiom of *akhirah* explained in the following section.

5.6.1.11. *Akhirah* (The Knowledge of the Divine Judgment)

Another important axiom is that of *akhirah*; this emphasises on either reward or penalty in the hereafter, and also plays a determining role in the social relations of consumption, production and exchange. This axiom also in the social welfare function extend the time horizon to the next life for the reward or penalty for individual and community actions in this life which will be realised in the hereafter (Choudhury, 1980). The knowledge of this transformation brings felicity to the individual for being righteous (*taqwa*) within his/her own lifetime. This implies that intertemporal and atemporal parts of Islamic axioms within the social welfare function are intrinsically interconnected.

Zarqa (1976) on the other hand, proposes the development of an Islamic social welfare function only on ordinal implications of *taqwa* and *akhirah*. He treats these elements as atemporally affecting a Muslim's behaviour through his/her belief in rewards and penalty in the hereafter. Zarqa's understanding however, can only be considered as a normative framework of social behaviour in an Islamic system.

5.6.1.12. *Rid'a* (Satisfaction)

The important axiom *rid'a* in IME requires from the individual as well as the society the articulation of love (*mahaba*) so that human life can be illuminated and continue. *Rid'a* has an objective and a subjective side; one criterion can be used to measure both. If the human being is to be satisfied with the Divine, the Divine must be satisfied with the human being (Rabi'a, 717). There need be no guesswork about *rida'a*: if man is satisfied with his Deity (satisfied with His bestowments), Deity will be satisfied with man (social choices and preferences).

5.6.1.13. *Haqq* (Right)

The concept of right as an ethical concept arises within the context of social choice rule in relation to individual's way of making judgments. Thus, when judging an individual decides on how to assign rights; therefore, it is up to him/her to ensure that his way of assigning rights is coherent with Islamic norms.

5.6.1.14. *Shu'ra* (Consensus)

Individual decisions, as vicegerents of Allah, fall under four categories: '*ibadah* (worship), '*imarah* (development of this world), *nasl* (bringing up and educating the new generation for continuation of human life) and *adl* (securing justice generally for all inhabitants of the world). Construction of a social welfare function in Islamic Political Economy requires achieving a balance between all these categories since some of them are concerned with the spiritual side, some the material and some the emotional aspect of human life. Since Islamic welfare function does not only focus on the material dimension, but goes beyond to the spiritual and emotional side of every individual's welfare, the appropriate mechanism for deciding the welfare patterns comes from the *Shu'ra*. This is the institutional decision-making process, that can amalgamate *fiqh* and moral aspects into developing a complete

ISWF.

Shura or mutual consultation on the issues which are not mentioned in the Qur'an and Sunnah on both a grass-level and high level of society, are open to every individual regardless of whether male or female who satisfy the condition of *rushd* (a mature person with a sound mind and he/she is free to decide for themselves) should participate. Under the *shu'ra* mechanism, every individual will interact and participate in the construction of part of the meaning, which falls under the role of vicegerent. The collection of these individual meanings is considered as the right meaning for the given time and place criteria. As the reality changes and perspectives of the same reality differ according to the level of concern, the summary of the meaning constructed by the community changes with it. With this continuous change, under continuous consultation, the roles of vicegerent will be kept in equilibrium, within the axioms of Islam.

There are many historical examples where the change comes from the grass-level and when the change comes from the high-level. For instance, in Abu Bakr's time (the first caliph) he granted a huge piece of land that belonged to the Islamic state to two men. However, one of his advisors, Umar (the second caliph), opposed this transaction saying that the land belonged to the whole society and therefore the whole society must be consulted and give their approval for this transaction. Another case was during the time of Umar when he tried to impose a limit on dowry when an ordinary woman of that society publically opposed him as she heard him speak and corrected him in the process; given that dowry is more of a concern for women than men, her point of view and understanding was arguably more valid and acceptable than the view of the caliph himself (Jor *et. al.* 20140).

5.6.2. Summary of Axioms of Islamic Welfare Functions

The realisation of these above explored axioms motivates individuals to act and react to reality by forming society according to *tawhidi* paradigm and ideals. The very dynamo of such a civil society is not of personal interest or the mere protection of individual rights against the state, but it is part of the articulation of the individual's conviction in achieving *falah* through the culture of socialisation by means of *ihsan* with the continuous spirit of *islah*.

Table 5.2 summarises the axioms and their implications in constructing ISWF.

Table 5.2. Implications of Axioms for Constructing ISWF

Axioms	Linguistic Meaning	Its Welfare Implications
<i>Tawheed</i>	Oneness of God	Equality Integrity of everyone Equal access to resources
<i>Amanah</i>	Trust to be delivered by individuals	Individuals empowerment via <i>Shura</i> Sustainable development Rule of law Freedom Accountability Transparency
<i>Al-Adl</i>	Justice (equilibrium)	Rule of Law Sustainable development
<i>Al-Ihsan</i>	Benevolence	Benevolent society Freedom
<i>Ukhuwwah</i>	Universal solidarity for balance between individuals and society	Unity <i>Takaful Ijtima'i</i> (Social mutual co-operation) Political conformity Egalitarian and equality Social justice <i>Tasamul</i> (mutual recognition) <i>Tafahum</i> (mutual respect) <i>Shura</i>
<i>Islah</i>	Constant struggle for comprehensive excellence	<i>Amr bil ma'ruf wa nahy anil munkar</i> <i>Nasihah</i> Accountability Transparency Open- <i>Shura</i>
<i>Ikhtiyar</i>	Free-will or the freedom to make a better choice	Freedom Sustainable development <i>Shura</i>
<i>Rububiyah</i>	Divine arrangements for sustenance and directing things towards their perfection nourishment	Sustainable development Social equilibrium Accountability
<i>Tazkiyyah</i>	Purification on all levels for better development	Sustainable development Rule of law Accountability Concern with growth towards perfection through purification of attitudes and relationships
<i>Taqwa</i>	Righteousness inspired by the fear of God	Human happiness
<i>Akhira</i>	The knowledge of the	<i>Alajar wal iqab</i> (expecting rewards for good deeds and

	Divine Judgment to follow in this life	seeking refuge from punishment for bad deeds and shortcomings)
<i>Rid'a</i>	Satisfaction	Articulation of love
<i>Haqq</i>	Right	Protection of property rights Protection of environment Right to access resources
<i>Shu'ra</i>	Consensus	Consultation among society Election process Decisions for collective actions

As the discussion in the preceding section indicates, the axioms are inter-connected and neglecting any of the axioms may lead to an incomplete bigger picture of the aforementioned 'Islamic welfare function'. In other words, the axioms mentioned are interconnected to fulfill the whole idea of *maqasid al-Shari'ah* itself. Each axiom aims to preserve and promote the essential needs to establish human well-being. Hence, policies, systems, institutions and all the mechanisms formulated and promulgated must be within this parameter to ensure functioning of Islamic social welfare functions not only within *fiqh* but also within the axiomatic norms. As can be seen in Table 5.2, each of the identified axioms semantically refer to Islamic social welfare functions and hence it can be claimed that they are a natural consequence of the Islamic paradigm.

5.7. AUGMENTING *FIQHI* WITH AXIOMATIC APPROACH IN DEVELOPING ISWF: TWO LAYERS MODEL

As the preceding discussion details the approaches to ISWF mainly remained within the *fiqhi* domain of Islamic knowledge. However, the discussion above aimed at laying the moral foundations in an attempt to provide a complete ISWF that can relate to every realm of everydayness through Islamic practice.

The epistemological basis of ISWF hence, is two-pronged: the *fiqhi* construction, reflecting on the form and the moral construction, reflecting on the substance. This study suggests that morality has to be augmented on the *fiqhi* construction provided given that these two approaches complement each other such that a failure on the fulfilment of any of them necessarily makes the ISWF incomplete. Axioms on one hand represent the cornerstone of moral construct that should in theory help to construct and should constitute the composition of the substance of ISWF. On the other hand, the

fiqhi construction of ISWF, is the main approach in the literature with a special reference to Hallaq's (2002) world representation of more pragmatic directions of ISWF.

Constructing ISWF also requires the consideration of implementing the *maqasid al-Shariah* (the objectives of *Shari'ah*), which are defined under the Gazalian perspective into five categories: preservation of *nafs* (soul), preservation of *deen* (religion), preservation of *aql* (intellect), preservation *m'al* (wealth) and preservation of *nasl* (procreation). In addition to this however, the dynamic nature of human life requires the proactive development of these and other aspects of human life such as environment, resources, handling of waste and wellbeing as in line with the Ibn Qayyimian proposition of comprehensive human and economic development.

The possibility of formulating a *fiqhi* oriented ISWF, which satisfies Ghazalian's approach, as has been discussed above, was proposed by Said (2002 and 2005); in his entire work, he argues about the possibility of an ISWF through the satisfaction of Arrow's conditions. He approaches the problem with a *fiqhi* method by constructing five ordinances for the basis of ISWF. He did not deal with the moral aspect of it, but gradually introduced the Islamically imposed axiom as the reflection of the moral dimension. Although the available *fiqhi* construct determines the behavioural norms, it does not imply that it is, at the same time, morally acceptable; and therefore, there is a need for reconsidering the five ordinances as the layers of preferences and focusing on the implications of these ordinances in the society through the axioms of IME. Otherwise, degrading the problem merely to an individual level and not considering the societal implications would produce a partial solution regarding the construction of ISWF.

The primary concern regarding the derivation of welfare functions by considering the insights of *fiqh* and Islamic moral axioms may indicate different understandings and interpretations of epistemological resources and their implications to reality. There is a need for a rule by which society could decide on welfare issues by considering whether *fiqhi* classifications have priority over Islamic axioms in determining the social welfare. This can be achieved through implementing either the *Shari'ah* scholars' understanding or Islamic economists' understanding of moral economy based on social welfare in

deciding on welfare matters since it tackles the everydayness of human life and the application of Islamic axioms is more appropriate. In addition, by equally considering both *Shari'ah* scholars' and Islamic economists' axiomatic approaches within a majority-rule framework, or stronger likelihood of voting cycles, a democratic process can still be applied under Islamic conditions.

Sen's (1966) majority value-restricted theorem holds perfectly under Islamically imposed conditions. For a full range of possible domain of choices, (W, M, Ma, Mu, H) no individual will rank $H > M > Mu > Ma > W$, on the contrary, *Shari'ah* restrictions and pairwise majority voting would generate a transitive group preference ordering of $W > Ma > Mu > M > H$. The transiting nature will come from the axioms which can change the nature of the preferences themselves. However, in embedding the axioms of IME into the five layers of preferences, it should first be acknowledged that *Mandub* (*Ma*), *Mubah* (*Mu*), or *Makruh* (*M*) activities do not have an absolute priority over another with regards to the ordering of preferences.

Considering that *Shari'ah* imposed restrictions of ordering are linear, $W > Ma > Mu > M > H$ further proves the limitations of a *fiqhi* approach to respond to the dynamic nature of human life.

For simplicity, Table 5.3 represents the strict *Shari'ah* orderings that all choices are in linear order in the matrix *M* which is denoted by '>' where $M_{W, Ma, Mu, M, H} = \{1 \text{ if } > M, 0 \text{ otherwise}\}$. It implies when there are two choices one is *W* and other *Ma*, it is obligatory to choose *W* and hence number 1 is given. Similarly, when the choices are between *Ma* and *Mu* the *Ma* has to be selected hence the number 1 is given and so on.

Table 5.3. Matrix of *Shari'ah* Imposed Linear Orderings

$M_{W, Ma, Mu, M, H} =$		$W \geq$	$Ma \geq$	$Mu >$	$M >$	H
	<i>W</i>	0	1	1	1	1
<i>Ma</i>	0	0	1	1	1	
<i>Mu</i>	0	0	0	1	1	
<i>M</i>	0	0	0	0	1	
<i>H</i>	0	0	0	0	0	

Table 5.3, represents a *fiqh*-based weak ordering such that individuals are in indifferent positions to choose between W , M and Ma . However, the strict preference ordering applies to Ma , Mu and H under ‘normal’ circumstances. The reason for this strict exclusion, such that $W \geq Ma \geq Mu > M > H$ always holds even though $H \geq M \geq Mu \geq Ma \geq W$ might bring more benefit. The *Shari’ah* position is that ‘avoiding harm has priority over bringing benefits’, which can change under very special conditions into the different preference orderings for a specific time and place. However, an axiomatic approach does not allow this strict division and exclusion but leaves a bundle of choices (W , Ma , Mu , M and H) open to be determined according to the wider dimensions by considering not only the texts of the *Shari’ah* but also by taking into consideration the surrounding reality in order to cover a comprehensive human development, development of the environment and so on.

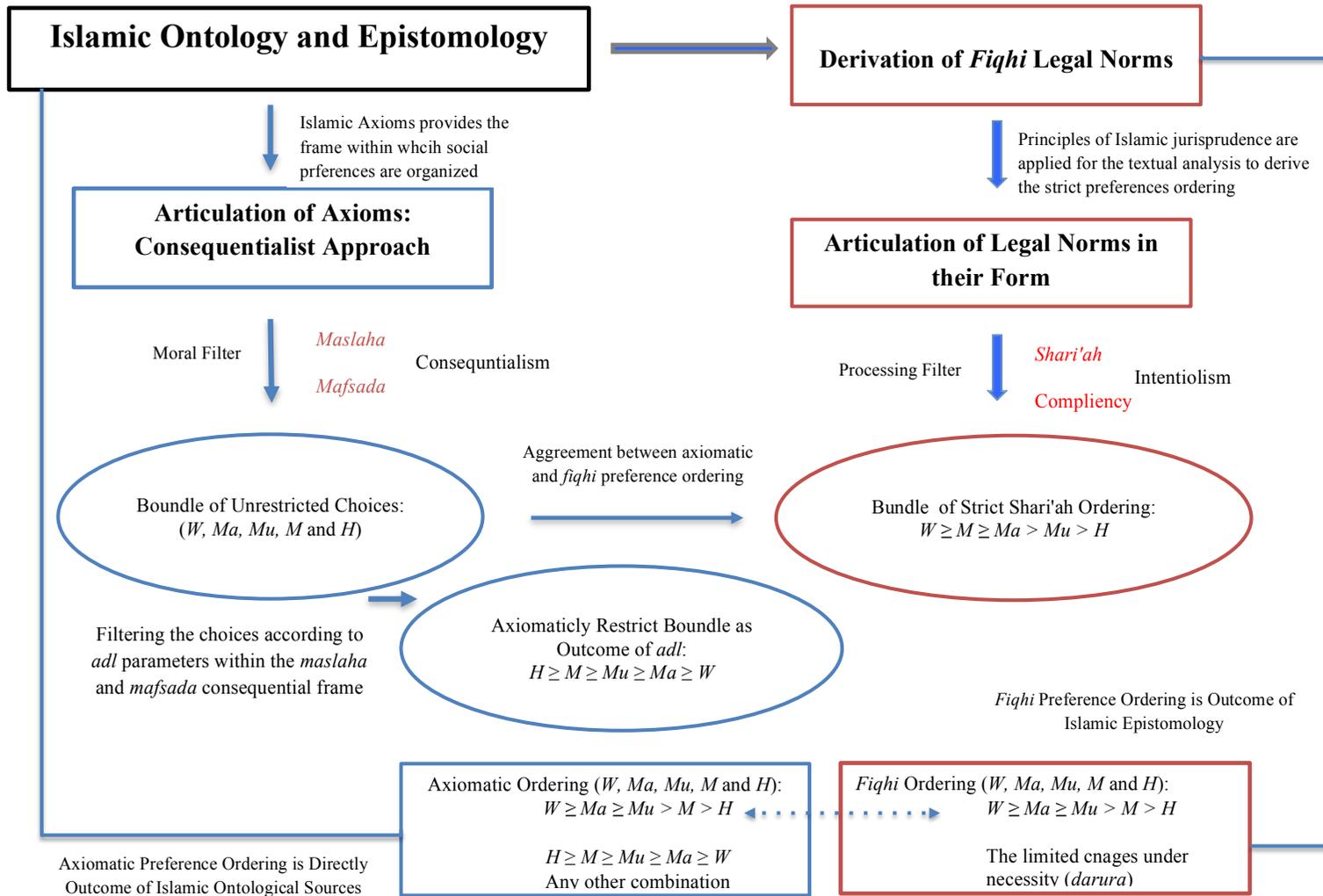
The axiomatic approach, therefore, rejects the strict ordering of the preferences and emphasises on consequential outcomes of the action within the available sets of choice during their intra-ordering process. The determinations as to which sets are incorporated into the social preference ordering first, and which are disregarded, depends upon the conformity of the chosen set to the aspirations of IME. Therefore, an Islamic social preference ordering should be established through the prioritisation of some sets over others by the application of moral filtering. This filtering system might not necessarily deduce an ordering in line with the *fiqhi* ordering of these five layers since some circumstances require preferring M activities to Mu , or Ma activities to Mu , or any such combination, which brings out a better social welfare position.

The deciding criteria for shifting away from the *fiqhi* consideration in the construction of social preference ordering to an axiomatic approach which goes beyond the form-based understanding of Islamic sources, requires considering the consequences of the selected preferences. Therefore, the consequential understanding demands the layers to be ordered and prioritised by considering their benefits to the society (*maslaha*) and their avoidance of *mafsada* (harm). Despite this, certain actions might fall under (W , Ma , Mu) in the *fiqhi* classification, yet the same actions analysed through *maslaha* and *mafsada* lenses would be classified under (M and H).

Maslaha and *mafsada* as criteria are not inherited in the process of rule derivation for social preference ordering; until then the outcome can reflect the implications of foundational axioms of IME. However, it is generally articulated by *Shari'ah* scholars that *Shari'ah* norms derived from the valid sources of Islam, encompass morality in themselves on the ground that what the *Shari'ah* commands is in, and of itself, legal and moral. Therefore, Ibn al-Qayyim provided the solution between the two opposing positions stating that “everything that lapses out from justice into injustice, and from mercy into its opposite, and from *maslahah* to *mafsadah*, and from wisdom into the frivolous, does not belong to the *Shari'ah*, even if it is inducted into it by interpretation (*ta'wil*)” (Ibn al-Qayyim, 1991: Vol. 3: 1). Consequently, the normative impositions based on textual interpretations of the *Shari'ah* can be shifted as shown in Figure 5.2 towards any ordering (*H, Mu, Ma, M and W*) in preference ordering because justice must be accomplished.

The implementation of justice (*adl*) requires the adaption of consequentialism that will essentialise the substance orientedness for ISWF. Thus, a behavioural norm that is compliant with the form and process of the *Shari'ah* cannot, at the same time, guarantee its rightfulness unless consequences of this behaviour are included in the analysis. Figure 5.2 within the axiomatic articulation emphasises on the moral aspect, as a parameter for rightfulness, which complies with the strict *fiqhi* preference ordering but also in other situations differ. In that case, the entire examination of the decision-making process has to be established on the basis of *adl* within the *maslaha* and *mafsada* concepts.

Figure 5.2: Interaction of Two Layers (Axiomatic and *Fiqhi*)



There are plenty of contemporary evidences, which will clarify the need for abolishing *Shari'ah* strict orderings and in place adopting consequentialistic morality. For Instance, the Islamic finance industry has many operations that are not in conflict with the jurisprudential reasoning of *Qur'an* and *hadith* texts. These operations include *tawarruq*, *murabahah*, *ijarah*, etc., though being legal from a *fiqhi* point, they are subject to question in the sense that they do not fully conform to the moral expectations of the Islamic system in terms of their substance and consequences. Therefore, something that is *halal* from the *fiqhi* point may not be put into the social preference ordering or is not preferred to a, for instance, M_a activity. Similarly, the integration of morality with *fiqh* requires equal treatment to two different situations that are equally harmful. In this context, the IME understanding must give the same responses to a *ribawi* contract and a non-*ribawi* contract if the latter has the same harmful effects with the former over society even it satisfies the formal aspect of the *Qur'an*.

In the constructing of the ISWF based on the Islamic classification of preferences, IME clearly stresses that any individual act must be in accordance with the *Shari'ah*. Deviation from the strict *Shari'ah* orderings becomes allowed when the *fiqhi* norms fail to establish the expectations of the Islamic welfare system based on parameters of justice. This shift is a natural outcome of individual, social and spiritual accountability deduced from *fardh* (responsibility), *khilafah* (vicegerency), *ukhuwwah* (brotherhood), and *islah* (reform). These axioms lead the human to behaviours that are for the benefit of the society beyond the mere self-maximisation principle (Naqvi, 1994). Consequently, the individual preferences are not accepted as 'supreme and feeding into social choices' (Choudhury, 1991: 268) until they fulfil not only *fiqhi* norms but also the axiomatic framework within consequentialism. Hence, the absolute individual sovereignty within the Arrowian rationality has to be replaced with the bounded rationality of *akhirah* (reward and punishment), which impose the preference ordering to be in line with the maximum benefits in this world and the hereafter. The criterion for this is according to Ibn Khaldun's 'justice (*adl*)' by which Allah will evaluate the mankind (1969: 603), in other words the axioms for justice and equilibrium.

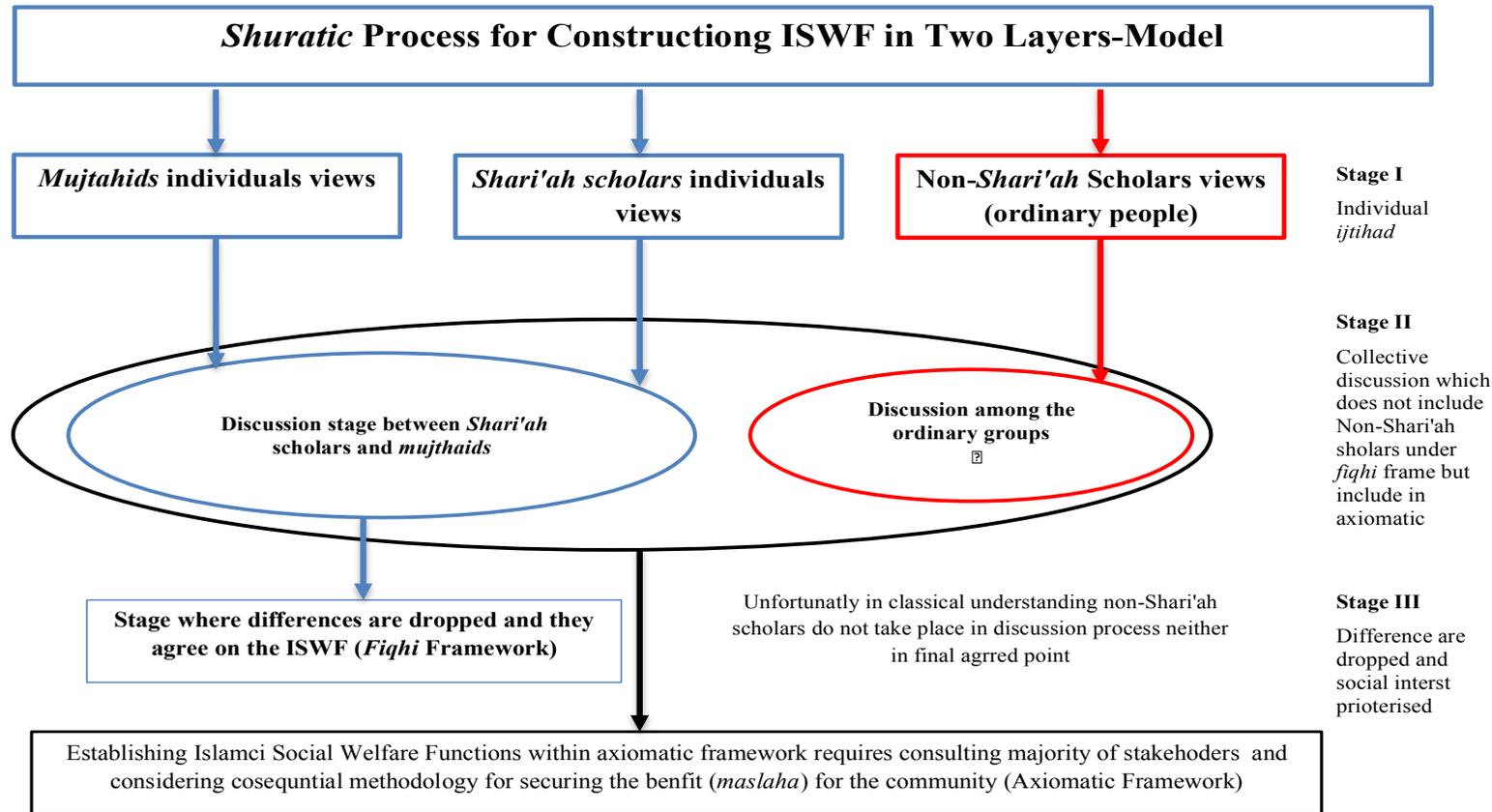
Figure 5.2 depicts a Two-layer model for constructing ISWF in addition to the *fiqhi* articulation of the *shuratic* process that is split between *mujtahids* and jurists but requires

an expansion to the process in order to encompass non-*Shari'ah* scholars. In this setting, the *Shur'a* axiom serves as a mechanism through which *ijtihad* will take place on a larger scale and ideally receive acceptance among larger stakeholders (Choudhury, 1980). Perhaps, the reason for why Islamic finance had a low engagement and uptake is because it was structured and tailored mainly by *Shari'ah* scholars. However, the necessity of *shur'a* was even compulsory for the Prophet to participate in even though he was supported by revelation. The Qur'an (3: 159) says "... and take counsel with them in the affairs...". In another verse, regarding the believers, Qur'an (42: 38) indicates that in their decision preferences, "their rule is to take counsel among themselves". Hence, based on the evidences provided, a *shuratic* decision-making framework within the Islamic public choice for ISWF is essential to take place on all levels of society.

The importance of *shur'a* is also considered in a two-layer model with regards to the peer effects of collective actions in public choice from an Islamic perspective. The reason for this is that people are mainly influenced by their peers, whether towards Islamicity or profit orientation. For example, the threshold for the number of minimum people or scholars due to their peer effect can move actions into certain directions and significantly influence the preference orderings. Given that *Shari'ah* scholars' contributions are mainly within the strict *Shari'ah* ordering ($W \geq M \geq Ma > Mu > H$) which might not comply with the other propositions, the emplacement of a *shur'a* mechanism for reconciliation between two sides will contribute towards establishing the social justice.

In addition to effect of peers, Buchanan and Tullock (1962:77) also emphasise on constitutional decisions that "are collective, and which may be reached under several decision-making rules". Since the *shur'a* process does not define certain rules for selection to be conducted, any decisions mutually agreed upon will be adopted. Therefore, society will consider the process or the rule that will maximise the beneficial outcomes and minimise the undesired effects. Hence, the *shur'a* process is considered as a means to escape from what might appear to be an unsolvable dilemma as it will impose Islamic rulings under *fiqhi* as well as the axiomatic framework in decision-making.

Figure 5.3: *Shur'a* Mechanism for Decision Making in Two Layers-Model



Therefore, the collective action in IPC within the *shuratic* process essentialises the substantiation of the *fiqhi* process with an axiomatic model which requires inclusion of the majority of stakeholders in the decision-making process. Societies are very prone to rejecting the imposition of alternatives even though they are coming from *Shari'ah* scholars. Consequently, the peer effect will have a further impact in rejection. Therefore, a constitutional framework proposed by Buchanan and Tullock based on established rules and norms for collective decision-making, will encompass the majority of society's members and will subsequently minimise the undesired side-effects even within the *shur'atic* process.

The methodologically *shur'atic* process in Figure 5.3 requires in the first stage individual *ijtihad* for the derivation of preference ordering within all three categories. However, within the *fiqhi* orientation, IPC produces a deductive, imposed consensus since the *Shari'ah* already determines the framework of *Shur'atic* decision-making (Mannan, 1982: 17) ($W \geq M \geq Ma > Mu > H$) as is presented in Figure 5.1. In other words, a *fiqhi* methodology actualises the imposed consensus in everyday life, while the Buchananian and Tullock, as well axiomatic frameworks, require an inductive process by engaging with each other to establish consensus. Thus, the two-layer model essentialises in the IPC deductive method in terms of rule derivation (*fiqh*), namely *ijtihad* and makes use of the inductive method (axiomatic) in providing the substance of the consensus in the sense of social contract within the derived rules.

Choudhury also proposes representative decision makers (*khalifas*) in the *Shur'atic* model for social preference ordering who will have the responsibility for the consequences of their decisions (1991: 259). However, his proposition will require a *shur'atic* process within the two-layered model for electing the representatives (*khalifas*) to act on behalf of individuals, otherwise this will contradict the basic principle of Arrow's theorem (dictatorship). Hence, there does not appear to be a social choice model in which averages of individual preferences are taken in account when producing public choice.

Contrary to the conventional form, IPC does not assign equal weights to the preferences, since "the least privileged people need much priority for establishing the distributive justice" (Naqvi, 1983: 34-35). It also essentialises that 'right outcomes as well as efficient solutions'

(Mannan, 1982: 17) has to be included in ISWF. However, what Arrow's Pareto condition implies is that efficiency is the exclusive condition for the preference ordering irrespective of the concern for equity and justice. Hence, the moral considerations are left to the market's self-regulating capabilities which implies that neutrality is adopted in the distribution process (Naqvi, 2002: 115). This Paretian principle of neutrality is similarly applied within the *fiqhi* framework which only considers the strict ordering of preferences regardless of the outcomes (which may not be moral). Therefore, in the Paretian economic exposition, "a society or an economy can be optimal ... even when some people are rolling in luxury and others are near starvation as long as the starvers cannot be made better off without cutting into the pleasures of the rich" (Sen, 1970: 22). At the same time, the decision of the *Shari'ah* scholars on permissibility of *tawarruq* for instance, within the Islamic financial industry based on intentionalism of *fiqh* creates immoral consequences. Therefore, an axiomatic framework complements the *fiqhi* position by prioritising equality over efficiency which is derived from the principle of socio-economic justice (*al'adl wal ihsan*) of IME. This implies that, although the efficiency-equality nexus is an indispensable paradox for conventional economics, IME attributes no conflict or oscillation between them, but it rather points out the 'simultaneity' of these two (Choudhury, 1991: 273).

In addition to the axiomatic frame of IME, the polity-market interactions have to be in harmony with each other for the outcome of the *tazkiyah* process (inclusive growth), since the establishment of socio-economic justice requires such a growth policy. At this point, the failure of Western economic thought regarding the explicit growth policies emanates from a lack of such endogeneity. It then, makes Western type SWFs impossible as can be seen in Arrow's impossibility theorem. However, due to the observed endogeneity derived from the *tawhidi* framework that determines individual-individual, individual-environment and individual-Allah relationships, the formulation of individual preference ordering and amalgamation of these preferences for the public choice can explicitly be actualised. In this, individual-individual relations are determined by *al'adl wal ihsan*, *ukhuwwah* and *khalifah* axioms within the *Tawhidi* paradigm and *shuratic* process in which every individual promotes his wellbeing without violating the wellbeing of others; he/she aims to promote the wellbeing of others according to his/her constraints. Individual-environment relations are concerned with the development of both intra and inter-generational justice and the *islah* (reform) of the old institutions. This requires a "continuous reproduction [of resources]" in

lieu of searching for an optimal resource allocation within a competitive environment (Choudhury, 2009: 225). As for individual-Allah relations, the bidirectional fabric between Allah and an individual constructs the ontological basis for an ISWF. With this insight, individuals consciously make preference orderings in line with the *Qur'anic* teachings, which necessitate the consideration for the *akhirah*, for individual's mission in this world through *khilafah* and for individual's conscience of his role as a trustee of Allah in the meaning of *amanah* within the *Tawhidi* paradigm and *shuratic* process. These three-pronged relationships under the umbrella of foundational axioms should be considered as the constituents of ISWF and at the same time, they correspond to the implications of the five ordinances of Hallaq (2002). This correspondence addresses the moral complementarity of the *fiqhi* construction of the ISWF.

When the ISWF are based on the aforementioned axioms, compared to Arrow's conditions (in terms of its compliance to them), it can be seen that the Pareto condition and unrestricted domain assumptions do not hold in the ISWF. The reason for the latter is that there are some restrictions during the derivation of social preference ordering, since individual preferences are assigned 'different weights, and some has zero weights' (Naqvi, 1994: 66). However, when it is considered in terms of the five layers of individual preferences, there are no restrictions on the domain, but a filtering mechanism by the *Shuratic* process through restrictions on preferences is applied in terms of establishing the IPC. On the other hand, the non-dictatorship assumption of Arrow holds with the ISWF, since the *al'adl wal ihsan* (horizontal equity) rejects the enforcement of choice of any one individual over the rest. Nonetheless at this point, it should be noted that historically there has been an explicit tendency by the neoclassicals about assuming the state as exogenous and mostly a neutral, benevolent factor in which the state's role is akin to a dictator. As such, constructing a SWF from the neoclassical point of view implicitly necessitates that the state is viewed as an omniscient dictator. Therefore, the impossibility of developing a SWF based on Arrow's assumption can only be circumvented by introducing a benevolent state in which social preference ordering is assumed to be established by state organs and this ordering serves for the refinement of every individual. *Shari'ah* scholars on the other hand, assumed an endogenised benevolent state. However, in the IME approach, rejecting these two views, suggests giving up this romantic view of the state because the state is constituted by individuals and individuals, by definition, have their normative way of approaching

issues. This view is antagonistic to the understanding of considering the state as an organic entity. Thus, IME's response to state-oriented solution to Arrow's theorem should be that the impossibility could only be removed by considering the state "as a working part of the economy, not a force external to it" (Downs, 1957; as cited in Orchard and Stretton, 1997: 410).

In conclusion, through the above analysis and discussion we have established the building block of an ISWF which includes *fiqhi* and axiomatic frameworks given that they compliment each other. By the incorporation of the two approaches, ISWF will be an intertemporal one and hence account for the presence and effects of the non-economic value variables of the Islamic religion (*fiqh*) as well as moral and ethical norms (axioms).

5.8. CONCLUSION

Research in public choice is important aspect for the construction of collective decision simply because people live together. The people group into circumscribed geographical areas, face based community, business group and so on which crates potential and necessity for collective actions. In the decision process, some actions might benefit all individual involved, other decisions might benefit some. Even when everyone benefits, some do so more than others, raising the issue of how the gains from the trade are shared. Thus collective choices for establishing SWF as discussed in this research builds on religious based social function from the point of Islam.

The normative based SWF contributes to the literature, the necessity of combining a strictly *fiqhi* orientation with ethical and axiomatic by including in decision process not only *Shari'ah* scholars but also the citizens via *shuratic* process in consultation. This latter suggestion was virtually ignored by *Shari'ah* scholars in their classical treaties. However, with the emergence IPE/IME the literature began to appear with more ethical and axiomatic propositions.

The emerging literature builds on contribution by Arrow (1950) who introduced a fundamental approach to the construction of a SWF by developing four conditions and concluded that the SWF based on these conditions cannot be established without violation at least any one of the conditions. Many critics have accompanied with this argument, but

solid responses have not been asserted yet. Therefore, Arrow's impossibility theorem has remained open for articulation and discussion within the emerged Islamic approach.

Starting from the conventional debate, Arrow developed his argument around the amalgamation of individual preferences to establish social preference ordering so that it would be possible to construct a SWF. In-paradigm criticisms towards his impossibility theorem, however, were not significant, since most of the scholars preferred approaching the debate from the same epistemological standpoint. Nevertheless, Buchanan (1954: 120) with his criticism on the Arrowian claim of the 'unchanging nature of orderings during the decision making process' and, following him, Sugden (1981: 12) stressing 'the importance of the process in which the end states are chosen', still contribute to the debate significantly.

Although the attempts in developing a SWF in Western perspective are much appreciated, there is a need for paradigm shift about the possibility of creating a SWF, which does not necessarily have to fulfil Arrow's conditions. This requires a different ontological and epistemological base for social welfare modelling. Islam, in this manner, suggests constrained approach within *fiqhi* understanding which this research expands by considering an axiomatic approach within an IME framework. This endeavour can be defined as a problem solving attempt to develop an 'Islamic system' of economics and economy in producing theoretical and policy bases for the underdevelopment of Muslim societies through the norms, values and principles of Islamic ontology with the objective of creating a human-centred development process. IME based SWF, therefore, has distinctive characteristic than those proposed as an in-paradigm alternatives to the establishment of SWF; and social justice through *ihsani* process remains the essence of this paradigm.

The ultimate goal of proposed model which compliments *fiqhi* restricted scope is to achieve Allah's consent as part of the ultimate objective of utility function, but the way to actualise this goal has to address the *falah* process through the accumulation of *ihsani* social capital. Otherwise, self-interest motives, rationality and "egoistic welfare-maximizing calculus as the ideal type of economic behaviour" (Naqvi, 1983: 29) do not contribute to the *ihsani* social capital. Islam, therefore, strongly recommends taking responsibilities (*fardh*) and becoming vicegerents (*khalifas*) of Allah to embed the beneficence or *ihsan* amongst members of a society. This is considered to be the only way for human beings to achieve

falah in this world and in the *akhirah*. The construction of ISWF, in this sense, is an important means for human beings to complete *falah* process.

The proposed model tries to incorporate the larger stakeholders in decision process to receive the better acceptance in the hearts of the society members. Since *fiqhi* based decisions substantially differ in practice due to *ijtihadi* nature (diversity of scholars opinions in deriving the rulings based on textual understanding) and getting a social preference ordering in which every individual's preferences are reflected in their *fatwas* are much difficult. Therefore Arrowian SWF which requires either homogenous individual behaviour or consensus of *Shari'ah* scholars to meet objectives. Consequently, the Islamic axioms which include *tawhid*, *khilafah*, *fard*, *ikhtiyar* and *amanah* aim to create a *homoIslamicus* individual type for the revival of the old institutions, but the critical point, here, is that Muslims are in a state of 'becoming process', hence they are not forced to reach the *homoIslamicus* individual as a state as long as they do struggle as a process for it. Thus, in process sense, two layers model does not adhere to a consequentialist approach, but in terms of contents, consequentialism is essential to ensure the substance of the process, as it is contents and substances ensure the robust sojourn to 'becoming'.

Within the two-layer model, in dealing with this problem, the Islamic *fiqhi* method categorisation of universal set embodies the entire possible ordinances with which individuals' construct their preference orderings. The intra-ordering of the universal set by each individual, however, is not definite in the sense that every ordinance can have superiority over another in certain circumstances as a result of the implications of moral filtering which is determined by the axiomatic approach of IME through *shuratic* decision making. Therefore, the application of a filtering process within two layers model allows for the compliancy of both substance and consequence of each preference ordering to the IME aspirations. Furthermore, that will enable the producing of IME based social preference ordering which will overcome imposed social ordering by *Shari'ah* scholars.

Accordingly, the amalgamation of individual preferences into social preference ordering within two-layer model becomes possible since, at the outset, the application of moral filtering dissolves the heterogeneity of individuals' orderings with the assumption of *homoIslamicus* and creates an environment where differences in individual orderings are minimised and every ordering does not contradict each other as experienced in the zero-

sum game. In result, both the individual preference orderings and the subsequent social preference ordering work in harmony with the moral economy understanding of Islam.

Beyond simply emphasising on the stating the inconsistency of constructing SWF based on a value free economy, this study provides the solution how it might be reached. It considers morality as an embedded part of the economy, intertwined with other disciplines through which the construction of SWF under the value understanding might be resolved. This new approach of moral economy does challenge the establishment of social preference ordering in which every individual's values are reflected. IME, at this point, can contribute to social welfare issues through introducing its distinctiveness within an IPE approach by creating embeddness in terms of essentialising *ihsan* as part of its substantive morality (beyond *fiqhi* based instrumental morality) in suggesting a different social contract and hence a distinct SWF in the form of ISWF. Only then, a “balanced and integrated individual [wellbeing] and social welfare” (Mannan, 1982: 25) can be achieved.

Chapter 6

EXPLORING AND CONSTRUCTING UTILITY IN ISLAMIC MORAL ECONOMY

6.1. INTRODUCTION

In laying the foundation of Islamic economics, the founding fathers also considered conceptualizing the microeconomic foundations, including Islamic utility function, such as (Kahf, 1992; Chapra, 1992 and 2000; Khan, 1992, 2013; Zarqa, 1992; Naqvi, 1997, and others). However, the attempts remained limited, and, also, were influenced by the neoclassical concepts of utility and value, as, in most of the cases, under the Islamisation of knowledge paradigm, they only added an Islamic ethical dimension in Islamising the existing forms and concept of neo-classical utility function. However, such attempts did not produce a distinct Islamic utility function as part of a unique Islamic paradigm of economics; as unique paradigm of Islamic economics requires an alternative framework for positive analysis of the economic behaviour of individuals. This framework should be comprehensive enough so that it not only allows analysing all positive economic aspects of human life, but also enables the incorporation of Islamic ethics and its moral articulation in the analysis to study the impact of such ethical norms and moral actions on individuals and society. Such a framework should be able to help us; not only in analysing economic behaviour scientifically but also help us to explain the economics of the normative concepts like *israf* (wastage), *tabzir* (squandering), *tayyibat* (goodness or value) of goods, poverty, rights of others, individual property rights *etc.* In a nutshell, this should offer the needed paradigmatic shift in economics where moral policy - in the sense of utility function policy - aims at producing outcomes in line with the Islamic ethical norms with the objective of generating ethically oriented economic and financial choices, such as Islamic utility and consumption function.

This paper, hence, aims to construct a utility theory of Islamic moral economy by constructing its constituents, forms and substance through the axiomatic and normative world of Islam beyond the initial contributions by the founding fathers, such as Hassan (2008). This, essay will make an important contribution in defining the concept of value and utility by filling an important gap in the literature, as without such conceptual clarifications related foundational issues the attempts to construct Islamic economics or moral economy will not be fruitful. In addition to contributing to the debate by filling the observed gap, this essay also attempts to put forth a methodology for measuring deviation of a Muslim individual behaviour from an utopian standpoint as identified by Islamic moral economy.

6.2. CONCEPTUAL DEFINITION OF UTILITY AND CONSTRUCTION OF UTILITY FUNCTION: A NEOCLASSICAL APPROACH

In the period of classical economics, utility was an indicator of a person's overall well-being in numeric measure, which expresses a person's benefits and happiness. Therefore, maximisation of utility relates to one making his/herself as happy as possible by deriving the maximum benefit from consumption, for example. However, classical economists never really described how to measure utility or a measure of happiness numerically. This is what caused the later economists to abandon the old-fashioned view of utility and replace it with the theory of consumer behaviour. The new approach in defining and measuring utility was structured in terms of consumer preferences, where utility is seen only as a way to describe preferences (Vass, 2012).

Initially, preferences were defined in terms of utility to say that a good bundle of (x_1, x_2) was preferred to a bundle (y_1, y_2) , which implied that x -bundle had a higher utility than the y -bundle. This also works the other way around. Continuing on, the bundle of (x_1, x_2) is being preferred to the bundle (y_1, y_2) if and only if, the utility of (x_1, x_2) is larger than the utility of (y_1, y_2) , namely $(x_1, x_2) \succ (y_1, y_2)$ if and only if $u(x_1, x_2) > u(y_1, y_2)$.

In the first generations of neoclassical theory, according to Hands (2010), economists studied consumer choice theory by employing cardinal and hedonistic notion of utility.

Cardinal, in the sense that differences in the valuation of various bundles of goods took on numerical values, and hedonistic, in the sense that levels of utility were associated with the amount of pleasurable (or painful) psychical feeling the consumer received from the bundle in question. That also implies that the magnitude of utility function is only important insofar as it ranks the different consumption bundles regardless of the size of two consumption bundles (Varian, 2010). Since the ranking of the bundles matter, there can be no unique way to assign utilities to bundles of goods.

In further development, ordinal utility monotonicity was introduced, which represents a way of transforming one set of numbers into another set of numbers in a way that preserves the order of the numbers (Varian, 2010). It is a function $f(u)$, in a way that preserves the order of the numbers in the sense that $u_1 > u_2$ implies $f(u_1) > f(u_2)$. In short, a monotonic transformation of utility function is a utility function that represents the same preference as the original utility function.

In later years, an ordinal utility revolution was replaced with the cardinal utility, which attaches significance to the magnitude of utility; the size of the utility differences between two bundles of goods that carries some sorts of implication. In measuring the magnitude, what economists wanted to know was whether a person likes one bundle twice as much as another and how we can tell that he/she likes one bundle twice as much as another. There are many possible answers and definitions by economists for these questions but none of them offered compelling interpretation.

There is not one way to assign ordinal utilities and neither all kind of preferences can be represented by a utility function. However, if perverse cases like intransitivity are ruled out, usually a utility function, which represents preferences, could be found. The examples of utility function are: indifference curves, perfect substitutes, perfect compliments, quasilinear preferences, as well as Cobb-Douglas preference function.

Indifference curves as technique helps to measuring utility giving all combinations of goods that provide the consumer with the same satisfaction or the same utility. Thus, the consumers find all x_1 and x_2 combinations on a curve equally preferred. Since each combinations of goods yields the same level of utility, the consumer is indifferent about which combination is actually consumed.

Another example of constructing utility function is through perfect substitutes, where the consumer is indifferent between a red and blue pencil. What really matters for the consumer is the total number of pencils. Therefore, the utility function $u(x_1, x_2) = x_1 + x_2$ will work as long the utility function is constant along the indifference curves and assigns a higher label to more-preferred bundles (Varian, 2010). This utility function also explains consumers' willingness to substitute good 1 for good 2 at the rate, which is different from one-to-one. For example, if the consumer values units of good 2 to compensate him/her for giving up one unit of good 1 then that implies that good 1 is twice as valuable to the consumer as good 2. Hence, utility function takes the form $u(x_1, x_2) = 2x_1 + x_2$.

The perfect complements utility function takes the form $u(x_1, x_2) = \min\{ax_1, bx_2\}$. In this function the consumer's care is about the number; for instance, the number of complete pairs of shoes in possession. The number of complete shoes that the consumer has is the minimum of the number of right shoes x_1 and the number of left shoes x_2 . In short, this utility function describes perfect-complement preferences where a and b in equation represent positive numbers that indicate the proportion in which the goods are consumed.

Another type of utility function based on an indifference curve is quasilinear preferences or partly linear function. The equation for an indifferent curve takes the form $x_2 = k - u(x_1)$, where k is a different constant for each indifference curve. This equation says that the height of each indifferent curve is some function of $x_1 - u(x_1)$, plus a constant k . Higher values of k give higher indifference curves.

Cobb-Douglas utility function, which is another commonly used utility function, is expressed by $u(x_1, x_2) = x_1^c x_2^d$, where c and d are positive numbers which describe the preferences of the consumer and hence presenting different shapes of indifferent curves. Cobb-Douglas preferences are the standard example of indifference curves that look well-behaved and the formula describing them is about the simple algebraic expression that generates well-behaved preferences.

The utility functions discussed above mainly focuses on the consumption of a good, but when we subject an individual to a bundle of goods, then the utility of one good marginalises the utility from consumption of another good. In other words, the individual

substitutes an amount of the consumption of one good, in favour of consumption of another.

The following equation measures this rate of change $MU_1 = \frac{\Delta U}{\Delta x_1} = \frac{u(x_1 + \Delta x_1, x_2) - u(x_1, x_2)}{\Delta x_1}$, in utility (ΔU) associated with a small change in the amount of good 1 (Δx_1). The amount of good 2 is a fixed variable within this calculation. Similarly, the marginal utility in respect to good 2 is measured, while good 1 is hold fixed. It is important to mention that the magnitude of marginal utility depends on the magnitude of utility. Thus, it depends on the specific method we chose to measure utility. Therefore, it implies that marginal utility itself has no behavioural content and the calculation of marginal utility from consumer choice or behaviour is not possible.

Overall, the marginal utility depends on the particular utility function that is used to reflect the preference ordering and its magnitude does not have particular significance.

6.2.1. Economic Foundation of Utility

Following on from the previous section which articulated the stages of development of utility functions, this section elaborates on the foundational requirements for constructing the Islamic utility functions. A comparative approach is applied by considering the conceptual development of utility from the classical and modern economists as well as the understanding of Islamic scholars.

In the opinion of many Muslims scholars such as Ibn Tayyimah, everything has an ethical value along with *fiqhi* considerations that can be comprehended through reason. Two different methodologies are used for applying reasoning onto morals. One is the categorical moral reasoning (very much *fiqhi* oriented reasoning of morality) that attempts to locate the morality in ``actions and duties, while the other is consequential moral reasoning that concentrates on the consequence of an act. In the classical political economy Bentham adopted consequential moral reasoning, which lead to the paradigm of utilitarianism, which was further dilated by Mill. In both Bentham and Mill's approach, a concept of utility was introduced with the objective of measuring the consequences of actions or things.

The concept of utility has three main variations from which meaning has been developed.

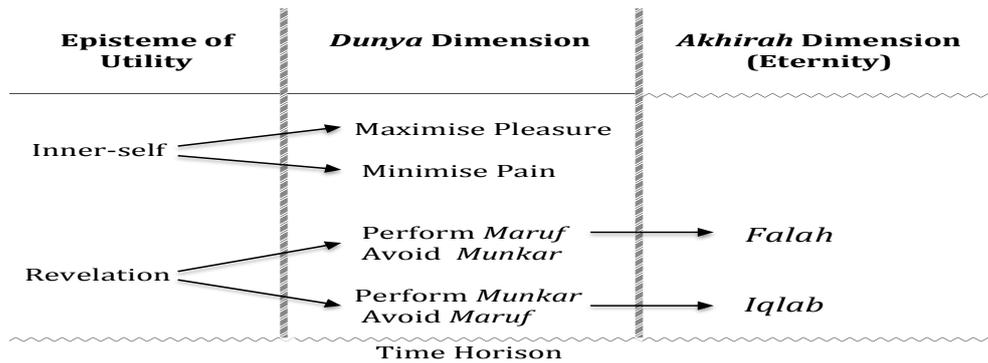
First, the original idea: the gain of pleasure and the avoidance of pain (Etzioni, 1986). The base and origin of this meaning comes from utilitarian philosophy, which assumes the ends justifying the means or the ends giving 'utility' to the means. Hedonistic version of utilitarianism is what forms the root of modern economics. Second, when the concept of hedonistic meaning of utility is challenged as amoral and asocial failing to explain basic facts about human behaviour: community-minded, altruistic, cooperative and so on, economists start pointing to 'utility' where person's satisfactions are derived from benevolent acts to others. This type is known as 'interdependent' utility. The concept remains true to the hedonistic version of utilitarianism, where altruistic acts are explained by the ego's pleasure, true altruistic acts, acts of self-denial or sacrifice. The important question remains what motivates people to do such things? Considering that only pleasure and pain are determining factors, then actions that are performed simply because they find them 'right' stay unexplained. Third, understanding of utility is considered as an abstract entity, without content, neither pleasure nor consumption. It is simply explained as a dominator into which all other values can be converted or by which all rank-ordering can be systematised (Etzioni, 1986). According to Hirshleifer (1976) in modern economics 'utility' reflects nothing but the rank ordering of preferences.

The sources of Islamic economics from which the theory of Islamic utility is being attempted to be derived have its own theme for pain and pleasure, which originates from the paradox of *ma'ruf* (known goodness) and *munkar* (known evil). A hadith of the Prophet explains the meaning of *ma'ruf* and *munkar* concepts: "Righteousness is in good character/morality, and wrongdoing is that which wavers in your soul, and which you dislike people finding out about" (Muslim, No. 2553). Accordingly, in performing righteous deeds and avoiding *munkar*, utility is increased and by doing *munkar* and avoiding *ma'ruf* disutility increases.

The classification of behavioural postulates on *ma'ruf* and *munkar* in Islamic economics, resembles Benthamian philosophical base of utility but ontologically and epistemologically differ substantially. Opposite to utilitarianism, (where hedonistic norms as well as choices are determined by the inner self) ontological sources of Islam, namely Qur'an and Sunnah, determine moral and ethical norms which Muslims should follow in order to ensure their utility in line with the common good. The motivating factor comes from the view that

Islamic ‘utility’ transcends this world and relates to hereafter as well. This implies that following *ma’ruf* commands will not only benefit a person in this world but as well in the hereafter, since failure in the next world automatically means failure in the current world. Therefore, the concept of ‘utility’ in Islamic Political Economy is closely related to the concept of *falah*, salvation process in this world and the hereafter (Figure 5.1).

Figure 6.1: Episteme of Utility



As depicted in Figure 6.1, explaining the relation between the ontological knowledge and *akhirah* (hereafter) would not be enough to conceptualise the utility in Islamic economics. Therefore, examining and explaining the resources of Islam and *maqasid al Shari’ah* (objectives of Islamic law), the concepts such as development and social justice in Islam, and comparing them with the hermeneutic understanding of *tawhidi* (unity of God) methodology and, ontological nature of *al-ruh al-tabiiyya* (natural human forces) and *quwwa bahimiyya* (animalistic forces within an individual) must be included. Through this examination, this study attempts to develop the foundational arguments for the Islamic concept of utility and the relevance of this concept within the Islamic political economy frame.

6.3. EVOLUTION OF UNDERSTANDING OF UTILITY IN ISLAMIC POLITICAL ECONOMY

In attempting to develop a paraxial economic system, the founding fathers of Islamic economics have attempted to reconcile, compare and contrast the philosophical grounds of conventional economics and political economy ideas, as they were influenced mainly by ‘Islamisation of knowledge paradigm’. During this process, they attempted to develop an

understanding of utility within the context of Islamic norms in their attempt to construct Islamic economics according to the normativeness, principles and axioms of Islam in a hermeneutical methodology manner by getting advice from *Shari'ah* scholars. However, this attempt led to varied views on the relevance of the idea of utility within an Islamic economic framework. Some scholars for instance Allawi, (2009) rejected the whole idea of utility within Islam and considered it incompatible with the spirit of Islam, while others, such as Chapra (1995) and Choudhury (1999), endeavoured to reinterpret it and explain it with relation to the *taqwa* (piousness) paradigm.

The starting point for constructing the distinguishing features of Islamic concept of utility is to differentiate between concepts of 'wants' and 'needs'. As mentioned by Khan (2002; 2013), Chapra (1979) and Ahmed (1992), rather than satisfying wants, the goal of Islamic economics is to meet individual needs subject to the needs of society. This implies that instead of seeking a utilitarian economic agent within neoclassical framework, the Islamic agent within the Islamic framework should seek to achieve *maslahah* (public interest or well-being). The concept *maslahah* is more suitable to be applied to achieve the goal to meet both individual and social needs. Auda (2008) lucidly presents the classical classification of *maslahah* as: (i) *dharuriyah* or essential or necessities level, which includes all goods and necessities that is essential for preservation of *maqasid al Shari'ah*; (ii) *hajiyyah* complimentary level, which includes all goods or activities that are not vital for preservation of souls, reason, religion, wealth and family but remove the difficulties; and (iii) *tahsiniyah*, namely amelioratory or refinement level which includes all goods and activities that go beyond the previous two levels.

In the initial application of *maslahah*, Khan (2002) argues that the essential level is the basic form of Islamic welfare. However, due to the changing nature of human circumstances, the activities and goods from one level can change their levels, including the essential level. Therefore, contemporary scholars in order to avoid the problem of discrepancy in application of levels of *maslahah* according to legalistic formalism of *fiqh*, have moved towards universal *maslahah* which is deduced directly from the scripts. This approach helped in overcoming misunderstanding and presentation of higher values through implementing consequentialist utilitarianism.

Similar to traditional economists, the founding fathers of Islamic economics used rationality

and self-interest behaviour for implementing *maslahah* in their economic framework. The difference, however, is in the way rationality and self-interest have been defined. Al-Masri (1998) defines rationality in terms of *rasheed*, or the ability to make sound judgment in the use of properties both for private and social interest. This definition implies that rationality takes into consideration the element of responsibility and social concern. In the context of self-interest, Farooq (2011) explains that Islam also acknowledges self-interest as a fundamental aspect of a human being. Self-interest, hence, is perceived as human quality as long as humans are concerned with their own interest without being greedy and selfish.

Kahf (1978), further, explains two aspects of rationality within the Islamic perspective, which includes:

- (i) the concept of success, which takes into consideration the role of moral values; and
- (ii) the time horizon, which includes life in this world and the hereafter.

In addition, the 'bounded rationality' nature of Islamic function should be acknowledged in comparison to rationality as perceived by the neoclassical world. According to the Islamic framework, an economic agent acts rationally as long as he/she maximises his/her total utility in life in this world and in the hereafter within the given Islamic moral and *Shari'ah* constraints (Asutay, 2007; Ariff, 1985). Hence, the success in the hereafter in the Islamic framework is completely based on success in this world through maximising *ma'ruf* and minimising *munkar* within their broader definition of achieving individual and social good.

Based on the discussion above, the distinguishing characteristics of the Islamic concept of utility compared to the neoclassical frame could be derived. According to Hamdani *et al.* (2003), the main departure of the Islamic concept of utility from the neoclassical is that Islam has a longer time horizon in the sense of two time dimensionalities, namely, as depicted in Figure 1, the life in this world and eternal life in the hereafter. Kahf (1978) explains that this concept has two effects on Muslim behaviour: (i) the outcome of the choice includes the immediate effect in this life and the later effect in the hereafter, and (ii) since a Muslim is suggested to spend in the way of Allah, or *fi sabilillah*, to maximize the utility in the hereafter, the alternative uses of income increase. This, hence, introduces an important layer of constraint on the conceptualisation of utility within the Islamic normative

world in comparison to the neo-classical utility formation. It implies that not only one-dimensional optimisation (consumption function for instance) but also optimisations between ‘two time dimensions’ should be made to reach *falah* individual level. It also requires considering the implication of the optimisation of *ihsan* as a further constraint in order to reach the ultimate objective of utility function *falah* by maximising individual utility (*manfaa*) and *ihsan* as social capital. In other word, the ultimate success depends also how other individuals can be helped to reach *falah* whereby *ihsan* emerges as a societal benefit in the end (Zaman and Asutay, 2009).

It should also be noted that the nature of the objective function in Islamic utility function includes both material and spiritual elements (Hallaq, 1997). In support of this approach, Ahmed (2002) argues that the utility of the consumer depends on spending on individual worldly needs (leading to *falah*) and spending on/for others (leading to *ihsan*), which brings the third dimension or *ihsan* subjecting the success or salvation to contribution to social good. This implies that obligation to discharge one’s responsibility to society will enhance individual utility as perceived by Islamic norms (Naqvi, 1997). Furthermore, the fact that an individual has two roles in society, both as an object and as an instrument (*khalifah*), implies that a Muslim who seeks to maximize his/her utility has to incorporate social-interest in his/her utility function. Since the social needs are part of individual needs, Muslim utility function will depend on others’ utility function (dependent utility function) (Ahmed, 2002) in the sense of how one’s social contribution enters into the utility of others and develops a positive outcome for others. This characteristic is different from the neoclassical economics, which assume that utility function of an individual has no effect on others (Zarqa, 1991), and also being one-dimensional, it characterises and distinguishes a neoclassical vision of utility based on rational individualism as a methodological frame.

As regards to the contents, aspect of Muslim’s utility function includes social-interest, where a Muslim seeks to maximize total satisfaction in life in this world and life in the hereafter by including others in his/her own utility. Metwally (1991) explains that utility of a Muslim consumer would not be a function of only output consumed and commodities possessed, but also ‘good deeds’. There are many forms of ‘good deeds’ but they mainly revolve around selfless actions such as charity; spending on others such as directly to the poor and the needy or indirectly through contributing to the building of different types of

waqf. Using mathematical derivations, Metwally's (1991) explanations suggest that to achieve an equilibrium condition, output consumed and capital stock held by a Muslim should be maintained to a point, where marginal utility is equal to price and is equal to marginal utility of spending on *infaq* to achieve *ihsan*. In addition, the marginal utility of all goods and services is subject to diminishing returns. However, marginal utility of spending on good deeds remains constant and is in line with the Qur'anic verse (2: 261) "it increases as the parable of a grain growing seven ears with a hundred grains in every ear and Allah multiplies for whom He pleases..."

The important aspect of Islamic utility is time constraint and its two dimensionality, which is divided into life in this world and the life in hereafter. The enjoyment in eternal life (hereafter) is subject to the extent of which one adopts *minhaj* (the way of life prescribed by Islam) in daily life, following the *ma'ruf* path and avoiding the *munkar* path. Therefore, from *rushd* (the age when a person becomes accountable) to the time when their accountability stops, the Qur'an (103: 1-3) considers humans as losers unless they perform good deeds or *ihsan* in stating that "I swear by the time, most surely man is in loss, except those who believe and do good, and enjoin on each other truth, and enjoin on each other patience". Thus, spending on ethical causes from a neoclassical point decreases utility and the consumption bundle but from an Islamic moral economy perspective, savings in *akhirah* increase paving the way for the formulation of Islamic utility. Since maximisation of Islamic utility can only be achieved through the *ma'ruf* path, in this world every second that is not spent on *ma'ruf* activities is considered as a loss of Islamic utility. This includes following the fundamental tenants derived from *Shari'ah* such as avoiding *riba*, *gharar* and *haram* goods and services, investing in and spending on socially beneficial projects that promote stability and welfare for a wide range of stakeholders. In addition, following the ethical values of Islam, which promote ethical investing, risk sharing, environmental concern and so on. In addition, *ihsan* requires humans to have a large stake holding in society necessitated from the *khalifah* nature of humans; as Islam considers everyone as a 'witness onto human beings' (Mawdudi, 2011). Furthermore, spending on causes that increase *ihsan* by maximising Islamic utility, one needs to undertake *sadaqat* (charitable giving), *maniha*, (the granting of the usufruct of a productive asset to a needy), *sadaqatul fitr* (charity given to the poor at the end of the fasting in the Islamic holy month of Ramadan), *waqf* (pious foundation), *etc.* provided that they have the necessary means. They are many verses in the Qur'an that

encourage spending. For instance, “As for those who spend of their property by night and by day, secretly and openly, they shall have their reward from their Lord and they shall have no fear, nor shall they grieve” (Qur’an, 2:274).

Looking from the budget constraint angle, a Muslim consumer is expected to consider different aspects of budgetary planning in comparison to the neoclassical model. A Muslim’s budget constraint will include both resource constraints and Islamic ethical constraints and *Shari’ah fiqhi* filter (Ahmed, 2002). While resource constraint is affected by one’s individual level of income, ethical constraint, for example, relates to a percentage of this income spent in the way of Allah. Hallaq (1994) introduced the concept of rates of substitution of life satisfaction. By assuming this rate is greater than zero, the result suggests that Muslims will end up on a lower level of income available for goods or service consumption. However, Muslim satisfaction will not decrease, since s/he will achieve their reward in the hereafter. Hallaq (1994) concludes that Muslim faces the same condition with neoclassical economy in the first and second order condition to maximize their utility. The difference, however, is on the nature of the objective function on the choice, as Muslims are expected only consume *halal* goods and commodities.

In further exploring, Metwally (1991) includes *zakah* in the budget constraint, as he argues that the budget available for optimising consumption is net income after the payment of *zakah*. He also argues that the capital gains are restricted from interest income and the only lawful way is through investment into profit and loss sharing or profit-and-loss-sharing (PLS) products. However, individual ability in generating sufficient income should be considered in an analysis. An individual who is unable to earn sufficient income to fulfil his/her essential needs may not be able to participate in charity. This does not mean that s/he is not a good Muslim, but at the rate of transformation, which s/he accepts, s/he still needs to spend everything on her/himself (Mahbub, 1995). Notwithstanding with one’s individual level of income, Zarqa (1991) argues that Islamic injunction in consumer behaviour should not be treated as constraints in analysis, rather it should be incorporated in depiction that a Muslim spends in charity only if he has plenty of resources and refrains himself/herself from indulging in extravagant consumption only by following Qur’anic (17: 27) command that “Squander not your wealth in the manner of spendthrift. Verily spendthrifts are brothers of the evil one is to his Lord (himself) ungrateful”.

In summary, the founding fathers of Islamic economics, in a pragmatic manner, suggested a modified or amended utility concept and its function, which is in compliance with an Islamic framework. The implication of this modified utility function is that Muslims will have less income available for goods consumption without decreasing his/her satisfaction due to reward in hereafter. This will also impact demand function, due to the *maslahah* concept, which has the impact to decrease demand for luxury goods and allows transfer of expenditure from luxury to necessity consumption (Ahmed, 2002). However, the attempt made is still limited to the modification of utility functions and its elements. Moreover, the underlying assumption in the utility concept within the Islamic framework is in the context that assumes all Muslims are religious and clearly know what is obligatory, prohibited and allowed, which does not represent reality. In addition, the inclusion of moral judgment in Muslim utility function implies that Muslims have to sacrifice a portion of their wealth to fulfil the needs of others, which remains an aspirational position. Thirdly, unlike in neo-classical economy, where the future returns can be measured or predicted, the reward in the hereafter (as the promise of two-dimensional utility function) is immeasurable.

6.4. CONCEPT OF UTILITY IN ISLAMIC MORAL ECONOMY

The admonishment in Islam is sourced from an *aqd* or a contract between creator and creation, established in a time of pre-worldly existence. This contract sets the foundations of the relationship between the two, which is further recollected by announcing the concept of *fitrah* (natural human nature) and *fithrah* based path development as suggested by *rububiyah* axiom. There are many indirect references to *fitrah* (human nature) in the Qur'an; for example (Qur'an, 7:172-173):

(Recall) when your Lord brought forth their progeny from the loins of the children of 'Adam, and made them testify about themselves (by asking them), Am I not your Lord?. They said, Of course, You are. We testify. (We did so) lest you should say on the Day of Judgment, We were unaware of this, or you should say, It was our forefathers who associated partners with Allah, and we were their progeny after them; would you then destroy us on account of what the erroneous did?

It has been further elaborated in the hadith, such as the following (Sahih Muslim, Book No. 33, Hadith No. 6425): "No child is born but upon fitrah. He then said. Recite: The nature

made by Allah in which He created man, there is no altering of Allah's nature; that is the right religion”.

The human beings were created on *fitrah* or the natural development path and “there is never a change in the original nature created by Allah” (Qur’an, 30:30). This implies that only a child has in its behavioural nature to act according to *maruf* and *munkar*. After accepting the *tawhid* or complementarity methodology, the natural spirit (*al-ruh al-tabiiyya*) will have the potential power to overcome the vital spirit (*al-ruh al-haywaniyya*) and the psychic spirit (*al-ruh al-nafsaniyya*). The natural spirit is a servant to the natural forces of *khair*, while the vital spirit is servant to vital faculties of *munkar*, and psychic spirit is servant to psychic faculties of *munkar*.

Accordingly, *munkar* activities come from two sources: *al-ruh al-haywaniyya* or animalistic behaviour in humans such as *hasad* (envies), *seriqah* (stealing), *ghasb* (grabbing) *etc.* and *al-ruh al-nafsaniyya* or behaviour which comes from one’s ego such as *israf* (spending) *tabthir* (squandering), *bukhl* (stinginess) *etc.*

For a deeper understanding of Muslim behaviour, Shah Wali Allah (1996) and Ibn Ashur (2013) point to the importance of biological and physical dimensions of a Muslim; the *fitrah*, as an essential element in attaining a better understanding and conception of behavioural postulates of the human. In other words, they are pointing to “man as a dynamic reality integrated with a universal principle of single natureness” (Ibn Ashur as quoted in El-Mesawi, 2003:172).

Every creation has its state of *amr* (order, law) and the *amr* for humans is in their creation on *fitrah*; it is because of this that they exhibit an inbuilt function for accurateness of judgement and understanding of what is good and what is not. However, due to a human’s vulnerability and his/her susceptibility to the whisperings from the devil and their *nafs* (lower soul), they become dormant in righteousness and require a call followed by continuous development for returning to the state of *fitrah*. Islam considers itself this call and mainly achieves it through *furqan* or the criterion. The Qur’an also represents a discourse shaping a frame of action and interaction between Allah and humans, and between humans and other creations. The Qur’an is based on (Arkoun, 2002:566):

Complex historical process engaging simultaneously [in] social, political..., cultural, and normative factors. These are [further] entangled with ritual, customs, ethics, familial structures[,]... the competing structures of the imagination and the collective interactive memory of... all cultural groups of the ancient Near East.

Qur'anic ontology is based on *wahy* or revelation and was further elaborated by the Prophet of Islam, which is transmitted as *sunnah* comprising his actions, response to other's actions and his sayings or *hadith*, These two sources create a skeleton structure for jurisprudence, law and regulations. However, a review of Qur'an unfolds that it was neither intended to be and nor is "an exhaustive catalogue of discrete exhortations and specific commands" (Salvatore, 2007:135). In Rahman's (as cited in Neuser *et al.*, 1999:60) opinion, Qur'an: "emerges as a document that from first to the last seeks to emphasise all those moral tensions that are necessary for creative human actions". It does this mainly by cultivating individuals to surrender to the commands of God, which will empower *al-ruh al-tabiiyya* to maximize *ma'ruf* and increase human wellbeing in this world and automatically later in the hereafter.

As for providing the foundation of for operationalization of life, Islamic ontology or the Qur'an institutes ethical principles shaping social, economic and other spheres of life. While the Qur'an combined with *hadith*, introduces a base structure for legal and ethical axioms on which Islamic law and moral action is built. However, its main focus remains on lifting humans from minimum divine requirements by building a society on systematic ethical principles in an intentional sense and moral behaviour in consequentialist sense.

The Qur'an develops an axiomatic "nexus between salvation and human action" (Salvatore, 2007:135). This nexus is facilitated by the pronouncing the right human action, along with the right attitude for that action, as an *ibadah* (service to Allah). The Qur'an (17:9) states that it "guides to the most upright Way and gives good news to the believers who do right actions that they will have a large reward". In this process, the human beings are accredited as witnesses of their own actions and they are motivated to contemplate on guarding themselves against wrong human actions through the development of *taqwa* (God consciousness). The Qur'an (33:72) also outlines the capability of moral fluctuation in human beings, which lays the philosophical foundations of this abstruse idea as follows:

Verily, We did offer the trust of compliance to the heavens, and the earth, and the mountains and they, being fearful, breach not what is entrusted upon them. Yet man, with his free will, is the only one who breaches this trust of compliance. For, verily, he wrongs himself without knowing it.

This verse demonstrates the unwillingness of creation on taking Allah's trust that is, the responsibility of Allah's obedience, while under the condition of free will. However, human beings took on this responsibility in return for a reward with the condition of fulfilment of trust. The verse goes further and explores the human ignorance in taking on this trust. The condition of not knowing or being ignorant of trust can result in an understanding that circumscribes the trust. The Qur'anic verses (Al-Baqara: 30-34) record a conversation between the angels and Allah, in which the angels elaborate the capacity of unjust actions that humans are capable of. In Islamic mythology, the angels by their nature are not capable of retaining, attaining or comprehending any knowledge or information other than what Allah has given them. Therefore, the angels address their concern based on what Allah has revealed to them. The conversation goes further and demonstrates a very key human proclivity; that is by attaining the divine knowledge, which is revealed to them, they can improve their status within Allah's creation and can reach a higher state of *taqwa* or piety. Therefore, one of the key factors in physical and practical return to the state of *fitrah* is gaining knowledge and building the comprehension of the type of actions required, based on revealed knowledge. However, converting the knowledge into intentions and further into actions requires the active role of other key factors.

The major forces in a humanity *al-ruh al-tabiiyya*, the natural force calls for the system of morals and principles as they emanate from the soul as a result of human creation on *fitrah*, while (*al-ruh al-haywaniyya*) and (*al-ruh al-nafsaniyya*) the vital and psychic forces are based on the physical needs and these are similar in humans and animals. These two forces have separate individual perception and cognition of pleasure and pain, which can equally result in right or wrong human actions. The fulfilment of physical needs or all animal instincts are not necessarily always wrong or evil. Similarly, all the acts of worship and attempts for striving are not always good or right, as they may not have been done correctly or with the right intention, which in Islam is unjust. The outcomes of these two forces mutually or independently can produce, depends on 'influence'; *i.e.* the influence of the spiritual forces

on human action.

Accordingly, an individual is under three kinds of major influences. The first is *nafs* (desire), which has many further subcategories and classifications. Other than *nafs*, there is the conscious and the influence of satanic whispers. These influences channel the two forces in humans either towards right or wrong human action. For humans to return to the state of *fitrah*, these forces are required to be in equilibrium. The state of equilibrium is when the two forces result in the actions of rightly guided people as mentioned in the Qur'an and *hadith*. Shah Wali Allah (1996: 157) suggests that in order for the state of *fitrah* to deliver an expected outcome, it must be equipped with four components: *tahara* (purity), *ikhbat* (humbleness towards Allah), *taqwa* (piety) and *adalah* (justice). These components are part of a development journey, which are expatiated in numerous classical works.

Table 6.1 identifies the negative axioms, which are the forces of vital and physical spirit that influences human behaviours. The consequences of these axioms are decrees in Islamic disutility in this world and in the hereafter. On the other side, positive axioms are listed in Table 6.1; these empower the natural forces of *fitrah* which lead to increased *suluk* (morally expected behaviour according to Islam) and hence lead to the social creation of good deeds which ultimately will result in *falah*. The founding fathers (Chapra, Naqvi, Ahmad, Khan and others) only focussed on positive axioms which identify aspirational behaviours of the Muslim consumer. However, the negative axioms are also important as they explain the source of misbehaviour within the *suluk* paradigm and hence the outcome of Islamic disutility.

Table 6.1: The Foundational Axioms of Islam Economics in Utility Construction

<i>Al-Ruh Al-Haywaniyya</i> (The Vital Spirit) <i>Al-Ruh Al-Nafsaniyya</i> (The Physical Spirit)	<i>Al-Ruh Al-Tabiyya</i> Natural Forces of <i>fitrah</i>
<i>Kufr / Shirk</i> (Negligence of Allah’s unity/ sovereignty)	<i>Tawhid</i> (Allah’s unity/ sovereignty)
<i>Zulm</i> Injustice	<i>Adalah</i> Justice
<i>Fisq</i> Self consciousness	<i>Taqwa</i> God consciousness
<i>Adawat</i> Antagonism and Enmity	<i>Ukhuwah</i> Brotherhood among human beings
<i>Isaet</i> Destruction	<i>Ihsan</i> Beneficence
<i>Nukran</i> Thanklessness/Disregard	<i>Shukr</i> Thankfulness/Gratitude
<i>Fasad</i> Corruption	<i>Khilafah</i> Vicegerency

The founding fathers of Islamic economics, when they built the initial foundation of Islamic economics upon the axioms of Islam, (as identified in Table 6.1) indirectly identified the different aspects of the *nafs*. These initial efforts as have been explicated in Chapra (1992), Naqvi (1994, 2004), Zaman and Asutay (2009) focused on depicting a utopian image of human and social development or empowerment of the natural soul, which, under Islamic utility, relates to *ma’ruf* dimensions. Even though Islamic economists did not refer to the negative axioms directly, they discussed and mentioned them in relation to the positive axioms.

The embarkation of the development starts from *tawhid* (Allah’s unity/uniqueness/sovereignty) and each development stage accumulates on it (Nazim and Asutay, 2009). The second landmark is this development process is *fiqh* (jurisprudence) followed by *adl* (justice); *iman*, which according to hadith, is, “That you affirm Allah, His angels, His books, His messengers, and the Last Day, and that you affirm the Decree, the good of it and the bad of it”, *tazkiyyah* (self-purification), *taqwa* (God consciousness) and *ihsan* (beneficence) as a final “finishing embellishment” (Zaman and Asutay, 2009).

Table 6.1 brings into analysis the counterpart to the positive axioms of Islam, which we will refer to as the ‘negative axioms of Islam’. They relate directly to the factors, which hinder human and social development and hence represent the forces of psychic and vital spirits of human or *munkar* dimensions of Islamic utility. Negative axioms, because of vital and psychic spirits, represent a system, which leads to ‘*ikab* (punishment) in the *akhirah* (hereafter) and hence disutility.

This division of foundational negative and positive principles symbolise different human - ‘inside’ - natures derived from Islam, which go beyond relegating positive principles to the Islamic system and negative principles to secular and materialistic based systems. It identifies sources of continuous human inner struggle to apply positive principles in order to reach the noble heights of thought and action and avoid negative ones. However, these two dimensions of inner self are mainly entangled in a way that positive axioms are sometimes more influential and hence *ma’ruf* increases and other times negative axioms are more influential and hence *munkar* increases. Qur’an (75:2) defines this condition as *al-nafs al-lawwamah* (self-accusing soul). An individual that constantly fluctuates between *ma’ruf* and *mukar* activities embeds all the mentioned spirits where each of them struggles to take the lead. Therefore, the positive axioms constantly direct inner selves to their natural spirits and remembrance of *akhirah* or the next world as a self-correcting method for maximisation of Islamic utility.

The advancements in this journey of development *al-ruh al-tabiiyya* through implementing positive axioms dependent on further factors: it requires the individual to build ‘momentum and energy’ (M&E), which helps him/her to fulfil the requirements of his/her current development stage. When an individual fulfils the requirement, he or she progresses to the next stage. A level of M&E is required, even if one wants to sustain themselves at one stage. The factors behind the build-up of M&E can be infinite in numbers, however the theological foundations for large number of these factors have a recursive feature. When the potential of these factors are confined to the analytical observation and study, whereby the process of constant progression in the life of the Prophet Muhammad is kept in view with the context in which the Qur’an descended (*al-asbab al-nuzool*) in fragments, it acts as a vantage point. An analysis of these vantage points unfolds and elucidates several key and vital development factors that build up the required M&E. These

vital and key development factors consist of two sets of agents; one has a practical dimension while the other subsumes the spiritual dimension. This is also shown in equation (1), where M&E refers to level of momentum and energy, ‘set A’ refers to the set of agents with a practical dimension for empowering the natural spirit over the animated spirits coming from the animalistic nature in humans and ‘set B’ refers to the set of agents with a spiritual dimension to overcome psychic spirits coming from the human ego.

$$M\&E \approx \text{Set A} + \text{Set B} \quad (1)$$

The elements of Set A, are *‘ilm* (knowledge), *tawakkul* (reliance), *sabr* (patience) and *salihat* (right human actions) while members of Set B consist of *wa’y* (awareness) *niyyah* (intention), *tawbah* (repentance) and *rahmat* (mercy).

As

$$\text{Set A} = \{\text{Knowledge, reliance, patience, right human actions}\}$$

and

$$\text{Set B} = \{\text{awareness, intention, repentance, mercy}\}$$

Therefore,

$$M\&E \approx \{\text{Knowledge, reliance, patience, right human actions}\} + \{\text{awareness, intention, repentance, mercy}\} \quad (2)$$

Knowledge, as formerly explained, is a vital distinction, which allows humans to differentiate between good and bad. However, this alone cannot incapacitate a human’s capacity for *munkar* or unjust or unlawful actions. Therefore, knowledge needs to be translated into right human action. Al-Asafahaani (Pearl of Wisdom II, May 20th, 2010) in his work *Hilyatul Awliyaa* elaborate on this concept by quoting Abu Darda’s saying: “One does not become truly pious unless he becomes learned, and one does not enjoy the beauty and benefits of his knowledge unless he practices what he knows”.

The Qur’an asserts the importance of right actions by dedicating more than a hundred and eighty-five verses to this matter, Ibn Rajab Al-Hanbali (n/a) provides a clear distinction on the impact of right human actions and wrong ones. Another factor with direct reciprocity to the right human action is *niyyah* (intention). The Prophet of Islam, pronounced the importance of *niyyah* by saying: “Deeds are [a result] only of the intentions [of the actor], and an individual is [rewarded] only according to that which he intends” (Sahih Bukhari, 1(1): No.1). Therefore, Islamic normative world situates *niyyah* at the core of every human

action. It is not only the act of judgement of righteousness in human actions but it also has an imperative tendency that, it can increase, decrease or nullify the outcome of right human actions on an individual's development process. Besides *niyyah*, the wrong human actions also influence the individual's development process, and any individual in spite of his/her progress within the development process is vulnerably prone to wrong human action. Although Qur'an associates believers with right human action, "as for those who believe and do right actions, We will pay them their wages in full. Allah does not love wrongdoers" (Qur'an, 3:57), it also at some places associates nonbelievers with the conduct of right human actions, as stated in the Qur'an (14:18): "the metaphor of those who reject their Lord is that their actions are like ashes scattered by strong winds on a stormy day. They have no power at all over anything they have earned. That is extreme misguidance"; and wrong human conduct of actions "Believers say, 'Our Lord, we heard a caller calling us to faith': 'Believe in your Lord!' and we believed. Our Lord, forgive us our wrong actions, erase our bad actions from us and take us back to You with those who are truly good" (Qur'an, 3:193).

While narrating the story of Adam's exile from the heavens, Qur'an (2:35) expatiates *tawbah* (repentance) as a key function, which differentiates between the intrinsic nature of righteousness and evilness. Adam and *satan* both committed sins by acting unjustly; however, Adam resorted to *tawbah* (repentance), which was accepted by Allah and further facilitated the development process for Adam. Qur'an in many other startling verses as in the following - "but as for those who do evil actions and then subsequently repent and believe, in that case your Lord is Ever-Forgiving, Most Merciful" (Quran, 7:153) - draws attention towards this tool of regaining momentum for development. Qur'an (19:60) signifies and connotes this correlation between right human actions and *tawbah* by stating that "Except for those who repent and believe and act rightly. They will enter the Garden and they will not be wronged in any way". In short, *tawbah* is an important tool for self-correction and hence maximisation of Islamic utility for considering the hereafter.

Ghazali (1990:29) expounds *tawbah* as "the first step of the aspirants ... the prelude of the selection and election for those who are brought close to God". The necessary prerequisite and a condition for the *tawbah* is the *niyyah*, or the state of remorse, knowledge of wrong and an imperative intention to correct the wrong along with the feeling of guilt and regret

of the past wrong actions, followed by determination and intention of abstaining from wrong and opting for high moral and righteous conduct in future (Al-Ghazali, 1990:30). The above prerequisite knowledge allows the individual to realise the practice of wrong human action and enables the individual to rectify it whereby it also helps him/her to abstain from it. When the act of *tawbah* fulfils all the required conditions, it may considerate a call of response from Allah.

Out of the ninety-nine names of Allah that are mentioned in the Qur'an, there are two names that can explain this particular virtue of forgiveness and mercy attributed to Allah by which he responds to the call of a repentant. These names are *at-tawwab* (acceptor of repentance) and *ar-Rahim* (most merciful). Allah's attribute of '*at-tawwab ar-Rahim*' "expresses the manifestation of grace" in response to human actions (Chaghatai, 2006:1165). What adds to the above discourse is this particular context, which is also widely apparent in the Qur'an, as "Allah is Ever-Forgiving, Most Merciful-for certainly all who repent and act rightly have turned sincerely towards Allah" (Quran, 25:70-71). The action of righteous conduct calls for the divine response of *tawbah*, and hence, Allah's mercy. The virtue of grace provides for us a pivotal intrinsic value that enables for the development of momentum. However, where the virtue of grace provides a basic platform for the development of momentum, *tawakkul* (reliance) and *sabr* (patience) together form an important part in the appreciation of this intrinsic development. The Qur'an (39:10) referring to *sabr* (patience or forbearance) states "Only those who are patient shall receive their reward in full, without reckoning", while mentioning *tawakkul*, Qur'an (65:3) states "Whoever relies on Allah (has *tawakkul*), He is sufficient for him". Furthermore, Qur'an, on numerous occasions, elaborates on the virtues one needs to possess in attracting the divine grace and hence acting as a tool, which can produce a reactionary manifestation of mercy from Allah. The manifestation of 'divine grace' comes with a requisite, that the individual in exchange would offer *shukr* (thanksgiving), illustrating a positive axiom as mentioned in the verse, "Then We pardoned you after that so that perhaps you would show thanks" (Qur'an, 2:52). The outcome of *rahmah* (mercy) is a divine response of recompensation, as explicitly mentioned in the verse, "we will recompense the thankful" (Qur'an, 3:145). The more these variables are inflated, the more an individual develops.

Figure 6.2: Strengthening Positive Axioms through M&E (A) & (B) Factors

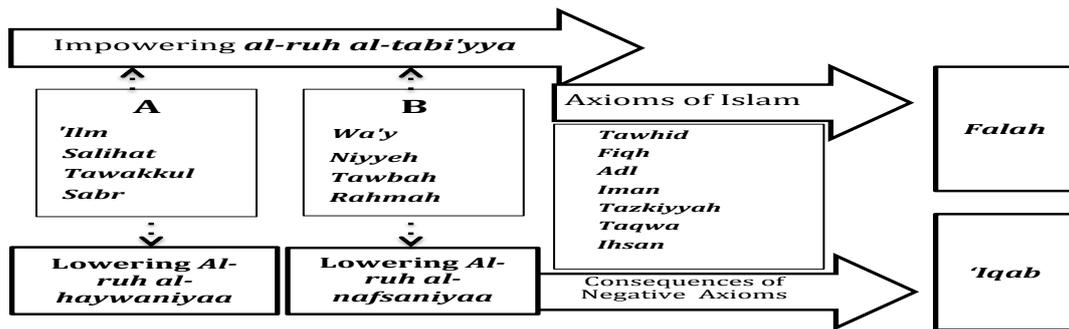
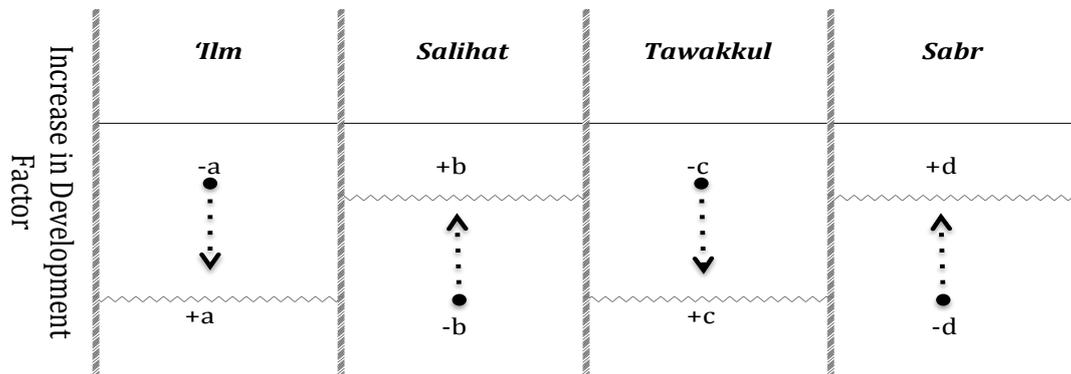


Figure 6.2, hence, graphically explains the self-development process in the light of foundational principles for strengthening *al-ruh al-tabi'yya* to be qualified to deliver the actions in the frame of Islamic axioms, which lead to *falah*. Figure 6.2 shows how developmentalistic factors of A and B positively effect on strengthening *al-ruh al-tabi'yya* and decrease the impact of *al-ruh al-haywaniyaa* and *al-ruh al-nafsaniyaa*. Empowering of *al-ruh al-tabi'yya* further leads to the implementation of Islamic axioms which ultimately would result in *falah*.

The collective force of all these intrinsic factors provides the momentum required for progressing in development stages. A decrease or underdevelopment of one or more than one of these factors, can cause retrogression and can abate or even negate the effects of the other factors. This may result in downgrading within the hierarchy of development stages. However, an increase cannot be even or linear along the whole range of factors. The balance in increase within members of 'Set A' depends directly on an individual's circumstances. The circumstances equal to the endurance and capacity of the individual as mentioned in the (Qur'an, 2:285): "God does not burden/impose a self except within its endurance/capability". Hence, it suggests that endurance and capacity of the individual set the benchmark for the elements of set 'A'. The elements of 'Set B' although they play an equal part as members of 'Set A', they are purely of metaphysical nature and possess asomatous characteristics in the sense of having no material body. Therefore, neither they nor a standard for them can figuratively or literally be quantified, although to progress in development stages there does exist a non-quantifiable benchmark (NB) for members of 'Set B'.

Figure 6.3: Capacity Compared to the Development Factors for Individual ‘X’



As can be seen in Figure 6.3, capacity: (+a, +b, +c, +d) represents the current position of development factors, (-a, -b, -c, -d), while the difference between the current position and capacity is expressed with: $\begin{matrix} \uparrow \\ \vdots \\ \downarrow \end{matrix}$

Every Muslim, thus, is at one of the development stages and to progress to the higher level requires all the elements of ‘Set B’ to be on or above the invisible benchmark along with all the elements of ‘Set A’ to be on or above the ‘capacity’. The elements of ‘Set A’ can be over the capacity, when he/she outperforms as compared to what his/her circumstances allow. Figure 6.3 demonstrates an example where an individual ‘X’ has an excess knowledge, while he/she is required to build a history of *salihat* (right human actions) along with an increase in *sabr* (patience) and *tawakkul* (reliance). Once all the elements of Set A and B reach the required level, all the requirements of the current development stage are executed and the individual ‘X’ can then progress onto the highest stage. After the progression, individual ‘X’ might become more aware of further ‘opportunities for performance and improvements’. This awareness could redefine the circumstances and as a result enlarges the capacity and in this manner the new standard for further progression will be set. The ‘opportunities for performance and improvements’ are simply the junctures where a Muslim can seek the pleasure of Allah. The Qur’an (9:72) by stating that “best of all is Allah’s goodly pleasure; that is the grand achievement”, designates the pleasure of Allah as an ultimate achievement.

To further elaborate on the ‘opportunities for performance and improvements’, consider an example of an individual ‘Y’. Individual ‘Y’ is at the higher development stage then

individual 'X'. Individual 'Y' after expanding the elements of Set A and Set B, executes all the requirements of the current stage and progresses on to an even higher stage and hence expands his/her *ma'ruf* dimensions. At this point, individual 'X' is already fulfilling all the requirements of the previous level of 'Y'. However, on reaching the higher stage, they will require from 'X' a different types and levels of *'ilm* (knowledge), *salihat* (right human actions), *tawakkul* (reliance), *sabr* (patience), *wa'y* (awareness), *niyyah* (intention), *tawbah* (repentance) and *rahmah* (mercy). These levels set the new standards and benchmarks, while the realisation of injustice and need to endeavour, is the awareness of further 'opportunities for performance and improvements'. If Individual 'Y' chooses not to act and improve, he/she will stagnate on the same level or downgrade to the previous level. In the whole process of development, only *al-maqasid al-Shari'ah* will define which decision for each individual 'X' or 'Y' is appropriate and advisable for further development.

Similarly, the social and economic actions of a Muslim also largely depend, in the utility decision process, on the phases during the development journey. In other words, the difference between the set benchmark and values of members of Set A and Set B, the requirements of the targeted development stage, along with the current position of the individual within the lifetime line, represent the driving of Islamic axiomatic factors in a Muslim's behaviour regardless of whether or not he/she enjoys his/her actions. The moral factors, which will maximise Islamic utility, are clearly central in describing different actions and consuming different goods or services. Therefore, the measurement of satisfaction (pleasure) and disutility (pain) in defining 'utility' from an economics angle is partial since it ignores dimensions constructed on moral grounds of Islamic axioms which are further underpinned by developmetalist factors of sets 'A' and 'B'.

In further understanding of the development process, Utility as shown in equation 1, can be divided into two major forms, that is: holistic utility and atomistic utility.

$$Utility = Atomistic Utility + Holistic Utility \quad (3)$$

The atomistic utility is the natural inclination or the propensity based on the utilitarian philosophical concept of pain and pleasure. Bentham (1948:1) suggests that these innate natural forces "point out what we ought to do, as well as to determine what we shall do".

On the other hand, holistic utility is the perception of an individual based on the following: the increase across the members of Set 'A' and Set 'B' required to reach a higher level, an individual's current position in the development stages and the requirements of the current development stage. The nature of *fitrah* in humans instigates towards continuous development; however, the *nafs* and other external influences can have negative effects on this instigation. In every human, the ratio between instigation and negative factors (*nafs* and other external factors) determine the individual's willingness for development. This further translates into the values of elements of set A and B, which interpret the 'holistic utility' an individual receives from specific good or services. Fluctuation in all the above factors can result in different 'holistic utility' for different goods and services. The aggregate of 'atomistic utility' and 'holistic utility' form the correlation with want or desire of *al-ruh al-haywaniyya* (the vital spirit) and *al-ruh al-nafsaniyya* (the psychic spirit) on the one side and *al-ruh al-tabi'yya* (the natural spirit) on the other.

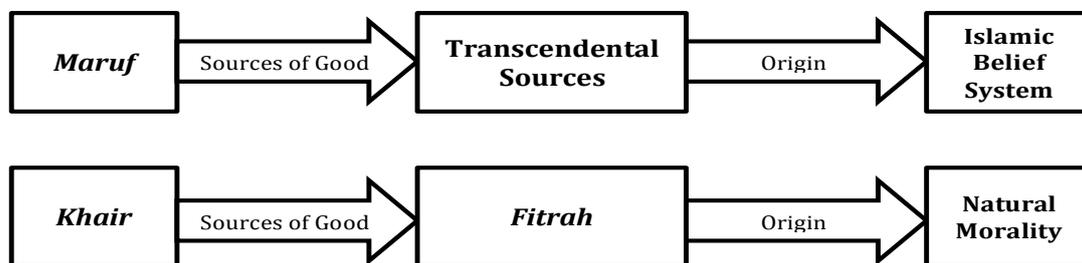
'Holistic utility' is the one that encompasses this world, hereafter and the 'Judgement Day'. For instance, let's assume that the consumption of product 'x' is prohibited religiously. This means that product 'x' does have an atomistic utility; however, its consumption is classified as a sinful act which makes the aggregate 'holistic utility' zero or negative. Therefore, a utility can be positive within an atomistic framework. However, the same utility when perceived from the 'holistic utility' can turn the aggregate negative, making the aggregate zero or negative. It could be suggested that, when the aggregate of atomistic and holistic utility becomes negative, the individual develops a hatred towards that thing and perceives it as something, which does more harm than good. The higher an individual goes in the development stages, the larger the difference between the holistic and atomistic utility. This line of argument can also be used to explain the behaviour of certain individuals in avoiding *munkar* and focusing on *ma'ruf* even though it requires sometimes sacrificing certain pleasures from a purely atomistic utility. However, considering holistic utility, pleasure and satisfaction become greater in following axiomatic commands.

It should be noted that the literature in 'Islamic economics' presents discombobulating views on utility; the general view of Islamic economists is that our rationale only helps us to pursue atomistic utility. The reason human rationale is not sufficient is because we only possess information regarding the physical concrete world. This understanding is also

reflected in the categorisation of knowledge acknowledged by classical scholars. Usmani (2007:32) claims regarding categorisation that, “each one of them has a definite range and fixed sphere of activity beyond which it does not work”. The first two are the ‘knowledge gained through senses’ and ‘knowledge gained through intellect’. However, these two do not provide us with the information needed to understand and pursue holistic utility. Therefore, Usmani (2007: 33) argues that the ‘*wahy*’ (divine revelations) are sent to enlighten us about the third type of knowledge, which we cannot perceive on our own. The third type of knowledge is rationalised as the knowledge, that gives us the information required to acknowledge the covenant with Allah and if we choose to do so, then it presents the methodology that we can use to maximise utility in a controlled manner within the prescribed methods of increasing the holistic utility. Furthermore, believing in a religious philosophy reflects to the act of following the principles approved by that religious philosophy and rejecting the actions negated by that philosophy. The factors that provide allowance to do so are considered to be the third type of knowledge.

Those individuals who do not follow the Islamic religious philosophy, they lack the third type of knowledge. Therefore, they should not have any ‘holistic utility’ and nor should they have any elements of set A and B with a positive value. However, the present state of the world and a survey of history prove otherwise. Human beings who do not approve Islamic religious philosophy show clear signs of ‘holistic utility’ in their actions and consumption. As such it would, therefore, be disproportionate to assume that individuals outside the Islamic development stages are inadequate to accumulate any ‘holistic utility’.

Figure 6.4: Types of Good Deeds in Context of Islamic Moral Economy



As expressed in Figure 6.4, the holistic utility is the expression of ‘good’ and transcendental sources of Islam show a clear distinction between two types of good. One is referred to as *khair* (goodness) whose source is natural morality, while the other is classified as *ma’ruf*

(Islamic virtues) which comes from the Islamic value system. The hadith “People good at the time of ignorance, will remain good after accepting Islam” (Sahih Bukhari: 3493) which designates the word *khair* with individuals who did good actions while being outside the fold of Islam, along with the verse “You are the best of nations raised up for (the benefit of) men; you enjoin what is right [conduct] and forbid the wrong” (Quran, 3:110), assign *ma'ruf* as a unique attribute of the Muslim community as shown in Figure 6.4. This explicates into a framework of two-tier ‘good’. In this framework, *khair* may be suggested as general good present in the entire humankind, which may stem from *fitrah* and it could be the source of natural law. While *ma'ruf* is the known good deed, and revelation is the source that allows human beings to know this known good deed. Therefore, individuals outside the fold of Islam can develop *khair*, which in return could stimulate some of the variables in holistic utility. For such an individual who although does not approve of Islamic religious philosophy and lacks the third type of knowledge, he/she is deficient of known good, that is, *ma'ruf*. However, s/he can still generate positive values within some of the variables of M&E, by stimulating good, that is, *khair*, which originates from *fitrah* as demonstrated in Figure 6.4.

Therefore, through the right application of intellect, individuals can produce *salihat* and *sabr*, while the motivation and guidance for them may burgeon from *khair*, with roots in *fitrah*. The singularity of existence on *fitrah*, in all human beings could also be the reason for similarities in normative ethics across different cultures and religions, around the world. However, according to the Islamic theological position, the disassociation of these human beings with Islamic religious philosophy results in no meaningful value for other development factors like *tawakkul*, *niyyah*, *tawbah* and *rahmah*. Consequently, the positive value for *salihat* and *sabr* does not translate into any M&E, which could be utilised to rise in the hierarchy of development stages. Quran (14:18) explains this in stating that “The metaphor of those who reject their Lord is that their actions are like ashes scattered by strong winds on a stormy day. They have no power at all over anything they have earned. That is extreme misguidance”.

To develop, therefore, one needs to comprehend and apply the theological requirements of Islam. Due to this, the first development stage and the foundation stone for further development is considered as *tawhid*. Furthermore, the theological basis for striving by

performing right human actions, combined with the self-realisation of a need for development, purposeful obedience, continuous struggle of self-guarding against wrong human actions, along with the acknowledgement of inability to succeed without the alliance, assistance and will of Allah, acts as a structure of justice to percolate a just and congenial society. This not only generates, but also nurtures moral and just socioeconomic activities. Such a society is made up of diverse individuals who are at different development stage and have manifold combinations of development factors. Therefore, Islam regulates such a society with stringent and acrimonious regulations designed to allow individuals with different level of morality, to develop without causing any harm or injustice in society.

In conclusion, utility within Islamic moral economy is shaped by the foundational negative and positive axioms. These axioms give a realistic picture of the bounded rationality of Muslims' behaviours. Consequently, Islamic utility is a tool for analysing man's soaring idealism as well as his/her mundane concerns. It affects economic attitudes and activities but those factors are usually neglected in economic scrutiny.

6.5. ISLAMIC INSTITUTIONS FOR EMPOWERING HOLISTIC UTILITY

Islam as a religion, and, also, as a political economy, system places heavy stress upon the economic aspect of life. Even from the beginning, Muslims had been discouraged from asceticism and directed towards engaging in socioeconomic spheres, trade, acquisition, lending and so on. However, Islam, according to Essid (1987:78), seeks to create a moral attitude toward financial and economic activity. This includes for example, the regulation of the use of money by laying down restrictions, which would also make wealth a source of community solidarity rather than of antagonism and division since the *tawhidi* or complementarity/unitarity methodology overcomes the divisions by connecting, embedding and integrating the interest and utilities of everything on earth. Even the newly born Islamic community and its operating market was directed towards an economic structure which would support a social ideal of Islam by aiming to develop a particular social formation, a commitment which still drives Muslim societies.

It should also be stated that from the early period of Islam, economics has never been treated as a separate discipline in Islam. However, the concept of economy has been deeply embedded in visions of social ideals and hence as part of the social formation or the theory

of the actual history of that society, where economic questions have been viewed in terms of their importance to the present and the future of the community individually and in the group as well as their hereafter. Therefore, writings on economic matters in Islam are mainly among non-economic statements of politics, ethics and moralities (*ahklak*). Although not a treatise on political economy, the Qur'an is the main source on economic ethics and the source of the principles of a particular political economy of Islam, as it suggests the formation of a particular social formation.

Since Islam sprang from a mercantile society and the Prophet himself engaged in commercial exchange, production for market and trade were pictured in the Qur'an as noble activities. Mention has been made of bargaining, selling, buying, reward, weight and measure, which will increase Islamic utility. However, the Qur'an condemns actions, which are based on an unjust exchange that violates the principles of the *Shari'ah* and Islamic ethical norms; the ones that directly have an effect on Islamic disutility leading to failure in this world and punishment in the hereafter. Increasing Islamic utility through *adl* (justice) where the market on which the Muslim society depends on for their daily necessities, offered possibilities for fraud.

In order to secure high morality and justice within the market sphere, where individuals with high and low levels self-developments in 'A' and 'B' sets interact, the *hisbah* (regulative market control) institution was established. The main responsibilities of the *muhtasib* (market regulator) included the implementation of judicial duties and ethical norms, along with instructing market officials on technical aspects of supervising the consumers and producers. This concerned the preservation of the spirit of Islam to achieve the highest level of human development and hence the highest Islamic utility (Essid, 1987).

Another important institution that affects Islamic utility is the *khilafah*. A community and its market place founded on religious injections, whose public concerns were organised and controlled by the ruler who would succeed the Prophet and enforce divine as well as human systems in order to secure the well-being of the *ummah* in this world and its salvation in the world to come. Therefore, a just ruler was considered as the axis of the social body, serving as the function of the brain in the human body. The ruler was regarded as God's reflection on earth, the embodiment of His wisdom, and was the Sultan who guaranteed justice on earth. In the cosmic view of the Muslims, the *khalifah* is the supreme power for *adl* on

earth; acting to secure utility of the believers and protect them from any destructions that might increase disutility.

In the progressed view of the Muslim world, the state with its ruler has become the centre of the economy serving as the distributor of goods in the sense of developing public policy for distribution. For example, Abu Youssef composed a legal treatise entitled Manual on Land Tax for the Caliph Harun al-Rashid, covering topics such as the reciprocal duties of the prince and his subjects, the distribution of land, the sharing of booty, the regulation of prices, and usurious and aleatory sales (Essid, 1987). For this manual to be used as a reference point by the ruler, text that exhorted the sovereign to be a good shepherd of the flock entrusted to his care, to lead through his actions and to choose the world to come rather than the one he now ruled was incorporated.

The concept of *khalifah*, has further meaning in relation to development; Muslim philosophers used the ancient Greek concept of *oikonomia*, the management of the household and *oikonomia (tadbir)* to designate management of household (*tadbir al-mazil*), as well as administration of government (*tadbir al-mudun*) and government of God on earth (*tadbir al-alam*) (Essid, 1987), collectively to represent the religious-socio-politico-economic nature of the *khalifah* directly entitled for Islamic utility. In *tadbir al-manazil*, the responsibility of husband and wife, father and children, master and servants characterises the concept of *khilafah* where every member from his/her position try to acquire virtue (utility) and avoid evil (disutility). Similarly, the government's members according to the *khilafah* objective function are required to lead the different members of society to a higher level of wellbeing in this world and provide advises and guidance on issues of their hereafter matters.

The concept of *khilafah* in the economic domain clearly requires focusing on what value judgment constitutes 'good' *ma'ruf* and 'bad' *munkar* beyond simply focusing on explaining relationships, correlations between economic factors and political or personal decision-making or ends. It requires analysis of economic problems; unemployment, poverty, underdevelopment, environmental issues *etc.*, which are embedded in a consumer's behaviour and consumer decision-making in alignment with fulfilling needs not satisfying wants (Fahim, 2013). Therefore, positive economic statements have to reflect the reality and the state of deviation from *ma'ruf* in an individual's behaviour.

The concept of equity has best been articulated through the mechanism of “enjoinment of good and the forbidding of evil” throughout Muslim history. Every single individual in the Islamic community is empowered to preserve justice and peace for the public interest according to this concept, which is the main objective of *Shari’ah*. The Qur’an emphasises the need for this mechanism in various verses (Qur’an, 3: 110; 9:71; 22:41; 4:114; 5:2; 7:165; 5:78-79). Similarly, countless Prophetic traditions have been recorded pointing out the need for importance of this concept to enhance general justice within a community. In the same way, the experiences of the four rightly-guided Caliphs show that they received advice, complaints, oppositions, and also rejections, of their policy by the people, which reflects the level of success of the concept in creating empowered citizens during those periods. For example, Ali, the fourth Caliph, did not give consent (*bay’a*) to the first Caliph Abubakar; and one of the disciple of the Prophet, Abu Dhar, was expelled from the community for his opposition against the third Caliph Othman on the ground of not distributing the resources of the state.

The *khalifah* individuals, therefore, should be able to shape the ‘contents’ by subjecting them to the process of development as articulated by axioms and defined by the Islamic ontology and epistemology; and hence *khalifah* typology based individual should be able to produce *ihsan* as social capital through institutionalising *nasih* and *amr, ma’ruf, nahy* and *munkar* that the intrinsic meaning of *islah* to guide Muslims in their continuous to attain *falah* in both worlds. In the same way, *islah* as a landmark theme in individuals’ lives will transform the society into self-actualised people striving to achieve *ihsan* (comprehensive excellence) in their daily life, leading to *falah*. Consequently, these concepts become pivotal in community life, in that they determine the consistency of justice, benevolence, religiosity, good governance and development of the *ummah*. As an imperative, this concept allows for vertical accountability of peer assessment to be implemented for self-correction and hence empowerment of *al-ruh al-tabi’yya* to ensure *falah* as the ultimate outcome of Islamic utility.

Institutions of *nasihah* and *amr ma’ruf nahy munkar* also contribute towards the production of functioning and responsible individuals who live with the awareness of their responsibility to enjoin and promote virtue and at the same time to eradicate indecency and evil in the community. Evil is not only perceived as the sinful acts of individuals, in the realm of

Islamic moral economy can be anything that is outcome of negative axioms and leads to destruction of the community (Abdul Tawwab, 1983: 372-73). It is only through collectively practising the obligation of *amr ma'ruf naby munkar* that the *ummah* will progress, achieving unprecedented heights in development whereby Islamic utility will be maximised. Taleqani (1986: 63) insists that any effort to eradicate those kinds of evils in community life and for the benefit of people reflects the true meaning of faith and religiosity.

6.6. ISLAMIC UTILITY FUNCTION FOR LEADING TO *FALAH*

Arguably, the Islamic utility function is the most important component of every decision process in daily life of a Muslim in creating balance between the material and the spiritual nature of human life. Through the convergence of all aspects of *ma'ruf* and *munkar*, aggregated Islamic utility represents a social preference, the criteria according to policy formation should be created. There are many factors that are taken into account when measuring Islamic utility beyond the size of wealth and disposable income (and so on) but also value loaded factors that come from capacity building and axioms.

Building on previous concepts of *ma'ruf* and *munkar* and their impacts on individual Muslims behavioural patterns, Islamic moral economy attempts to formulate a model of Islamic utility function in relation to 'final spending' (see: Khan, 1995; Khaf, 1980; Omar 2011; Hassan, 2006, Chodhury, 1999). They all emphasised the importance of spending for a person's own consumption and consumption of his/her family members along with donating to the poor and hence directly increasing his/her spending power.

Spending in this world or '*kasb*', from the earning perspective in Islamic moral economy, is divided into *al-kasb al-dunyawi* (the materialistic earnings in this world) and the utility derived from it and *al-kasb al-akhirawi* (the spiritual earnings in the hereafter) by spending according to the norms and values of Islam. These earnings or *kasb* from spending in this world do not exclude each other, such as spending on consumption in a *halal* way secures also spiritual benefits and hence Islamic utility increases within two dimensions: *dunya* and *akhirah*. For example, spending one's earnings on his/her own consumption and the consumption of his/her family represent *al-kasb al-dunyawi* in satisfying his/her and their materialistic needs but at the same time it represents *al-kasb al-akhirawi*, if spending and consumption satisfy Islamic axiomatic dimensions of *maruf*. This is because spending on

prohibited products and services regardless if it is for him/herself or others, directly increases *munkar*; hence Islamic disutility.

Introduction of *zakah*, as proposed by Kahf (1980), under this model is articulated as a fulfilment of the command prescribed by the Qur'an as part of the *ma'ruf* concept where legalistic norms of *Shari'ah* are must in addition to moral dimensions derived from Islamic axioms as unwritten rules of *makarim al-alkhlaqi* (the highest moral objectives). The articulation and implementation of *makarim al-alkhlaqi* is according to each human capacity and self-development of *ar-ruh al-tayyiba* to maximise Islamic utility. In other words, implementation of Islamic moral objectives are left to human free will to maximise his/her Islamic utilities according to each individuals' development within 'A' and 'B' sets.

Based on the conceptual framework of *ma'ruf* and *munkar*, a distinctive approach is proposed to respond to drawbacks in the field of consumer behaviour of Muslims. Hence, the following assumption are applied in this micro-model:

An Islamic community is a society of the believers as well as non-believers, who are further classified into the rich and the poor amongst them. Since Islamic utility concerns a Muslim the focus is on utility of the rich (U_r) and utility of the poor (U_p) and non-believer members will be referred to as (U_n);

The time period of the model covers the whole human life period, where *ma'ruf* and *munkar* activities are averaged throughout their lifetime;

The believers of the Islamic society are assumed to behave in accordance with Islamic norms. Therefore, paying of *zakah* and obligatory *sadaqah* when it becomes compulsory, is treated as a positive response to the commands of the *Shari'ah*, which every Muslim is supposed to do;

Comprehensive welfare function (W) of individual maximisation of his *ma'ruf* in *dunya* and *akhirah* are presented in equation 4:

$$W = \left[\frac{\max}{A+B} (\sum A + B) - \frac{\min}{C+D} (\sum C + D) \right] > 0 \quad (4)$$

where,

A = Following and accepting principles of *Shari'ah* (*fiqhi* rules), spending on his/herself and family members. The choices from this category are made based purely on implementing the legal commands of Islamic Law which are punishable if not performed.

B = Implementing moral dimensions derived from Islamic axioms (like paying for charitable causes beyond prescribed *zakah*, establishment of *waqf*, awareness of environment *etc.*). These and similar actions go beyond what is only legally required and hence underperformance or performance within these types of actions purely represent the spiritual moral capacity of individual. The action of these categories is not under *uqubat* (Islamic punishment law).

C = Actions that violates and decrease the *ma'ruf* of individuals (spending in unlawful products and services). These actions again fall under the punishment law which Islamic law clearly stipulate as not permissible or recommendable.

D = Violation and not considering moral boundaries of Islamic axioms, under the *fiqhi* understanding does not increase the *munkar* of an individual but rather represents missed opportunity to maximise the *maruf* of a person to attain his/her highest capacity. The action within this category do not represent any of legal or moral attributes for actions but pure hesitance or laziness to act and perform.

$$A = \sum_{max} a + b$$

Acting according to the principles of Islam with a good intention due to the impact of Islamic developmentalist factors on utility performance where:

$$a = (C_m; S_m; H_m)$$

where,

C_m = intention to consume according to the needs of his/herself (*hajiyat* level);

S_m = intention to spend on and fulfil the needs of others (supplying for *hajiyat* level of others);

H_m = intention to increase in savings and hence contribute more to the *zakah* fund,

and

$$b = (C_m; S_m; H_m)$$

where,

C_m = actual consumption and fulfilling of his/her own needs (*hajiyat* level);

S_m = actual spending on and fulfilling the needs of others (supplying for *hajiyat* level of others);

H_m = actual savings and future contribution to the *zakah* fund.

Then,

$$B = \sum_{max} a + b$$

As for 'a', increasing *makraimu al-akhlaki* (noble moral traits) as the Prophet himself tried to maximise and accomplish "I was sent to complete the noble moralities" (Musnad Ahmad, No. 8595), which are beyond prescribed rulings according to each individual's personal capacity, then

$$a = (i + s + t + s)$$

where *i* represents *'ilm* (knowledge), *s* signifies *salihat* (right actions), *t* means *tawakkul* (reliance) and *s* denotes *sabr* (patience) which denote the necessary developmentalistic factors to strengthen and enhance maximum implementations of noble moral traits as defined by Islamic axiomatic principles for an individual in his/her private and social domains (lowering *al-ruh al-haywaniyya*). As for 'b',

$$b = (w + n + t + r)$$

where *w* represents *way* (conciseness), *n* characterises *niyyah* (intention) *t* signifies *tawbah* (repentance) and *r* indicates *rahmah* (mercy) which denote another developmentalistic factor which works to nourish *al-ruh al-nafsaniyya* and hence implementation of

consequential moral actions).

Identified human natures of *al-ruh al-haywaniyya* and *al-ruh al-nafsaniyya* are constantly lowered with constant application of the abovementioned tools for strengthening and building an Islamic noble individual. These both developmentalistic factors are treated as one whole B in this model.

$$C = \min \left(\sum a + b \right)$$

where an individual tries to minimise consumption, and spending on any products and services which negatively impact on his/her *ma'ruf*), where

$a = (h + m)$, where h denotes *haram* (strictly prohibited) and m represents *makruh* (not recommended) actions and products by the *Shari'ah* are purely based on a fiqhi understanding of the Islamic value system, and

$b = (M + E)$, where M (actions or products that are from a form point of *Shari'ah* permissible but due to consequences that these actions and products might create become unlawful) and E (environmental concern).

$$D = \sum_n a_1 + a_2 + a_3 + \dots a_n$$

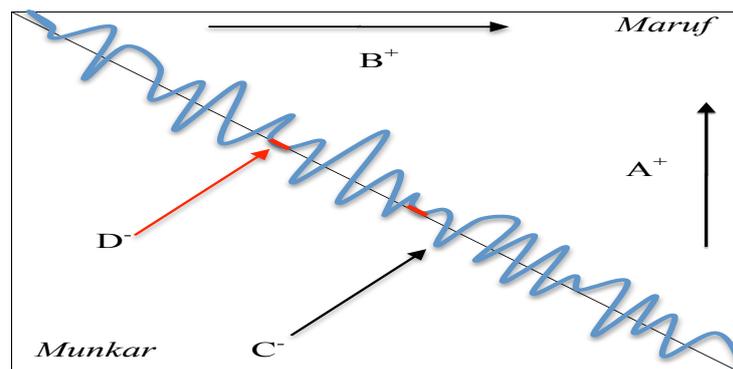
which denotes for noble behavioural actions defined by IME, and it goes beyond *fiqhi* rules whose conduction tremendously increase *ma'ruf* on one side and on the other, shortcomings in that regard do not increase *munkar*). In the model, a_1 represents the lost opportunity to increase his/her *ma'ruf* account and another letter and type of missed chance.

In order to arrive inductively at the measurement of Islamic utility, one would need to essentially measure the subjective quantity of an individual's *homoislamicus* character in relation to his/her behaviours under certain circumstances. These will be rendered open to unambiguous inference of many factors; he/she is conceived to maximise Islamic utility. The behaviour of an individual in the economic domain, when confronted with combinations of internal factors (*al-ruhu al-haywaniyya* and *al-ruhu al-anfsaniyya*) and the external factors of income, price, *etc.* is in itself complex to determine the exact form and

nature of utility function. Adding to this, systems of multiple forms of utility might arise under the constant development of human capacity and encountered dynamics within changing circumstances. In addition, many possible scenarios in the model of Islamic human well-being occur.

In simplifying the Islamic utility maximisation process under *ma'ruf* and *munkar* concepts, Figure 6.5 depicts that Islamic utility is subject to increase in A+ and B+ vertically and horizontally through longest time intervals. On the other hand, maximisation of Islamic utility is also subject to decreases in C- horizontally and vertically below the vertical line of steady state. Even though, the red intervals represented by D- on the steady line do not increase or decrease Islamic utility, the *falah* paradigm represents 'missed opportunity' to maximise and ensure his/her salvation.

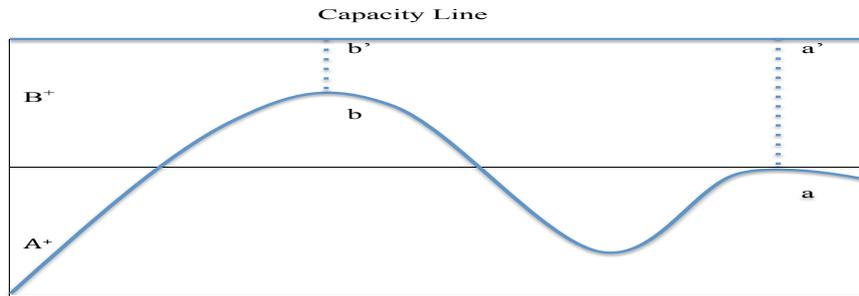
Figure 6.5: Maximising Islamic Utility



In general, economists assume that in rational behaviour an individual subject to his/her available sources and tastes can select any point on the indifference curve, which will provide wanted satisfaction. However, Figure 6.5 points to another important dimension of Islamic utility, which comes from the capacity, *ilm* (knowledge), *salihat* (right human actions), *tawakkul* (reliance), *sabr* (patience), *wa'y* (awareness), *niyyeh* (intention), *tawbah* (repentance), and *rahm* (mercy) to maximize the highest potential in a certain decision. For example, looking at Figure 6.6, we can see that a person has selected to spend in charity up to (a) which is fulfilment of minimum legal requirement but his/her possible capacity is up to (a') which would include moral expectations. Therefore, the horizontal x axis represents the capacity line; on which level of fulfilment of capacity one is performing, whereas, vertical y axis represents within which dimensions A+ or B+ actions are performed. This presents individual potential and actual ability to gain the full satisfaction of charitable deeds

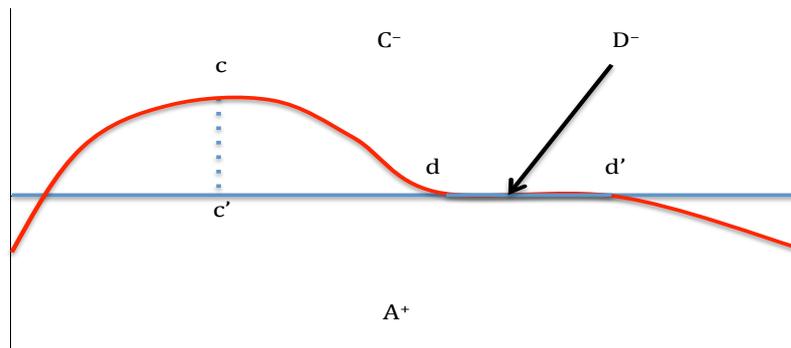
under *falah* either within *fiqhi* or moral paradigms.

Figure 6.6: Islamic Utility Maximisation in Relation to Capacity



Moreover, in the analysis of missed opportunity (D-) within the *falah* paradigm, it is extremely important to highlight that a Muslim should not miss the opportunity (d) neither prolong it to act until (d'), which in both cases means that maximization of Islamic utility will be affected as depicted in Figure 6.7.

Figure 6.7: Islamic Disutility Accumulation



In the figure 6.7, the horizontal x axis represents the time line identifying the missed opportunity to perform an act which would maximise Islamic utility. On the other hand, vertical y axis represents dimensions within which category (A^+ , B^+ , C^- and D^-) action falls.

In conclusion, this part describes a model of Islamic utility function as proposed with two sets of factors necessary for empowering the natural forces of humanity to abide with the norms and values that ultimately lead to satisfaction (Islamic utility) as a result of *falah*.

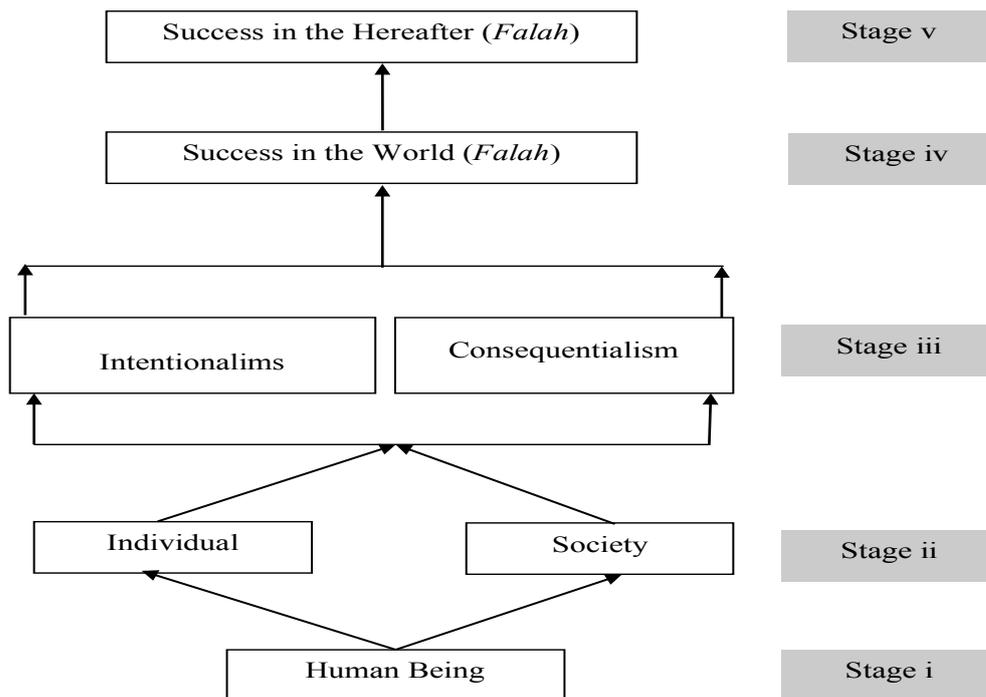
6.7. FORMULATING THE NATURE OF ISLAMIC UTILITY FUNCTION

The individual aim in Islamic economics is to enhance the maximisation of *falah*, for this world and for the hereafter. The word, *falah* represents itself in two time dimensions, that

is: this world and the hereafter. As for this world, it includes survival, freedom from poverty and securing strength and honour. For the hereafter, it extends to eternal survival, immortal welfare, eternal glory and knowledge that is free from all ignorance. Overall, the *falah* requires fulfilment of potential in order to be fully accomplished on the ‘day of judgment’.

The overarching framework of Islamic utility function in Islamic moral economy is grounded on three essential pillars that operate in two timely dimensions. Within the dimension of this world, the individual (*haqq*) and society (*ihsan*) interact with each other within the poles of intentionalism and consequentialism. This interaction defines the success in this world and its reflection is transmitted into success in the hereafter, as illustrated in Figure 6.8.

Figure 6.8. The Developmentalist Stages for Reaching Islamic Utility



Stage i: Qualitative Preparation of Individual

Stage ii: Manifestations of Qualitative Attributes into Daily Life

Stage iii: *Roushed* Based Actions for maximising Islamic Utility

Stage iv: Utilization of the Fruits of *Roushed* Actions

Stage v: Success in the World as a Determining Factor for Success in the Hereafter

Source: Adapted from and modified version, Ghazali (1990: 25).

Al-Izz Abdesalam (2000) suggests that function of Islamic utility process starts from

following the normative values of the Qur'an and the Prophet's tradition; attaining nearness to God in this world and in the hereafter through knowledge and enjoyment of spiritual pleasure. The middle state of Islamic utility accomplishment represents itself in the Muslim masses that worshipping God in fear of Hell and in aspiration to the promised pleasure in Paradise. The lowest utility encompasses believers and non-believers that pursue only material pleasures in this world according to the allowed legal forms with complete neglect to life after death. Since the lowest utility does not have connection with *falah*, it cannot be part of the Islamic utility function.

In the scale of preferences of Islamic utility, Al-Izz (2000) argues that the highest utility is the state of knowledge, which comes from *'ilm* (knowledge), *salihat* (right human actions), *tawakkul* (reliance), *sabr* (patience), *wa'y* (awareness), *niyyeh* (intention), *tawbah* (repentance), and *rahmah* (mercy). Indeed, this level is considered to be an aspirational form of Islamic utility. On the other hand, the middle utility is present among Muslim masses, which represents the trade-off between aspirations and the forces of human nature; *al-ruh al-haywaniyya* and *al-ruh al-nafsaniyya*.

$$\text{Islamic Utility} = f(\text{falah}) \text{subject to 'concerned consumption' + 'ihsan'} \quad (5)$$

Islamic utility, hence, is a function of *falah*, where, as explained, *falah* is a combination of *falah* of this world and *falah* of the hereafter. *Falah* can be achieved through 'good deeds' or *ihsan* and 'concerned consumption'. The axioms are the criterion that allows the intentions of an action and consequences of it, to be considered as a good deed. We will now individually define each element of this equation, that is: axioms, intentionalism, consequentialism, *falah* and *ihsan* in understanding the utility leading to *falah* in formulating the Islamic utility.

Islamic axioms, which act as a criterion, were formulated by the founding fathers of Islamic economics, such as Ahmad (1994) Naqvi (1994); Ghazali (1990) and Sirageldin (2002), as a function of achieving the highest Islamic utility. These axioms are as follows: *Tawhid* (Unity) is the vertical dimension of the ethical system; *al-'adl wa'l-ihsan* (beneficence) is the horizontal dimension of equity and *ikhthiyar* (free-will) is the freedom "to interpret-reinterpret... within specific societal contexts, and to suit the needs of changing times" (Cattelan, 2013:31). *Fard* (responsibility) states that although 'responsibility' is voluntary,

individuals and society need to concern with the public good and therefore mandatory actions are institutionalised. *Rububiyah* is the divine arrangements for nourishment, sustenance and directing things towards their perfection. *Tazkiyah* (purification plus growth) is the idea that human beings are agents of change and development, which must be in line with the good of others and has to be conducted with ethical and moral considerations. *Haqq* is the right, *amanah* is the trust and *ukhuwwah* is solidarity and unity. *Khilafah* and *akhirah* focuses on the individual's role as God's vicegerent on earth and human accountability before God; as individual, human beings are a trustee of God's resources on earth, they are to responsible for illustrating a model example for other individuals to follow. *Islah* is the reform for essentialising social good. As a methodological frame, *maqasid-al Shari'ah* is the objectives of the *Shari'ah*, which is defined whatever the action is conducted should be in line with human well-being. These axioms, hence, define criterion, which allows the intention and consequence of an action to be included in the set of good deeds.

Tawhid implies complementarity and unitarity in the sense that Allah created everything, and therefore, economic analysis and individual decision-making for utility function has to incorporate the interests of others in a larger stakeholder manner, which relates to *ihsan* and *adalah*. Thus, being the vertical ethicality, it enables individuals to integrate the utility and benefit of other stakeholders in one's utility function in an attempt to expand *ihsani* social capital to reach *falah*.

Ihsan is a movement towards perfection through achieving beneficence as this would lead to *falah* in individual level; but an individual *falah* is not enough, as *ihsan* requires helping others to reach *falah* or disseminating *ihsan* to others to maximise it as a social capital. Accordingly axioms of *adalah* and *ihsan* essentialises the social justice by providing the necessary framework within which *falah* is articulated as an ultimate objective of Islamic moral economy to establish balance between one's own individual needs and the needs of society (Naqvi, 1994; Asutay, 2007). Thus, individuals having such a character of *ihsan* and *al-'adl* are expected to shape their behaviour and mind-set within a *tawhid* understanding with the objective to maximise their social capital necessary for achieving *falah* and importantly *ihsan*.

In the Islamic conception of a human's freedom, *ikhtiyar* is considered as Allah-given; to be

used only for good. Islamic teaching deny that human beings are born with a sinful nature, but have the faith that all human beings are capable conducting *ma'ruf* and avoiding *munkar* as with the free-will individual scan travel between *ahsan al-taqweem* (the best make) and *asfal al-salaheen* (the lowest of the low) (al-Tin, 95: 4-5). This has consequences for *adl* and *islah*, as individuals are considered to be responsible for their actions and decisions within the objective of fulfilling *ihsan* in this world and *falah* in the hereafter. Therefore, in reference to Islamic utility, human beings have the freedom to choose and act and take full responsibility of their choices in this world, which are subject to a moral filter of *ma'ruf* and *munkar* and will be rewarded in the hereafter. Therefore, *ikhtiyar* requires free-will/freedom without which maximisation of Islamic utility would not be possible.

The voluntary or *khayir* actions of an individual within society may not lead to optimality and equity in the public domain and hence full capacity of Islamic utility will not be fulfilled. Therefore, mandatory *fard* actions as prescribed by Islamic moral economy are required to be performed by every single individual to fulfil the condition of *fard al-ayn* and every member of society should take part in society to fulfil *fard al-kifayyeh* condition in the light of *maqasid al-Shari'ah*. Thus, that implies that voluntary actions and individual generosity (such as *sadaqah* or charitable giving) that can increase a stock of good deeds as a function of Islamic utility has to be ensured and supported by mandatory instruments and practices such as *zakah*, *mirath* (inheritance system), *mahr* (dowry) and so on. This axiom, thus, by definition aims to secure the minimum requirements of the *falah* process though imposing *ma'ruf* against *munkar* actions.

In order to secure harmony in individuals and continuous development for society and the entire environment, implementation of moral integrity, cultural strength and the advocating of *maqasid al-Shari'ah* are essential in order for human actions to take place in the context of these considerations. Since, *rububiyyah* refers to “divine arrangements for nourishment, sustenance and directing things towards their perfection” (Ahmad 1979: 12) and aims to create an infrastructure to meet the basic needs of a society, Islamic utility function which includes the happiness of others through the *ihsan* model in an individual's own welfare, is essential. In addition, *rububiyyah* calls for the whole process of utility maximization in this world by maintaining a dynamic equilibrium between the infrastructure and the society. Preserving development in the light of *rububiyyah*, where

actors and mechanisms are directed to secure the outcome (*falah*) in the hereafter is the ultimate goal of Islamic utility. Accordingly, *rububiyyah* strongly relates with the concept of *tazkiyah*, which denotes ‘purification’ of attitudes and relationships towards economic and social development by suggesting ‘growth with harmony’.

Tazkiyah refers to the growth and purification of attitudes and relationships with Allah, other fellow individuals, the natural environment, the society and state, before human beings undertake the responsibilities laid out to him as a *khalifah* or representative of Allah on this earth. Correspondingly, due to the impact of *al-ruh al-haywaniyya* and *al-ruh al-nafsaniyya*, *tazkiyyah* requires constant purification at the micro-level (individual) and the macro-level (society) to produce growth and harmony aligned with *al-ruh al-tabi’iyya*. Consequently, with reference to Islamic utility, where individual purification under Islamic moral economy constrains is not enough, but also requires working on purification of society through *islah* and *ihsan* (actualisation of *al-amr bil ma’ruf wa nahy ani al-munkar* maxim) in this world for *falah* as the ultimate objective of Islamic utility in the hereafter. This implies that individual growth and the growth of society has to come together in this world as a pre-requisite of *falah*.

Individuals are created with their dignity and right to exist and participate in the developmentalist process of the society in accordance with their capacity. However, rights are linked to responsibilities. Therefore, rights can only be meaningful in relation to responsibilities. Subsequently, an individual’s *haqq* demands active participation in fulfilling the personal rights, rights of society and environment and the implementation of these is a function of the *falah* process. Thus, individual maximisation of one’s own utility within the neoclassical context, contradicts the foundations of Islamic utility. This is because Islamic utility requires incorporating within individual private utility, the utilities of others and the environment as well as other stakeholders, such that sacrificing for social and environmental benefit will result in an increased Islamic utility in the hereafter.

Islam clearly identifies through *maqasid al-Shari’ah* that no-one’s rights can be obscured or infringed; equality in front of worldly law and in front of God through spiritual accountability and *amanah* actualises this process. *Haqq* has implications for the use of resources through *amanah*, *tazkiyah* and *rububiyyah*, which constitute an essential foundation of Islamic moral economy.

The *tawhid* axiom asserts the position of human beings as God's vicegerents on earth as a result of the covenant in which human beings accepted *amanah* to assemble this world into a peaceful and safe place for them to live in. God also assigned a special task for the vicegerents that need to be executed; to exalt him ('*ibaadah*) and to develop this world ('*imarah*). As 'trustees', every single individual human being is rendered with this trust or *amanah* in his or her horizontal relations with other individuals. Everything in the universe belongs to God and everything was created for the service of man, who may use anything in the world for a positive purpose, but he is not supposed to abuse anything. The 'entrusts' are the rights and responsibilities of one individual over the other (Qur'an, 7:74).

In explaining this general idea of trust upon every individual, Prophet Muhammad has been quoted as saying (Bukhari, V. 9, Book 89, No.252):

Behold, each one of you is a guardian, and each one of you will be asked about his subjects. A leader is a guardian over the people and he will be asked about his subjects; a man is a guardian over the members of his household and he will be asked about his subjects; a woman is a guardian over the members of the household of her husband and of his children, and she will be asked about them; a servant of a man is a guardian over the property of his master, and he will be asked about it.

Amanah in the frame of Islamic utility represents a self-accountability mechanism, which encourages individuals to utilise maximum efforts to fulfil the conditions of *falah*. It constantly provokes inner feelings of responsibility, which trigger *ihsani* actions to deliver *amanah* as an accumulation of *iman*. In other words, the *ihsani* dimension of *amanah* inspires individuals to be functioning active citizens in making themselves beneficial towards others. A *muhsin* or a person who has a proclivity of inner self-consciousness of *ihsan* is a person who does not live on the basis of individualistic egocentricity. Therefore, working as a *muhsin* for the sake of Allah to assist those who are less fortunate and in need of help to promote spiritual, physical, emotional, intellectual and social well-being among members of the community increase the account of good deeds in *akhirah* as result of *amanah* fulfilment in the *dunya* dimension. Hence, in order for an individual to maximally contribute towards his/her *falah*, s/he is also required to have a maximum level of *ihsan* in order to improve and benefit the society; this indirectly increase the individual's Islamic utility.

An extension of the *ihsani* paradigm which requires treating other fairly and justly is *ukhuwwah* which demands building relationships in society between individuals based on Muslim brotherhood, mutual love and support (Buckley, 2000). At the same time, this concept is deduced from the role of *khalifah* which specifies the purpose and responsibilities of an individual's creation as Allah's vicegerent on earth (Yousri, 2005). All together, it induces the idea of collectivism and solidarity, which generates the unity for mankind and leads to the principles of equality (Iqbal and Mirakhor, 2007) through fulfilling the role of *amanah*.

A distinguished characteristic of *ukhuwwah* is its ability to include the very concepts of individualism, ownership, consumption and gain of profit with balance of certain elements of collectivism, social justice and solidarity through a wide-range of *maqasid al-Shari'ah* rules of interest. Implication of this normative layer (*ukhuwwah*) essentialises in the frame of Islamic utility function, the incorporation of solo interest into the individual interest of others. Neglecting others in one's own individual utility function fundamentally undermines the concept of *ukhuwwah* and hence the whole process of *falah*. In essentialising this, the Prophet says: "He is not a believer whose stomach is filled while neighbour remains hungry" (Sunan al-Kubra: 19049). Consequently, articulating this meaning of *ukhuwwah* generates homoIslamicus individuals with a high spirit of solidarity and voluntarism to willingly incorporate *ihsan* and hence maximise the stock of their social capital (*mar'uf*), which directly leads to *falah*.

The concept of *khilafah* defines the status and role of human beings by specifying the responsibilities of individuals; this includes an individual Muslim and as a Muslim belonging to the *Ummah*. The identified axioms should not be considered only as philosophical foundations, but they lay the framework within which *falah* and hence *ihsan* should take place and develop. Therefore, articulating and practising these axioms in daily life is an essential component of *falah*, which leads to maximised Islamic utility. A virtuous individual tries to maximise *manfa* through the implementation of Islamic axioms expressed in the form of homoIslamicus, which is the only possible way to fulfil an assigned role of His *khalifah* or vicegerent on earth. The role involves promoting *ihsan* thus attaining high levels of a good life (*hayyat al-tayyebah*), *falah* in this world on both an individual and collective level and ultimately *falah* in the hereafter (Ahmad, 2003). Thus, the implications of *khalifah*

are to extract, produce, usufruct, consume, share and distribute resources in a just and fair manner as human beings are accountable before Allah for their role as as ‘*abd* (who serve and worship Him) and *khalifah*, who holds an *amanah* as Allah’s representative on the earth. The IME approach to development in such a context is “based on two dimensional utility function, operating in a positive correlation with each other. For instance, the more social good one does in the temporal world, the more *sawab* or glad tidings one will receive in the hereafter” (Asutay, 2007:8). Thus, as a *khalifah*, the individual also essentialises the social accountability in the process by emphasising to guarantee universal solidarity because resources are viewed as a trust from God.

Islah represents the permanent behaviour of moving towards betterment and perfection. It also constantly drags transformation from the state of bad to good, from good to better, from better to excellent. Therefore, *islah* characterises a mechanism that works on empowering *al-ruh al-tabiiyya* (equilibrium) over *al-ruh al-haywaniyya* and *al-ruh al-nefsaniyya* in order to maximise the stock of good deeds in their full capacity and hence maximum satisfaction.

Islah could supposedly be defined as “a state of constant endeavour towards comprehensive excellence (*ihsan*) within the frameworks of innovation construction and reconstruction to attain *falah* according to *Maqasid al-Shari’ah*” (Ibn Manzur, 1955: Vol. 355: 5). This definition was explicitly illustrated in Qur’an (3: 104): “And there may spring from you a nation who invite to goodness (*khayr*), and enjoin right conduct (*ma’ruf*) and forbid indecency (*munkar*). Such are they who are successful”. The verse clearly refers to the characteristics of people who attain *falah*; people who (i) promote the atmosphere of goodness (*khayr*) through articulating *ihsani* principles, (ii) embed into themselves the qualities that are explicitly identified and promoted by the Quran and Sunnah (*ittiba’a*), and (iii) sustain themselves from committing *mahzur* or unlawful and encourage others to avoid *munkar* or indecency. These are imperatives whose implementations are essential for achieving *falah*.

Finally, *maqasid al-Shari’ah* as the highest aim of *Shari’ah* provides the frame for the highest level of utility might be triumphed, which provides the legal-and-moral framework within which all human activities should be conducted. According to Kamali (2008), the *Shari’ah* provides normative injunctions which aim to improve and perfect the conditions of human

life on earth.

Deep rooted from the ontological based epistemology of *tawhid*, *maqasid al-Shari'ah* lays down the framework for actualising Islamic utility though encompassing all the meanings and objectives of all the previously mentioned axioms. In other words, explained axioms reflect the very meaning of *maqasid al-Shari'ah* in their articulation of the *Shari'ah* spirit in attaining *falah*. Therefore, in the context of Islamic utility function, *maqasid al-Shari'ah* provides an interpretation of normative principles; articulating the regulatory maxims in relation to the higher objectives of the *Shari'ah* which must lead ultimately to *falah*.

The endeavour to achieve *falah* as an ultimate goal of Islamic utility, require that the axioms have to become visible in individual and societal life. In this way, *maqasid al-Shari'ah* as a holistic theme of IME must prevail and become the *sine qua none* in every detail of the *falah* process. Thus, all actions of individuals become part of the act of servitude (*ubudiyah*), which is the main purpose of human creation as the trustees (*amin*) or vicegerents (*khalifah*) under the shade of the *tawhidic* paradigm.

In conclusion, the core axioms discussed above form the basic philosophy of the IME paradigm of development and are essential elements of the *falah* process, which provides normative layers for guidance of individuals within the *dunya* dimension for success in the *akhirah* dimension. This approach of articulating the utility function within the axioms and foundational principles of Islam is specific and unique to Islamic moral economy (Asutay, 2007). In addition, the implementation of the Islamic utility function over two dimensions has a great impact in shaping authentic Muslim behaviour.

6.8. THE METHODOLOGY OF CONSTRUCTING ISLAMIC UTILITY FUNCTION

As for the methodology of how these axioms within the utility concept can be formulated, Naqvi (1994) elaborates that the Islamic ethical system, based on these axioms, is a function of *falah*; there is no *falah* either in this world or in the hereafter if the axioms are not implemented or actualised. At the same time the concept of *falah* or salvation is a function for implementing the axioms in their substance, as required by consequentialism in addition to intentionalism.

Implementing the intentionalism methodology for the *falah* process was not a specific requirement for the Islamic moral economy system given that it is a part of the *usul* methodology in Islamic studies. However, due to the influences of *al-ruh al-haywaniyya* and *al-ruh al-nafsaniyya* in contemporary times, intentionalism becomes an important issue especially with the emergence of Islamic finance. This is due to *Shari'ah* scholars only focusing on the 'form' or the 'procedural'/'instrumental' nature of morality through a rational-legalistic methodology. This implies that 'substance' related morality is ignored in the Islamic decision process, and therefore, the current debate has been around 'form' vs. 'substance' or '*Shari'ah* compliancy' vs. 'Islam-based actions' respectively. Hence, referring to 'intentionalism' and 'consequentialism' nature in the scale of Islamic utility function becomes an essential issue.

The notion of consequentialism, on the other hand, is found within the Islamic core sources. The Qur'an, for instance, emphasises the notions of *eman* (belief) and *al amal al saleh* (doing righteous deeds) in a number of Qur'anic verses (see: Qur'an, 2: 277; 18: 107) and speaks about them almost invariably implying that they complement each other. In the hermeneutics of the Qur'an thus, *iman* can be understood to represent the intention whereas *al amal al saleh* or Islamically confirmed good deeds can represent the consequentialist component; therefore, a lack of either does not bring *falah* or salvation (happiness). Consequently, by essentialising both aspects of daily behaviour, which is a requisite of *tawhidi* axiom, Islam, in essence, brings about the completion of morality. Contrary to modern Islamic scholarship, Islam essentialises also consequentialism; and as opposed to the Western thought, Islamic ontology enforces instrumental morality or intentionalism. Thus, Islamic methodology, in its origin, overcomes the divide between 'contemplation' and 'action' suggesting the complementarity of Islamic methodology as the articulation of *tawhid*. Consequently, in reflecting on the notion and method of complementarity, Nasr (2002) illustrates this idea at different levels. For instance, the complementary function of the Islamic society, the complementarity between the creation of humans and the creation of the cosmos, the complementarity between Islam and other religions and the complementarity of roles between males and females. Thus, it is considered that Islamic ontology essentialises complementarity. Therefore, in the highest Islamic utility function, 'intentionalism' has to be complemented with 'consequentialism' as a direct expectation of *falah*. Analysing the jurisprudential discourse within the Islamic

methodology reveals the presence of consequentialism, especially, the *maqasid al-Shari'ah* discourse is entirely based on consequentialism, as it gives priority to achieving the overall goals of *Shari'ah*. In addition, it incorporates the substantive morality, while the *Shari'ah* practice in the form of as an instrumental morality in the contemporary times focuses mainly on intentionalism. However, the complementarity methodology within *tawhid* ties *Shari'ah* with *maqasid*; implying that lack of either would undermine the Islamic methodology.

In this context of intentionalism, Al Shatibi (2004) argues that the intention of the person must be the same as the intention of the *Shari'ah* in all worship, actions, and transactions. Therefore, any act of worship or any transaction whose intended purpose departs from the purpose of the *Shari'ah* is deemed invalid, even if its form complies with the *Shari'ah* and even if all the rules and stipulations are fulfilled. This directly explains the complementarity of Islamic methodology, as it suggests that *Shari'ah* has to fulfil *maqasid*. The rationale for this argument is that in such a case, the person who performs the act does not fulfil its original purpose but instead uses the act for another purpose that the *Shari'ah* has not intended.

In further exploring, a very important maxim that summarises the consequentialist component of Islamic law is the maxim stating that 'ends have priority over the means' (El-Gamal, 2006:30). This maxim is especially effective when means and purposes conflict. For example, if there is a conflict between a goal of a particular aspect of individual utility and one of the conditions or rulings stipulated in classical jurisprudence, then priority is given to achieving that goal, and the condition can be nullified.

It can, therefore, be stated that the *maqasid al-Shari'ah* approach which is methodologically consequentialist, is more consistent with the Islamic core sources as well as jurisprudential theorisations, as compared to the reductionist literal *fiqhi* approach which is only intentionalist. Subsequently the conceptualisation of Islamic utility ought to essentialise the consequential normative doctrine by prioritising substantial morality without denying any aspect of the intentionalist dimension. Thus, the Islamic stance of normative ethics reconciles both approaches, as the *tawhidi* methodological framework suggests. As mentioned, this complementarity of the Islamic methodology of *tawhid* by combining intentionalism and consequentialism together forms the criterion through which actions are

filtered into good or bad deeds.

When an action is approved by intentionalism and produces the expected consequences, it is added to the set of good deeds, however to achieve the maximum utility, the set of good deeds need to carry a certain value. This value is set by the capacity of the individual to do goodness. Capacity is the amount of good deeds that an individual can do within his or her circumstances, and it is this capacity, which then becomes a milestone for achieving maximum utility. The capacity also sets the requirement for the value of *falah* required to succeed in this world and the hereafter. Overall, the combination of good deeds and *falah* create the utility for an individual, whilst the circumstances of that individual, set the capacity, which are required to attain maximum utility.

Overall, consequentialism is a necessary condition for an individual utility function to produce the expected outcome in terms of *falah*. This is due to the fact that *falah* directly relates to consequences of actions or good deeds and concerned consumption as circumvented by the axioms as layers of constraints and substances. Thus, the dynamic nature requires Islamic utility function to produce the expected outcome; unlike the contemporary Islamic scholarship ignoring consequences by focusing entirely on intentions; as a utility function by definition cannot be formed by intentions; consequences will only determine the nature and size of *ihsan* and hence utility and *falah*. Therefore, traditional Islamic methodology in the case of Islamic economics has to reconsider its methodological maxim of remaining within intentionalism by expanding and incorporating consequentialism in its methodological exigencies to develop the utility concept. The entire operations of Islamic finance are based on utility, while the concept cannot be formulated with the observed insistence on intentionalism.

6.9. CONCLUSION

In the Islamic perspective, there is a tremendous need for defining Islamic utility independent from the neo-classical theory, which should be applied in the analysis of individual behaviours to meet their own needs and needs of those who they care for in the society. Therefore, this paper is an attempt to define Islamic utility and its function, within the frame of its formation within the two-time dimensions in this world through the performance of good deeds and in the hereafter through accomplishing *falah* in individual

level and *ihsan* in societal level.

The concept of rationality in the conventional literature of economics as a driving factor of neoclassical utility was only referred to. On the other hand, a model of Islamic rationality (*rooshed*) has been highlighted along with its meaning, implications and elements that are integrated in an Islamic worldview.

The essay also clearly separates between two satisfactions: conventional and Islamic. Conventional, which comes from the inner-self, and as a consequence, the satisfaction will be obtained in desiring the wants of *nafs*. On the other hand, Islamic, which derives from the value system of Islam subsequently will be fulfilled through submitting to the commands of God while accepting the *tawhidi* methodology. Hence, the research confirms that we cannot speak of maximization satisfaction in the ordinary utilitarian sense, while we describe and analyse Muslim behaviour. Since there are norms and goals defined by the value system of Islam, the orientation of action towards maximal conformity with the norms will lead to satisfaction, which comes from surrender (*hudhu*).

An important outcome of this surrender (Islamic order) is that it not only changes the values and habits of Muslims, but also requires incorporation of the same through intentionalist and consequentialist frameworks as an essential condition for salvation (*falah*). Therefore, in Islamic moral economy, an individual is a maximiser of *falah* and the only way for its maximization is through conducting the good deeds as expressed by *ihsan*. Since, there is no clear-cut good action for particular situation, the scale of preferences among good deeds is very common and hence the *maqasid al Shari'ah* act as an arbiter.

The new model of Islamic utility, based on the Islamic ontological and epistemological principals is represented through the axioms as the philosophical foundation within which utility maximisation happens. The articulation of the axioms into reality, which is to crystallise the Islamic ideals, start with the aforementioned smallest but rather crucial elements of empowering natural forces against physical and vital forces of the spirit. Based on the inspiration of the foundations (ontology and epistemology articulated through the axioms), the individuals that are to maximise the Islamic utility must be functioning and dynamically self-actualised to increase the impact of factors that strengthen the axioms. An individual concerned with the Islamic utility maximisation is expected to be an active agent

of change and therefore respond to the development of other individuals, society, the natural environment and the state.

Chapter 7

TESTING THE MORAL AND POLITICAL ECONOMY NATURE OF ISLAMIC FINANCE: AN EMPIRICAL ANALYSIS

7.1. INTRODUCTION

Islamic finance, theoretically, is based on the ethos of Islamic moral economy (IME) with an explicit value framework; (i) based on justice, equity, human dignity, freedom of enterprise and moderation; (ii) based on developing and harnessing economic resources to satisfy spiritual, material and social needs of all members of the community and (iii) based on a moral obligation to also serve poor and destitute from share of wealth. These consequence-oriented principles of IME defines the underlying philosophy of Islamic finance in order for adjective 'Islamic' to have meaning in the sense of suggesting 'beneficent or *ihsani* society' in the making of Islamic banking and finance. In other words, Islamic finance is expected to develop into an alternative way of 'financing' rather than contribute to further 'financialisation of economy which is considered as one of the culprit of the recent financial crisis. Therefore, in the moral economy understanding of Islamic finance the question is not using the same metaphor to move capital around but rather developing a new metaphor to lead for transformational as well as transactional change.

In an operational manner, Islamic finance is described through its foundational principles of risk-sharing and profit-loss-sharing which identify Islamic finance as equity oriented and embedded 'financing' proposition, which directly relates to real economy. It is such features and peculiarities that distinguish Islamic finance from conventional financial system, as through such peculiarities the 'moral nature' of Islamic finance is revealed. Recalling that with the global financial crisis, the problem is located with dis-embedded nature of conventional finance, which is no longer linked to the real economy. Islamic finance, therefore, in the aspirational sense of IME, represents an alternative financing paradigm

through being embedded in the real economy and in the values and norms of Islam identifying that non-economic matters and principles shapes the nature, normative world as well as operation and transaction of Islamic finance.

The experience of Islamic banking and finance over the years, and in particular since the financialisation stage commenced in late 1990s with the competitive strategies under globalisation, suggests that Islamic finance has been converging towards conventional finance in its operations, institutionalisation and product level (Gamal, 2007; Asutay, 2007, 2012; Zaman and Asutay, 2009). In providing evidence for this statement, empirical evidence (Aggrawali, 1999; Asutay, 2007, 2012; Nagaoka, 2007) demonstrates that Islamic banks heavily rely on fixed-income products (cost-plus) including *murabahah* and *tawarruq* as opposed to profit-loss-sharing products and risk-sharing oriented financing, the latter of which should however be the main principles shaping the paradigm. A survey of Islamic banking financing shows that in Malaysia about 97% of the financing is based on debt financing, while in the Gulf this figure is about 80% (CIMB, 2015). In addition, a survey of sectorial distribution of Islamic financing shows that Islamic banks mostly prefer to invest in real estate and financial sectors indicating dis-embeddedness as an emerging nature of Islamic finance (CIMB, 2015). Thus, the distinction between Islamic and conventional finance has been withering away at the expense of the ethical universe of Islamic finance, which has been giving up its aspirational values and gradually converging towards operational nature of conventional finance through mimicry. In other words, the historical experience of dis-embeddedness of the conventional sector seems to be dominating the everyday practice and nature of Islamic finance; which may be an indication of potential 'financial troubles', as it should be noted that it is the dis-embeddedness of conventional finance that it has been causing financial crisis one after another.

This paper, hence, aims at examining the consequences of the observed convergence of Islamic finance with conventional finance, as through such convergence each of the professed features of Islamic finance has been compromised. Therefore, the central argument of this paper is that due to the particular nature and principles of Islamic finance, the observed convergence creates a number of social risks, beyond the traditional financial and market risk, including legitimacy risk, credibility risk, trust risk and sustainability risk

indicating the potential difficulties of sustainability of Islamic finance in its authentic paradigmatic nature.

In evidencing the stated emergent social risks categories, this study test the presence and articulation of IME in the case of Islamic banking and finance, which claims that (i) Islamic finance makes the markets safer and stronger, (ii) Islamic finance establishes better link to the real economy and hence with these better links contribute to economic growth. In addition, considering increasing convergence from Islamic finance to conventional finance, this paper aims to examine and explore the role of financialisation in this convergence. Thus, this paper tests the central principles of IME, namely embeddedness to investigate whether Islamic financing is embedded in real economy and non-economic factors, such as the cultural and religious values and norms; and whether Islamic banking and finance is based on real economy away from fictitious commodities and de-commodification. Thus, in evaluating the socio-economic performance of IBF, this paper aims to test the impact of IBF as an operational function of IME to implement the various features of Islamic axioms into their operational strategy for producing and enhancing development, economic stability and overall welfare. In doing so, peculiar nature of IME is conceptualised as ‘social risk’ areas beyond financial risk and tested with the operation of IBFs.

The observed social risk areas suggest that the trust and religious affiliation and patronage towards Islamic finance and banking may be undermined under the increased nature of such social risks leading to disembeddedness and commodification. As the development of Islamic finance sector, on the one hand, and the democratisation and civil society strengthening of the Muslim societies on the other hand, can result in the articulation of dissatisfaction with Islamic finance operations on the ground of this converged nature. In particular, political culture oriented developments may, therefore, result in questioning *Shari’ah* scholars’ hegemony in presenting Islamic finance as ‘*Shari’ah* compliant’, which may lead constituents calling for alternative products, instruments and institutions in Islamic finance with an existential reform in the form of ‘Islam-based-financing’.

This research, hence, suggests that for Islamic finance to remain a robust alternative financing paradigm as opposed to financialisation paradigm by eliminating such risk areas, it should express itself within the aspirational definition of Islamic finance as provided by IME rather than compromising its foundational claims by going back to the basics.

7.2. ISLAMIC MORAL ECONOMY FOUNDATIONS OF ISLAMIC BANKING AND FINANCE: PROBLEMATISATION

The policy objective as a motivational source in the emergence of IME relates to the enhancement of both economic and social welfare in the postcolonial Muslim world as a response to the observed developmentalists problems in the Muslim world with the objective of constructing human-well being centred development paradigm with authentic Islamic identity. The aim according to Asutay (2007; 2008; 2011; 2014), in this socially constructed world-view based paradigm, has been to emancipate and empower individual through 'functioning individuals' and 'enabled and being individuals'. In essentialising micro-developmentalism the following expectations are aimed at; and it is also claimed that fulfilling micro-developmentalism bring about macro impact:

- (i) While market and private property is considered as essential, Islamic moral filter is considered as a mechanism to establish optimality in economic and social choices;
- (ii) Hence, a moral economy imagination rooted in transforming the economic structure of the society to have real economic effect by expanding economic and financial choices with the aim of individual and social development;
- (iii) It also aimed at a real economy based economic restructuring so that embeddedness can be achieved;
- (iv) An important thrust of this paradigm hence, considering individuals as ends and consider their happiness (*falah*) through expanding beneficence (*ihsan*) as social capital to move from individual well-being to societal well-being (Khan, 1984, Arif, 1985 and Ahmad 2003).

In reiterating, the paradigm of IME is articulated through the axiomatic approach developed by Naqvi (1994), Ahmad (1979), and Chapra (1993, 2000) and are re-oriented and given the following meanings by Asutay (2007, 2012, 2013, 2015) which are as follows:

- (i) *Tawhid*, namely the unitarity or complementarity axiom; which suggests that everything in the universe is linked and embedded and therefore the interests of all the stakeholders have to be considered in the optimisation process under the umbrella provided by unitary balance;
- (ii) *adalah* and *ihsan* or social-justice and beneficence

- (iii) *tazkiyah* or growth in harmony
- (iv) *rububiyah* or enabling individual, society and natural environment to reach its perfection, sustainability;
- (v) to overcome the conflict between individual and society, voluntary action is not perceived to be enough; and hence certain social oriented financial and economic obligations (*fard*) are instated;
- (vi) *Khalifah* or responsible individual, as individuals being the vicegerent of God on earth (*khalifah*, vicegerent individual), they are expected to fulfil the expected duties in their economic and financial behaviour to make their decision through a financial filter;

Operational dimensions of these axioms are possible with *maqasid al-Shari'ah*, which is defined as objective of *Shari'ah* and interpreted as human well-being by motivating economic forces for economic and human development and welfare (Chapra, 2000).

Despite the observed 'financial' success, it is important to critically evaluate the performance of IBFs against such a foundational base provided by IME, as IME imposed generating the necessary funding and financing for development within the norms of IME by conceptualising it as a 'financing' proposition as opposed to 'financialisation' of the economy. As the IME framework suggests, ethicality in this value proposition in its authentic sense is not only prohibition of *riba* (interest) but relates to larger social and economic development issues (Asutay, 2007b; Asutay, 2010c). In other words, IME conceptualises IBF as a financing proposition shaped by the rules (*fiqh*) but also moral values of Islam constituting the 'substance' (Asutay, 2008).

IME's moral framework, thus, aimed at shaping the nature and operation of Islamic banking and finance (IBF) beyond the prohibition of *riba* or interest. In this moral based financing proposition, a holistic approach to financing a society is assumed by IME. These values and norms derived from IME can be described as follows (Asutay, 2007b; 2010c; 2013; Iqbal and Molyneux, 2005; Ayub, 2007):

- (i) IBF is a tenant based financing proposition, as fundamental tenants are derived from the ontological sources of Islam, which is articulated as the 'absence of interest-based transactions' (*riba* prohibition), uncertainty or *gharar* probation, 'avoidance of

economic activity involving speculation’, and the ‘prohibition on production of goods and services which contradict the values of Islam’.

- (ii) IBF is principle based, as the concept is grounded in ethics, values and norms derived from the Islamic ontology. Therefore, the principles of IBF are akin to ethical investing, and hence, ethicality in funding and investing beyond the prohibition of *riba* is essential.
- (iii) Importantly, IBF puts special emphasis on risk-sharing and partnership or profit-and-loss sharing (PLS) contracts. In this financing proposition ‘credit and debt products are not encouraged’ and even eagerly discouraged so that real economy embedded financing as assumed by IME could be developed.
- (iv) IBF, as part of IME, proposes embedded financing –embedded in real economy and the value system of Islam, and therefore it offers an alternative financing paradigm. This is articulated in the principle of asset-backed transactions with investments in real, durable assets to contribute to the development of value added oriented real economy based financing of economic activity. In addition, embeddedness in value system is articulated through ethicality and social responsibilities.
- (v) As a consequence, IBF aims to bring about stability by linking financial services to the productive, real economy. In the demand side, IBF, as part of *homolamicus*, aims to restrain consumer indebtedness as credit is linked to real assets.
- (vi) IME aims to create a framework of development and hence transformational financing, and, therefore, instruments of poverty-reduction and sustainable development are inherent part of IBF. For this, in addition to Islamic financing of economic activity for development, *zakah*, *waqf* and *qard hasan* can be mentioned.

The principles and assigned roles to IBF by Islamic moral economy as articulated by Islamic axioms are expected to create value system beyond conventional banking by fulfilling *al-maqasid al-Shari’ah*, as it has been identified through the values and norms of Islam, which are in contradiction with pure financialisation. Thus, these principles within the framework of IME frame indicate that IBF cannot be relegated only to the prohibition of *riba* in the sense of *Shari’ah* or ‘form’ compliancy, but importantly it essentialises ‘substance’. In making IBF, the form as well as substance is necessary condition as relying on only form

does not result in complementarity and unitarity nature of IME as expressed by the *tawhid* axiom. Thus, is IBF directly related and its operations and operational consequences are considered, in an aspirational sense, the articulation of the axioms of IME in very aspect. Hence, ethical financing according to value system of Islam is essential so that *rububiyah* and *tazkiyah* axioms should be fulfilled but also *adalah* and *ihsan* can be achieved (Ahmad, 1994; Asutay, 2012).

For instance, the principle of PLS can be related to *adalah* and *ihsan*, as these axioms are the essential axis around which economic and business activity takes places. This prevents capital owner from shifting the entire risk onto the borrower, and hence it aims at establishing *adalah* or justice between work effort and return, and between work effort and capital (Asutay, 2012). This implies that risk sharing is another important feature of Islamic financial industry. However, new legal (*fiqhi*) scholarship in order to facilitate modern financial instruments has replaced the axiomatic consequentialist reasoning and rationale for this prohibition (substance) with *dharura* (necessity) through *maslahah* where intentionalist understanding satisfy the form and as such created financial system in its infancy disconnected from its moral base.

Another tension area is the growing criticism against the process of re-engineering financial products to make them *Shari'ah* compliant, as the process seems to be focussed on the actual validity of the *fiqh* (jurisprudence) involved. El-Gamal (2006) have expressed unease at the fact that *Shari'ah* scholars who authenticate such contracts are themselves employed by the industry, while others have claimed that such contracts are designed to circumvent *Shari'ah* laws which violate broader principles or *maqasid* associated with the prohibition of *riba*. The consensus of critics in this category is that *fiqh* is restrictive, outdated and unable to meet the challenges of the modern capitalist-dominated world economy; and therefore remains only as a technical approach to financial issues rather than taking into account policy dimensions, which can provide the essential solution for the development problems of Muslim societies and communities (Zaman and Asutay 2009).

Therefore, the Islam finance as tool of Islamic moral economy is expected to fulfil the moral economy features such as (Asutay, 2015):

- (i) embeddedness in real economy;
- (ii) embeddedness in non-economic factors;

- (iii) decommodification and rejecting fictitious commodities;
- (iv) values of Islam in shaping the normative nature of real economy;
- (v) reciprocity;
- (vi) community and charity;
- (vii) convention and coordination and
- (viii) mutuality or *takaful*.

In using contemporary discourse, IME principles can be expressed as ESG (ethics, sustainability and governance), which can be related to extended *maqasid al-Shari'ah*. ESG's as *maqasid al-Shari'ah* relate to consequences, and therefore consequentialist approach has to be taken in evaluating Islamic finance.

In summary, in its current state, IBF does not seem to share the foundational claims of IME, despite the fact that the founding fathers of Islamic moral economy, in a modern sense, aimed at creating an economic system of Islam with Islamic finance being the operational aspect of that system. The result, therefore, has been the divergence between the assumptions, normative principles and aspirations of Islamic moral economy as a system and Islamic finance as an instrument of that system. This study hence aims at examining the sources of such divergence by conceptualising social risk areas in relation to the IME expectations.

7.3. EXPLORING ISLAMIC FINANCE AND DEVELOPMENTALIST ISSUES NEXUS

Islamic finance and banking in its system understanding, was assigned an important role: economic development with the objective of human well-being and social justice. The initial experience of IBF in Egypt and Malaysia had such objectives, as they were socially oriented institutions. While Mith Ghamr in lower Egypt provided credit to small business, Tabun Haji, as an investment house, invested the savings of potential pilgrims in a socially and ethically manner. However, since the 1990s, while the operations of Islamic finance and the nature of Islamic modes of financing have expanded and internationalised, the human centric development objectives have been completely ignored. The result, therefore, has been the divergence between the assumptions, normative principles and

aspirations of Islamic moral economy as a system and Islamic finance as an instrument of that system (Asutay, 2007).

It should be noted that attempting to achieve economic, social and human development through commercial banks indicates an inconsistency, which is the nature of the problem we have with IBF and IME; as IME suggests developmentalism, but Islamic finance has been constructed around commercial banks as opposed to the initial Mith Ghamr experience. Thus, instead of large stake-holding type banking model, such as social banking, IBF has given way to the pressures of markets by adapting the so-called realities of financial markets which prioritise economic incentives rather than religious behavioural norms. Through accepting the hegemony, rather than remaining counter hegemony, that IBF has managed to become part of the international financial system. In other words, IBF had to give up the 'substance' oriented claim in order to be qualified as part of the international financial system whereby it accepted the Islamised version of the existing metaphor to facilitate the move of *halal* capital. This process has resulted into hegemonic international markets treating IBF as heterogeneous financial products, which indeed are deprived of their value system. "As a consequence, Islamic finance with its current structure has not been able to affect nor has it aimed at affecting the economic development in the light of *al-maqasid al-Shari'ah*. This does not mean that Islamic finance does not have impact on economic growth; on the contrary due to financial development and pooling of funds it does contribute economic growth but economic development is beyond the growth of the economy" (Asutay, 2014).

The basic goal of development in the light of *al-Maqasid al-Shari'ah* is to create an environment that enables people to enjoy spiritual, moral and socio-economic well being in this world and success in the Hereafter (*falah*). The implication of *falah* is creation of environment within societies through their institutional framework, which work to remove sources of human deprivation in multiple dimensions. Hence, IBF is expected to contribute in that developmentalistic process beyond focussing on economic growth.

IME defines dimensions of development through essentialising the fundamental principles of Islam. The essential principle *tawhid* emphasises unity of worship and work, of faith and life, of spiritual and material realities, of economic and spiritual values; and of this world and the Hereafter. It tries to establish harmony in body and soul, politics and religion, individual

and social interest, freedom and responsibility, and rights and obligation. In other words *tawhid* presents a holistic and all-encompassing view of human development.

The principle of justice (*adl*) is the root of all other values – material, moral and spiritual. It embraces all aspects of life and is concerned with the mind and body as well as the heart and conscience. It is not only a social concept (corrective and distributive aspects) but is also a personal moral virtue. It is based on the absolute, just and coherent unity of existence and the general, mutual responsibility of individuals and societies (Qut’b, 1954).

The other postulate of Islamic moral economy is equality (*musawat*), which emphasizes humanity’s unity of origin and the essence of human fraternity, which reinforces the general equality of all human beings regardless of differences in race language, religion, gender or social status and also their equal access to the resources created by Allah. This principle according to Kamali (2002) rejects any discriminatory policies in the Islamic societies as well as institutions towards non-Muslims.

Social solidarity and mutual responsibility (*takaful*) defines the relationship between individuals and their family, between person and their neighbour between an individual and society, and between community and other communities in all its various shapes and forms for establishing society’s welfare. Furthermore, the social solidarity principle defines the relationship on the institutional level where Islamic financial and non-financial institutions are expected in implementing their policies and strategies towards furtherance of welfare of all individuals within society.

Combined IME principles of unity (*tawheed*), creation (*fitra*), custodianship (*khalifa*) and the balance (*mizan*) together define the frame of sustainable development in Islam. In this frame *tawheed* asserts the unity and wholeness of all creation (*see: Qur’an, 39:62*). The verse highlights the inter-connectedness of the universe. The first step to know the Creator is to understand His creation and develop a balanced relationship with it. The principle of *fitra*, defines the nature of the creations; everything has been created in a natural state of purity and submission to God (*see: Qur’an, 30:30*). Qur’an clearly confirms that there is a natural pattern and disposition for goodness in all creation and that the human species was originated as part of that creation and not separates from it. Out of all His creatures humanity has been given the heavy trust and responsibility of being God’s vicegerent (*khalif*)

on earth and thus being custodians of all other creations (*see*: Qur'an, 6:165). Finally, the principle of balance (*mizan*) describes the cycles of living and non-living things. It defines the ways in which the laws of creation include elements of order, balance and precision (Qur'an, 55:7-9). In short these four principles of Islam define environmentally sustainable development in Islamic moral economy.

Growth and purification (*tazkiyyah*) is another relevant term to human development in Islam. Scholars of Islamic economics (Chapra, 2000, 2008; Khurshid, 1994, 2003; Naqwi, 2003; Sidiqi, 2000; Asutay, 2008, 2012) have broadened the understanding of *tazkiyya* to refer to the growth and purification of individuals in terms of their relationship with God, with themselves, with their fellow humans and with the natural environment. Therefore, *tazkiyya* encompasses wider scope of developmental issues as determined by *al-maqasid al-Shari'ah* and go beyond economic and materialistic view of development or *tanmiyya* in secular discourse. All mentioned axioms are the articulation and operational aspects of *al-maqasid al-Shari'ah*, which in essence can be defined as the realisation of human well-being (Asutay, 2009).

The discussion so far hence identifies that IBF is constructed to work with IME's normative world by being the instruments of financing whereby contribute to economic and social development of a society. Development in physical and human well-being is, hence, defined as the main aim of IBF within IME's authenticated framework. This research, hence, aims to explore in detail the performance of IBF industry in relation to the moral discussed moral objectives in the following sections.

7.4. INVESTIGATING SOCIAL AND MORAL RISKS BEYOND FINANCIAL RISKS IN ASSESSING SOCIO-ECONOMIC PERFORMANCE OF ISLAMIC BANKS: CONCEPTUAL DEFINITION AND METHODOLOGY

Since the performance of Islamic finance in the relation to the social risks articulated within IME is the subject matter of this paper, definitions of the aspects of social risks and how they relate to current performance of Islamic finance is discussed in this section. In order to meet the objectives of studying the social risk in the performance of Islamic finance the following social risk areas are identified and defined:

Masdaqiyah or credibility risk, which aims to assess as to how the current practice of Islamic finance is credible in relation to the aspirational expectations;

Shariyya or legitimacy risk refers as to how the current practice of Islamic finance is legitimate beyond form oriented understanding in relation to aspirational and *maqasid* expectations;

Shari'ah risk implies whether IBF transactions comply with Islamic precepts and aspirational principles beyond form by considering *Shari'ah* as culmination of 'form and substance';

Thiqah or *trust risk* refers whether customers and investors have religious trust in the operation of Islamic financial institutions and whether these institutions in their operation fulfil such trusts in terms of substance; and

Sustainability risk refers to sustainability and resilience of Islamic financial institutions in the sense of adhering to the IME principles in their operations; and therefore argues that convergence with conventional finance results in unsustainability of authentic Islamic finance.

These social risks areas can be best expressed disembeddedness, which are discussed in detail in the following sections and they are subjected to empirical analysis later.

7.4.1. Credibility Risk in Islamic Banks

The IME paradigm is constructed on the ontology and epistemology of Islam, namely *Quran* and *Sunnah*, which aimed at putting the human wellbeing as the development centre. IBF as an operational form of this system was initiated to play an important role in realizing the Islamic concept of development in line with *maqasid al-Shari'ah*. Chapra (2008a: 71) asserts that the *maqasid al-Shari'ah* are primary, while there are others important corollaries can be derived from Islamic ontology and epistemology. Chapra (2008a) sets up an order based on importance for all primary objectives to be: the human self, faith, intellect, posterity and wealth.

However, with the recent growth in IBF sector, it is claimed that IBF has diverged from the original aspiration and development in the light of *al-maqasid al-Shari'ah* (Ahmed, 2011; Asutay, 2012). IBF as the institutional forms of IME, has achieved remarkable financial

performance and impressive growth in assets and the number of institutions; but has failed to serve the social and developmental needs of Muslim world (Asutay, 2012).

A number of studies, among others Aggarwal and Yousef (2000), Iqbal and Molyneux (2005), Hasan (2007), Nagaoka (2007), Khan (2011) and Asutay (2012) evaluates the social failures of IBF based on some areas adopted from IME framework. They all confirm that debt-based financing and financialisation has become the majority financing method in the IBF industry and organised *tawarruq* types of instruments have become common, while hedges funds and derivatives are developed and used within IBF sphere. While all these possible with constructing the contract and instrument without interest, their operations and mechanism does not give full confidence as to whether all such developments can fit into IBF in its normative sense. Therefore, such developments has called the credibility of IBF in the sense that IBF is defined as PLS and risk sharing, but even such fundamental operational principles are not held. This has led to credibility risk, as individuals on the street as well as many bankers and academics have questioned the difference between IBF and conventional finance; as the convergence created mimicry and even mirroring.

7.4.2. Legitimacy Risks Faced by Islamic Banks

In Islamic theology, theoretically the purpose of every action is related to and articulated through *al-maqasid al-Shari'ah* or human wellbeing. *Al-maqasid* are considered as the premises which are rationale for the lawgiver to reveal the Islamic law, and therefore also its purpose. *Maqasid* beyond its extended meaning can constitute key performance indicator for measuring the performance of IBF how the current practice of Islamic finance is legitimate beyond form oriented understanding in relation to aspirational and *maqasid* expectations.

As expected, IBFs should adhere to prevailing principle within the *fiqhi* perspective. It is also essential for IBF to fulfil the substance of IME in the operation of Islamic finance. Under such reasoning, Islamic financial institutions would draw their legitimacy through the authorization of *al-maqasid al-Shari'ah*, and therefore their genuineness should be measured on the level of their authenticity and proximity with the *al-maqasid al-Shari'ah*.

The norm for evaluating the legitimacy, within the Islamic thoughts, is to base it on the measure of authenticity articulated through *al-maqasid al-Shari'ah*, therefore, it is in the interest of Islamic financial institutions to evaluate and establish their legitimacy based on *al-maqasid al-Shari'ah*, as it will motivate loyalty and hence increase profits; as Islamicity provides them the necessary legitimacy and distinguishing characteristics. In other words, a large literature indicates that IBF is patronised due to the 'religiosity' and hence their legitimacy can be drawn from their attainment of form as well as substance of Islam in their operations. Thus the identified social failure of IBF suggests that the legitimacy of IBFs is questionable on the ground of substance as expressed by IME; as only *fiqhi* and procedural issues are the heart and operation of IBFs.

There are number of studies that propose measuring authenticity to the *maqasid*. Muhammed *et al.* (2008) constructed an index based on Abu Zahara's concept of *maqasid* using Sekaran's method to convert objectives into performance measurements. Another study by Antonio *et al.* (2012) is considered as extension of previous study, improved version by including concrete measures. Bedoui (2012) proposed a new method to measure the *maqasid* performance of IBFs according to Najjar's interpretation of *maqasid* of 4 objectives 8 corollaries to visualise consequences derived from the primary objectives. The performance in relation to all consequences are measured to identify the legitimacy of IBFs in terms of IME expectation. The measurement instruments are expanded by Asutay and Harningtyas (2015) by essentialising consequentialism.

Since *maqasid* performance of IBFs as articulated in a number of categories suggests that legitimacy risk is an issue, which suggests that going back to the foundational principles are essential to overcome legitimacy deficiency or legitimacy risk.

7.4.3. Shari'ah Risk

The new emerging type of risk, which has been attributed especially to IBF is *Shari'ah* risk. It implies that Islamic financing transactions are challenged on grounds that they do not comply with Islamic precepts and principles (Balz, 2008; and DeLorenzo, 2007). In other words, *Shari'ah* risk refers to *Shari'ah* compliancy risk and therefore relates to legitimacy risk. This implies that financial products and services offered by IBFs are judged whether they comply fully, partially with one of accepted schools of Islamic law, or they comply

with Individualistic *fatwas*.

Usually, in the world of finance, law serve to make the transaction enforceable in court whereby law provides security for financial transactions. However, in Islamic finance, *Shari'ah* provides legitimacy for the financial contracts; and secondly, *Shari'ah* constitutes a risk when the financial instrument and contract do not conform to *Shari'ah* principles. In other words, *Shari'ah* risk illustrates the changed role of Islamic law in Islamic finance.

Considering that Islamic finance operates within different jurisdictions and its transactions are implemented in the context of international law, the risk on *Shari'ah* side become greater as different interpretations and applications of *Shari'ah* is an issue. However, the main aspect of *Shari'ah* risk emerges when *Shari'ah* principles are compromised for the sake of 'generating' a contract to make a particular financing possible. Considering different *Shari'ah* schools and modern *fatwas* mainly facilitated the compromise in different conventional jurisdictions that as a result created different, and, sometimes opposing contracts and application in the IBF industry. Such as the case with organised *tawarruq*: Malaysians are very liberal in using it, while the GCC IBF uses but shuns away.

Another source of *Shari'ah* risk is that an Islamic financial instruments and contracts are constructed through *Shari'ah* and also are governed by national laws, which are in many times opposing to the norms and ethics of Islam. This creates tensions, which constitutes motivation for compromise. Since IBF in many jurisdictions function within the secular laws, under which religious norms are not valued, which results in *Shari'ah* becoming even less valuable. If commercial law had been successfully Islamized, there would be no need for Islamic banks offering *Shari'ah*-compliant transactions as an Islamic alternative to conventional banking. IBF, as it is practiced in international finance today, therefore, thrives on providing an Islamic alternative in a non-Islamic environment. Ironically, the IBF industry has developed more within the liberal and stable regulatory framework and not by jurisdictions that enforce Islamic legal rules.

Another area of *Shari'ah* risk is due to existence many school of thoughts or *mathhabs*, as different sects of Islam and their application in different countries do not totally agree about the various interpretation of *Shari'ah* and hence different and sometimes controversial opinions would be expressed on the same issue. *Shari'ah* scholars on this issue argue that

'*Shari'ah* itself has inherent flexibility and fewer constraints than is often assumed by the financial services industry', and diversity and flexibility are considered the mercy of Islam. This has given the *Shari'ah* scholars even wider space for manipulation in creating the controversial products, by which the greed of the financial sector would be satisfied.

As part of *Shari'ah* risk is individual *fatwa*, which are issued in the name of necessity and 'innovation' which is achieved by pushing the barriers and/or misusing *fatwa* by taking them out of their context by particularly using *maslaha* or public interest in legitimising the flexible use of *Shari'ah*.

On the other hand, as mentioned, for financial transactions, law has the function to provide transaction security, that is, to safeguard that the transaction, if need be, can be enforced in court (Balz, 2008). Therefore, the role of Islamic law is essentially different, as reference to *Shari'ah* rules can endanger the enforceability of the transaction when it goes into conflict with national law and also *Shari'ah* rules as additional layer is considered creating transactional cost by leading to inefficiency.

Islamic Law is exclusively employed to find out about permissibility of the transactions in terms of *halal* and *haram*. If the transaction is permissible (*halal*) there will not be *Shari'ah* risk. However, if the transaction among the prohibited (*haram*), many issues are involved. The first, since the Islamic transaction is based on the *fatwa*, who can call *fatwa* off if it is not *Shari'ah* compliant? Should it the same person who issued the *fatwa* or the *mufti* or another scholar or scholars? Second, declaring the transaction as prohibited requires abolishing the transaction itself, which might cause some financial losses to a client or financial institutions. The question is, then, who will bear the cost and to what extend? These are important questions as any announcement in relation to violation of *Shari'ah* norms will directly affect the reputation of the financial institution in the heart of believers. It is also important to note that conventional law provides the rules for the incomplete contractual arrangement and remedies if the things goes wrong. Since, *Shari'ah* does not have enforcing power, it can only suggests "limited guidance in case agreement is incomplete and virtually non when things go wrong" (Balz, 2008:14). In short, possible consequences of *Shari'ah* non-compliance include higher cost, financial losses, liquidity problem, and financial instability.

Directly responsible for managing *Shari'ah* risk is *Shari'ah* boards, who are responsible under corporate governance and *Shari'ah* governance mechanism to monitor *Shari'ah* compliance of IBFs. Under, *Shari'ah* governance, according to AAOIFI, there are social and religious dimensions that need to be considered. Strong financial performance is important for shareholders, but the chief objective is to fulfil stakeholders' wish to conduct financial operations in compliance with *Shari'ah* precepts (AAOIFI, 2010; Grais and Pellegrini, 2006).

7.4.4. Trust Risk Faced by Islamic Banks

The origin of Islamic financial transactions is traced to the initial years of the Islamic civilisation, as Islam through its teaching under the supervision of the Prophet of Islam aimed at regulating and shaping economic and financial activity according to the moral norms and values of Islam. In its practice, *Shari'ah* included legal and moral precepts of Islam. However, in the forming of *Shari'ah* in history, and in particular times, the legalistic-rational method applied by the *Shari'ah* scholars, which considers the 'form' of the financial products without going to the 'substance' as consequentist approach of IME requires, brings into the questioning the legitimacy, as discussed above, and as a result trust in the operation of IBFs.

As discussed, IBF gets its legitimacy from *Shari'ah* compliance process, which ensures for the customers and investors that their deposits and investments would be *halal* leading to trust based relationship. However, concern over legitimacy and *Shari'ah* risks leads such trust relationship to be harmed. For instance, due to mimicry and even mirroring, the convergence of IBF towards conventional finance can undermine this trust relationship. Thus, the operations of IBF can paved the way for emergence of another social risk, namely trust risk if the full *Shari'ah* legitimacy cannot be established.

7.4.5. Sustainability Risk of Islamic Banks

The major development policy of the contemporary times is 'sustainability' which is articulated in two ways: the sustainability of growth of firms, in this case IBFs; and secondly, and most importantly, the growth of firms, IBFs in this case, has to be in harmony with the rest of the stakeholders including environment and society. While the former

aspect of sustainability relates to efficient and effective running of IBFs producing sustained growth; the latter is essential due to the normative of IBFs being located in IME. In other words, the axiomatic norms, such as *tawhid*, *adalah*, *rububiyah*, *tazkiyah*, *khalifah* and their methodology, namely *maqasid al-Shari'ah* by definition imposes sustainability in the sense that financial efficiency has to be achieved with social optimality as well. Since resources are considered as '*amanah*' or trust from Allah, this trusteeship within the IME's normative world has to be achieved, among others, by IBFs so that the natural environment can achieve its growth path as defined by its *fitra* as articulated by *rububiyah*; and therefore, *tazkiyah* necessitates that IBF growth should not be at the expense of environment nor of society but should be in harmony with them as well as other stakeholders.

The human ecosystem completely depends on ecology of this planet, and as many studies cited by Naveh (2005:230-31) suggest that the biggest threat to human ecology, communities and its perseverance is from the environmental changes. Therefore, they directly affect the scope of preservation of *al-maqasid al-Shari'ah*, as the extent of damage to human preservation by environmental changes is colossal. Consequently, sustainability should be included in the concept through which IBFs draw their religious authority and legitimacy. In theological terms, the notion of sustainability is an extrinsic good, which, as a value, is drawn from the tenets of Islamic thoughts that is to be viewed as intrinsically good.

Without the sustainable environment, none of the elements of *al-maqasid al-Shari'ah*, can be preserved; therefore it may be inferred that sustainability is an unconditional public goodness of utmost importance. The goodness in sustainability is not just drawn from *al-maqasid al-Shari'ah*, as the notion of sustainability is also warranted by all the major tenets of Islamic creed. The theological premises that humans are vicegerent of Allah (Idris, 1990:99) is the tenet that strongly supports the notion of sustainability, as this premises puts the burden of responsibility for preserving the environment and ecology directly on human beings, making it a collective duty with attached implications in the hereafter.

Beyond theological debates, and within the Islamic legal theory, the sustainability is justified on the same principle that makes the suicide the gravest sin. Committing suicide is considered the gravest of sins, because it violates number of theological constructs in Islamic theology, such as hope in the God, confidence in divine justice, rebellion against fate and God's will, and so on. Many studies in recent years, as surveyed by Harte (2007:223),

have concluded that the human factor is responsible for majority of specie extinction and current environmental degradation. This deterioration in the environmental conditions is not only a threat to ecological systems of our planet, but also peril of extinction for communities and societal as known to human beings, as human beings are the cause of all this, therefore the analogical comparison of this could be made to a unconscious communal suicide of humanity, which would be subject to legal rulings similar to individual suicide in Islamic law.

The responsibility of humans as vicegerent makes them responsible for all matter; therefore, sustainability in Islamic thought is not just about maintenance of current state of planetary environment, but it also includes the depleting in the damaged done to the ecosystems, and safeguarding of all the species, and preservation of their habitat.

Inclusion of sustainability in the measures that give legitimacy to Islamic financial institutions, does not infer that Islamic financial institutions are directly responsible for the sustainability of planet earth; instead what it infers to is that measurement of Islamic financial institutions' legitimacy should incorporate the initiative the institution takes for improvement in environmental conditions.

The measurement of a value of a business based on their sustainability performance is not an unfamiliar concept in the business industry, and many companies have been using environmental cost accounting as part of their financial measurement system, such as Baxter International Inc. for last two decades have been using different methods of assessing its performance by measuring the environmental initiatives, within its operations. (Sustainability Report, 2013). The argument for environmental cost accounting on operations of IBFs is not just theological, as it also has economic importance, as KPMG's International Survey on Corporate Responsibility Reporting highlights sustainability as the most common driver that is (Ferguson, 2009:23): "directly linked to increased shareholder value or market share, or indirectly linked through increased business opportunities, innovation, reputation and reduced risk (39% reported improved shareholder value and 21% increased market share as an important reason for sustainability)". Therefore, it is in the institutional interest of Islamic financial institutions to incorporate sustainability as part of measuring the business value.

In support of sustainability risk, the critical analysis of the performance of IBFIs evidences that CSR performance has been rather poor. Among others, Sorially (2005), Dusuki (2007), Haniffa and Hudaib (2007), Hassan *et al.* (2010) and Mohd Noor and Asutay (2011) provide evidence for the lack of CSR initiatives in the IBFs indicating that IBFs have failed to develop a pro-active engagement with environmental and other sustainability issues. In particular, Sorially (2005) and Dusuki (2007) show that the CSR perception of IFBs remain within the framework of *zakah* distribution and other non-systemic charitable activities. The CSR scoring method used by Hanifa and Hudaib (2007), Hassan *et al.* (2011) and Platonova (2014) in various case studies also produces similar weak results of CSR commitment in the IBF industry.

7.5. EMPIRICAL ANALYSIS FOR SOCIAL AND MORAL RISKS GENERATED BY ISLAMIC FINANCE

This section aims at empirically exploring and examining the identified social risks by referring to their relevant areas whereby it is possible to show the disembeddedness, financialisation away from real economy impact and value system, commodification and prevailing fictitious commodity nature of Islamic finance as opposed to the theory. Initially, developmentalist, growth and redistributive impacts of Islamic finance sector are empirically tested to assess the embeddedness IBF as defined by IME as part of social risks. This follows other problematic areas of IBF performance in relation to IME foundations as defined and discussed above.

7.5.1. Testing the Moral Economy Nature of Islamic Finance Through Developmentalist and Redistributive Impact: An Empirical Analysis

As mentioned in this section, developmentalist, growth and redistributive impact of Islamic finance industry is assessed through the performance of Islamic banks (IBs) to assess their embeddedness in determining social risks generated by IBF. For this study to be meaningful, inequality indices in the form of Gini coefficient is considered as an important benchmark to identify the redistributive impact of IBs, while Human Development Index (HDI) is used as a proxy to assess the developmentalist impact. Thus, the empirical analysis used in this section employs Gini coefficient and HDI as dependent variables.

In formulating the econometric analysis, five control variables were chosen to estimate the regression equations; these are: the assets size of Islamic Banks or total Islamic financing, GDP per capita, government expenditure on education and health, and governance. The module used the panel data econometric model including annual data from 12 countries from 2001 until 2014 period.

In aiming to assess the redistributive impact of Islamic banking operations, the following model is established:

$$Gini\ coefficient = f \left(\begin{array}{l} Islamic\ bank\ asset\ size + Total\ Financing + GDP \\ + Education\ expenditure + Governance + Health \end{array} \right) \quad (1)$$

This can be transformed into the following equation:

$$GINI = \beta_0 - \beta_1 IBAS\ (or\ TF) - \beta_2 GDP - \beta_3 EDU - \beta_4 GOV - \beta_5 HEALTH + \mu_0 \quad (2)$$

As for the impact of Islamic financial expansion on human development, HDI is taken as the proxy and the following formulation is formed:

$$Human\ Development\ Index = f (IBAS + TF + GDP + EDU + GOV + HEALTH) \quad (3)$$

This can be transformed into the following equation:

$$HDI = \beta_0 - \beta_1 IBAS\ (or\ TF) - \beta_2 GDP - \beta_3 EDU - \beta_4 GOV - \beta_5 Health + \mu_0 \quad (4)$$

where,

GINI = Gini coefficient as a measure of income distribution;

HDI = Human Development Index

IBAS = Islamic banking asset size;

TF = Total Islamic financing extended by Islamic banks;

GDP = Gross domestic product per capita;

EDU = Government expenditures on education;

HEALTH = Government expenditures on health;

GOV = Governance performance;

μ_0 = Error term.

It should be noted that each model is estimated with IBAS and also with TF.

As for the independent variables, the asset size of Islamic banks indicates on how much capital and return the banks have acquired. When the financial sectors grow, the assets of the Islamic banks are expected to grow as well. Contrary to conventional financial system, the asset size of Islamic banks should not earn any interest alongside in fitting into other *Shari'ah* compliancy requirements. This will further enhances the uniqueness of this study to examine the relationship of *riba*-free earnings from the Islamic banks with income inequality. As for total financing, it refers to total loan of Islamic banks. Those who are regard as poor, and previously excluded from getting loans, might gain access to it (Clark *et al.*, 2006). When all the Muslim society regardless of classes can gain access to financial instruments, this will help to reduce the income disparity and consequently alleviate poverty, which is theorised as such by the emerging literature on financial inclusion and is examined through the redistributive impact of Islamic banking in this section.

GDP per capita is used to measure the level of income, which, by definition, has a strong impact towards physical and human capital. With a stable GDP in a country, it is expected to promote investment and increase the standard living in a country. Education spending of government is also known to be an important explanatory variable to explain income inequality, as education determines individual opportunities for finding an occupation (Hashim, 1998). In other words, education is a form of capital, which results in better economic condition and human development. Therefore, higher government spending on education is expected to reduce income inequality. Hence, government expenditure on education is used as a control variable in the estimations.

In addition to education, government expenditure on health is another factor that impact human development, as improvements in health results in human capital increase in terms of improving the quality and life expectancy and longevity. In other words, government spending on health is considered as human capital investment and is therefore considered to economic growth. According to Human Development Reports, human development is the process of expanding opportunity spaces for human (Razmi *et al.*, 2012), and the most important of these include a long and healthy life with a good education. Therefore, the econometric model in this study employs these two as control variables.

Another control variable is considered as 'governance', which is a multifaceted concept encompassing all aspects of the exercise of authority through formal and informal

institutions in the management of the resources endowment of a state (Shah, 2005), which in this study is extended including Islamic financial institutions. The quality of governance is thus determined by the impact of this exercise of power on the quality of life enjoyed by citizens of a particular country. There is a growing awareness that for economic and human development and relative equality in a society, enabling institutional environment is important factor on enhancing the well-being of society.

In measuring the impact of Islamic banking expansion on human development and income distribution, the same regression model is run with Gini coefficient for income distribution and with HDI for human development. As identified with Islamic moral economy, increase in Islamic financial development should increase human development and produce a better income distribution through the underlying features of Islamic moral economy such as embeddedness, cooperation, redistribution and reciprocity. Therefore, the hypothetical relationship is identified in the following formula:

7.5.1.1. Empirical process

This section presents the empirical process of the models developed in the previous section to examine the income inequality and human development *vis-a-vis* Islamic financial development in twelve countries including Malaysia, Saudi Arabia, Turkey, Pakistan, Sudan, Kuwait, Qatar, Indonesia, Iran, Bangladesh, Jordan and Egypt. The data set combines annual data of these countries into the panel data econometrics model for the year of 2001 to 2014.

In order to identify the specification of the data in the models developed, the diagnostic test are run as below.

First, multicollinearity among the independent variables was investigated. The results of the Spearman correlation matrix are presented below in Table 7.1, which indicates that there is a strong positive correlation between two of the potential independent variables, IBAS and TF at 0.88. As a result, we have used only one of these variables and estimate their impacts of the dependent variables in this study separately.

Table 7.1: Spearman Correlation Matrix

	ibas	tf	gdp	edu	gov	health
ibas	1.0000					
tf	0.8837	1.0000				
gdp	00.418	0.0363	1.0000			
edu	0.4129	0.3231	0.0151	1.0000		
gov	-0.1999	-0.2774	0.2874	0.0336	1.0000	
health	0.1278	0.1678	-0.4680	0.0100	-0.0952	1.0000

The panel characteristic of the sample and the time-series indicated in this structure required checking the characteristic of the data for autocorrelation, for which the Levin-Lin-Chu (Choi, 2001) unit-root test was performed for independent variables. The results presented in Table 7.2 indicating that only two of the independent variables, HEALTH and EDU have unit-roots, and the null hypothesis of the unit-root was rejected for all the other independent variables. As a result, the first-differences of these variables were used in the estimations.

Table 7.2: Unit Root Test for the Variables

Variable	Statistics	P-value
<i>IBAS</i>	5.3232	1.0000
<i>TF</i>	3.2232	0.9994
<i>GDP</i>	-1.2352	0.1084
<i>GOV</i>	0.4720	0.6815
<i>HEALTH</i>	-2.5271	0.0058*
<i>EDU</i>	-3.0441	0.0012**

Notes: * indicates significance at 10% level and ** indicates significance at 5% level.

The empirical results are presented in the following sections after the empirical process is presented.

7.5.1.2. Searching for the nexus between income inequality and Islamic financial development: The GINI Index related findings

Based on the discussion on the model and the diagnostics on the data, the empirical analysis moves forward through a series of panel data regression estimations. As it is assumed that Islamic financial development in terms of increasing financial resources for economic development has significant impact on reducing income inequality, as it is expected that expansion of the financial base of Islamic banks could reduce Gini coefficient within selected countries, as emphasised and expected by the discourse developed by Islamic Moral Economy.

At this stage, there are a couple important points to be mentioned in terms of model robustness and diagnostics. Amemiya (1984) show that the maximum likelihood estimations remain constant under serial correlation, but not under heteroskedasticity or non-normality. Brooks (2009) argue the parameter estimations would still be consistent if the equations for the mean and variance are specified correctly; even if the conditional normality assumption does not hold. However, the usual standard error estimations would not be appropriate in the context of non-normality. As a result, a variance-covariance matrix estimator that is robust to non-normality should be used (Bollerslev and Woolridge, 1992). This procedure is known as quasi-maximum likelihood (QML)¹.

Since the sample size in the analysis is not suitable for examining the sample by dividing it into sub-samples for each year, a two-fold strategy is employed as suggested by Heij, de Boer *et al.* (2004) based on the comparison of likelihood ratio comparison. As a result, all results presented below are based on QML (Huber/ White) heteroskedasticity consistent standard errors.

The main findings on income inequality and Islamic financial development are presented in Table 7.3.

Table 7.3: The Findings on Income Inequality and Islamic Financial Development

Fixed-effects (within) regression		Number of obs	=	168
Group variable: id		Number of groups	=	12
R-sq:	within = 0.0386	Obs per group:	min =	14
	between = 0.0112		avg =	14.0
	overall = 0.0167		max =	14
corr(u_i, Xb) = -0.0609		F(5, 151)	=	1.21
		Prob > F	=	0.3061

	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
gini					
ibas	2.04e-12	5.57e-11	0.04	0.971	-1.08e-10 1.12e-10
gdp	2.24e-07	3.12e-07	0.72	0.475	-3.93e-07 8.40e-07
edul	-.0024376	.0011624	-2.10	0.038	-.0047343 -.0001409
gov	.0010547	.003392	0.31	0.756	-.0056472 .0077566
health1	.0049301	.0047573	1.04	0.302	-.0044695 .0143296
_cons	.3825027	.009613	39.79	0.000	.3635093 .4014961
sigma_u	.04860773				
sigma_e	.02714655				
rho	.76225181	(fraction of variance due to u_i)			

F test that all u_i=0:	F(11, 151) =	33.76	Prob > F =	0.0000
------------------------	--------------	-------	------------	--------

¹ Otherwise known as; maximum likelihood with Bollerslev-Wooldridge standard errors.

The findings in Table 7.3 shows the results for Equation (2) above, through which the impact of IBAS on Gini co-efficient is estimated using a fixed effects panel model, while the findings for the same equation with TF is presented in Table 7.4.

Table 7.4: The Findings on Income Inequality and Islamic Financial Development

Fixed-effects (within) regression	Number of obs	=	168
Group variable: id	Number of groups	=	12
R-sq: within = 0.0389	Obs per group: min	=	14
between = 0.0206	avg	=	14.0
overall = 0.0249	max	=	14
corr(u_i, Xb) = -0.0151	F(5, 151)	=	1.22
	Prob > F	=	0.3014

gini	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
tf	3.21e-11	1.44e-10	0.22	0.824	-2.53e-10 3.17e-10	
gdp	2.00e-07	3.24e-07	0.62	0.538	-4.39e-07 8.39e-07	
edul	-.0024384	.001148	-2.12	0.035	-.0047066 -.0001703	
gov	.0012198	.0034716	0.35	0.726	-.0056393 .008079	
health1	.0049814	.0047546	1.05	0.296	-.0044127 .0143755	
_cons	.382828	.0097243	39.37	0.000	.3636147 .4020413	
sigma_u	.0482615					
sigma_e	.02714221					
rho	.75970965	(fraction of variance due to u_i)				

F test that all u_i=0:	F(11, 151) =	34.64	Prob > F =	0.0000
------------------------	--------------	-------	------------	--------

As can be seen in Tables 7.3 and Table 7.4, the asset size of Islamic banks or IBAS has negative relationship with income inequality as desired, albeit not at statistically significant. In a similar manner, the impact of TF on Gini impact is not significant with a very small positive coefficient, which run against the expectations.

It should be noted that GDP presents different influence on Gini coefficient. As mentioned by Wilkinson and Pickett (2009), GDP does not account for the distribution of income among individuals; and therefore in these models it is not significant either.

In both the models, EDU is the only significant variable at 5% level, which implies that the government expenditure on education can explain the variation in the Gini coefficient. As can be seen, EDU is the only important determinant for income distribution. The results show that an increase in 1 percentage point growth in this variable could decrease Gini coefficient by 0.0024414 percentage point, reflecting the improvements in income distribution albeit a very small impact.

For EDU, considered as being the most determinant variable among other factors, which proves that education expenditure can make a change in income equality. Assuming that there is a growing equality of education opportunities and more people do receive the education that they deserve, it will enhance skills and knowledge leading to emancipation and empowerment. Consequently, this will increase the productivity and satisfaction of employment, thus improve the income of the household.

In overall, as can be seen from Table 7.3 and 7.4 the coefficient of adjusted R-squared, being 0.167 and 0.249 for the IBAS and TF models respectively, the model can explain 16.7% and 24.9% of the total variations in the Gini coefficient for the sample, which can be deemed reasonably low. However, since the most of the estimations in the financial analysis literature produce an adjusted R-squared values of such levels, the results presented in Tables 7.3 and 7.4 should also be seen as of acceptable levels.

As for the implications of the results, while Islamic finance emerge as Islam's response to restore the balance of income distribution as emphasised by Islamic Moral Economy. However, such foundational claims have been distorted by the credit system (Rosly and Bakar, 2003) into which Islamic finance has evolved, and, therefore, financialisation in Islamic finance resulting into not having any significant impact on the expansion of equity.

7.5.1.3. The relationship between Human Development Index and Islamic financial development

In order to delve into the other facets of the impact of Islamic finance, this study runs econometric analysis with the models defined above for HDI to examine whether the identified independent variables including IBAS and TF any have significant impact on HDI, in similar fashion to the analysis regressing Gini in the preceding section. It is hypothesised that both are expected to have strong influence on HDI as discursively constructed by Islamic Moral Economy. These hypotheses are both tested by employing a fixed effects panel analysis method and the results are presented in Tables 7.5 and 7.6 for IBAS and TF respectively.

The results of the first model in Table 7.5 using IBAS indicate that all variables except for EDU and HEALTH are significant in explaining the variation in HDI at either 5% or 1%

level of significance. In other words, the total asset base of the Islamic banks of IBAS in our sample countries and the GDP levels of the same economies are both positively affecting the HDI levels at 1% level albeit with a very small coefficient. This verifies the hypothesis that there is appositive association between Islamic financial expansion and HDI. At this stage, it should also be noted that, the coefficient of the GDP is almost twice as high has the coefficient of the IBAS, further indicating that the level of economic size has a more significant impact on the HDI. In addition, the results in Table 7.5 also indicate the significance of GOV, proxy for the government efficiency is also statistically different than zero at 5% level. However, the negative sign shows a relation in opposite directions.

Furthermore, the model prevails that the adjusted R-squared (0.39) is reasonably high for the first estimation in comparison to the estimations above using the Gini coefficients, suggesting that, while Islamic finance is affecting both, the influence is at much higher levels for the human development in comparison to the economic equality. However, it should be noted that the human development can be seen as a prerequisite for better income efficiency through the means of education opportunity availability in an economy.

Table 7.5: The Findings on Human Development and Islamic Financial Development

Fixed-effects (within) regression	Number of obs	=	168
Group variable: id	Number of groups	=	12
R-sq: within = 0.4139	Obs per group: min	=	14
between = 0.4136	avg	=	14.0
overall = 0.3930	max	=	14
corr(u_i, Xb) = 0.3918	F(5,151)	=	21.33
	Prob > F	=	0.0000

hdi	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
ibas	3.00e-10	3.74e-11	8.02	0.000	2.26e-10	3.74e-10
gdp	7.53e-07	2.09e-07	3.60	0.000	3.39e-07	1.17e-06
edul	-.0008382	.0007799	-1.07	0.284	-.0023791	.0007027
gov	-.0045514	.0022758	-2.00	0.047	-.0090479	-.0000549
health1	-.0024143	.0031918	-0.76	0.451	-.0087208	.0038921
_cons	.6637247	.0064497	102.91	0.000	.6509814	.6764679
sigma_u	.10406885					
sigma_e	.01821341					
rho	.9702807	(fraction of variance due to u_i)				

F test that all u_i=0: F(11, 151) = **245.49** Prob > F = **0.0000**

At the second part of the analysis on the HDI, the results presented in Table 7.6 indicate a similar type of relationship between dependent variable and the independent variables. First, the TF, as in IBAS case, shows a positive and statistically significant relation to the HDI at 1% level, which verifies the hypothesis established in this study. Moreover, the coefficient for the TF is more than twice of the coefficient of the IBAS. As a result, it can be suggested that the total financing provided to the economy by the sampled Islamic banks are more than twice as much important to the human development than the total assets of the Islamic banks, and it is the financing rather than the assets accumulated in the system. In addition, similar to the results of the first model, GDP is also a statistically significant determinant of the human development in an economy at 1% level of significance. This suggests that richer countries have higher advantage to develop their human capital in comparison to the poorer countries. However, as our results suggest, the financing injected into the economic system through Islamic banks have a positive impact on the efforts for narrowing this gap for the sample countries. Similar to our discussion above, the adjusted R-squared value of 0.3084 also reflects a relatively low, but totally acceptable level of explanatory power for our model.

Table 7.6: The Findings on Human Development and Islamic Financial Development

Fixed-effects (within) regression	Number of obs	=	168
Group variable: id	Number of groups	=	12
R-sq: within = 0.3660	Obs per group: min =		14
between = 0.3215	avg =		14.0
overall = 0.3084	max =		14
	F(5,151)	=	17.43
corr(u_i, Xb) = 0.3171	Prob > F	=	0.0000

hdi	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
tf	6.98e-10	1.01e-10	6.93	0.000	4.99e-10 8.96e-10
gdp	6.24e-07	2.26e-07	2.76	0.006	1.77e-07 1.07e-06
edul	-9.53e-06	.0008012	-0.01	0.991	-.0015926 .0015735
gov	-.0020811	.002423	-0.86	0.392	-.0068685 .0027062
health1	-.0002198	.0033185	-0.07	0.947	-.0067764 .0063368
_cons	.6699641	.0067871	98.71	0.000	.6565542 .683374
sigma_u	.10785876				
sigma_e	.01894387				
rho	.97007514	(fraction of variance due to u_i)			

F test that all u_i=0:	F(11, 151) =	243.06	Prob > F =	0.0000
------------------------	--------------	--------	------------	--------

As for the independent variables EDU and HEALTH, the findings in Table 7.5 and 7.6 show unexpectedly that the government expenditure on education and health services do not contribute to human development. This perhaps can be explained by the fact that even though the citizens have been provided with the education they needed, the opportunities of suitable employment is not made available, which results in them not being able to change their lives in a positive manner. Moreover, the results for the effect of government efficiency, GOV provides inconclusive results. While the GOV variable is statistically significant in our model using IBAS (see Table 7.6), it is not statistically different than zero or the model using TF as depicted in Table 7.6.

As for IBAS and TF, we can assume that when the asset size of Islamic banks is growing, it will contribute to the economic growth in overall by mobilizing the necessary sources; however, development is a micro reality and therefore growth may not be translated into economic or human development due to the difficulties in the transformational power and redistributive mechanisms prevailing in the country. This is expected to cause much lower coefficient for IBAS in comparison to TF in determining the HDI.

As regards to TF, when the lower income classes are included in financial sphere through financial inclusion, it is expected that this can boost the motivation to develop themselves to increase the quality of life. Hence, TF has positive impact on human development. As stated by Jalilian and Kirkpatrick (2002), improving the financial inclusion of the poor can increase their productivity; enhance their productive assets and achieving livelihood.

7.5.1.4. Summary and conclusion on development impact of Islamic financial expansion

In conclusion, we fail to see the positive relationship between Islamic financial development and income inequality reduction in our sample countries. The solid growth of Islamic financial industry within the globe is normally expected to underpin the fall of unfair income distribution. However, the findings in this section provide a picture that requires much more efforts in this direction. Therefore, the microeconomic analysis as discussed in this chapter should be converted into strategies and policies to complement and support macroeconomic approaches in solving the income gap. However, the impact of Islamic banking and finance on public policy related outcomes such as human development marked

by the HDI provided significant results, which is strong enough. Indeed, size of the Islamic finance industry is considered as impacting such outcomes, as it remains small compared to total financial system and therefore its impact might have been hampered as opposed to the aspirational expectations.

An important caveat should be considered as a limitation: that is the size of Islamic banking as percentage share of each of the sample countries; as it remains still very much in infancy between 5% to 25% of the financial system in the countries covered by this study. Therefore, it might be rather difficult to expect such a small-scale asset and financing size to have a visible impact on the results.

Secondly, whether banks should be expected to contribute to economic development beyond economic growth is an important question. While this could be the case for commercial conventional banks, however, definition of Islamic financing whether in Islamic banks or in other institutional form is attached to some moral economy and development expectations as discussed in the earlier chapters. In other words, 'Islamic' as a prefix in Islamic finance and banking necessitates that they are different and that 'difference' is determined through their embedded nature. Therefore, expecting Islamic banks to contribute to economic development beyond economic growth is essentialised.

The debate as to whether and why Islamic banks should be expected to contribute to economic development relates to the nature of institutional construct. As IME and IPE identified a moral and developmentalist objectives for Islamic financial institutions, while the construct emerged so far is mainly Islamic commercial banking. Commercial banks, however, by definition provides financial intermediation and hence can contribute to economic growth, but isolating their contribution to economic development will rather be difficult. Thus, there is an inconsistency between aims of IPE and IME and the nature of Islamic banks. This requires Islamic non-banking financial institutions, Islamic social banks and other forms of financing institutions to be developed beyond confining the financing spheres to 'Islamic banking'.

7.5.2. Testing Real Economy Relations: From Embeddedness to Disembeddedness and Financialisation

Due to the defined peculiarities of IBF as a result of IME based normativeness, IBF is expected to be embedded in those normative principles and work within real economy through asset-backed system. In assessing the performance of IBF in relation to embeddedness, this section aims to assess four main aspects of embeddedness:

- (i) the impact of Islamic financial expansion on financial stability;
- (ii) Assessing IBF's financing ties to the real economy;
- (iii) Economic growth impact of IBF;
- (iv) Sectorial distribution of IBF financing.

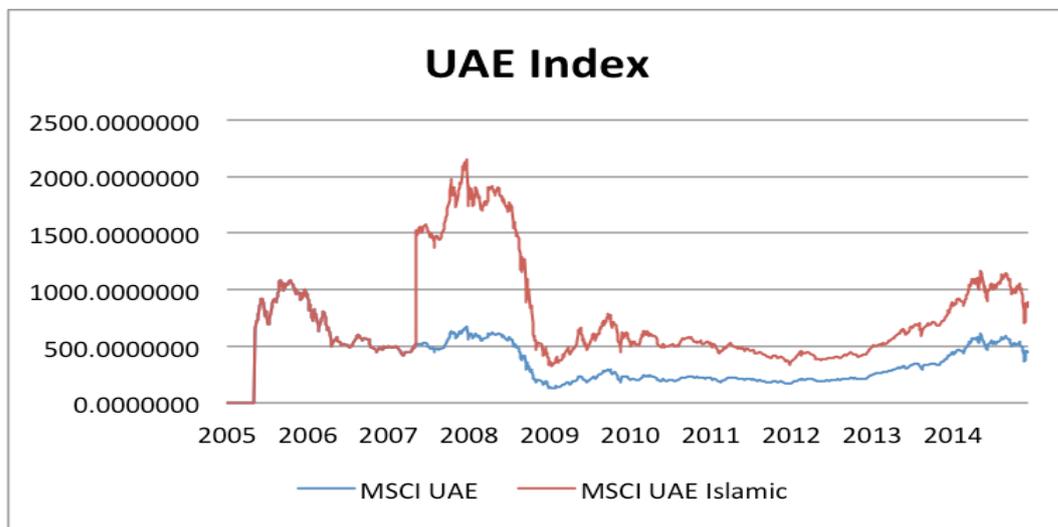
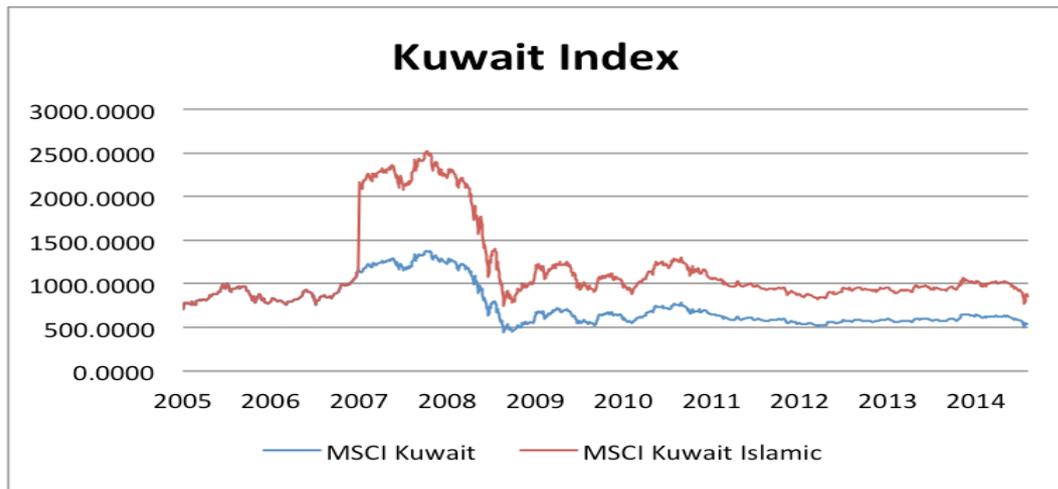
These aspects are discussed in the following sections in detail with some statistical descriptive method.

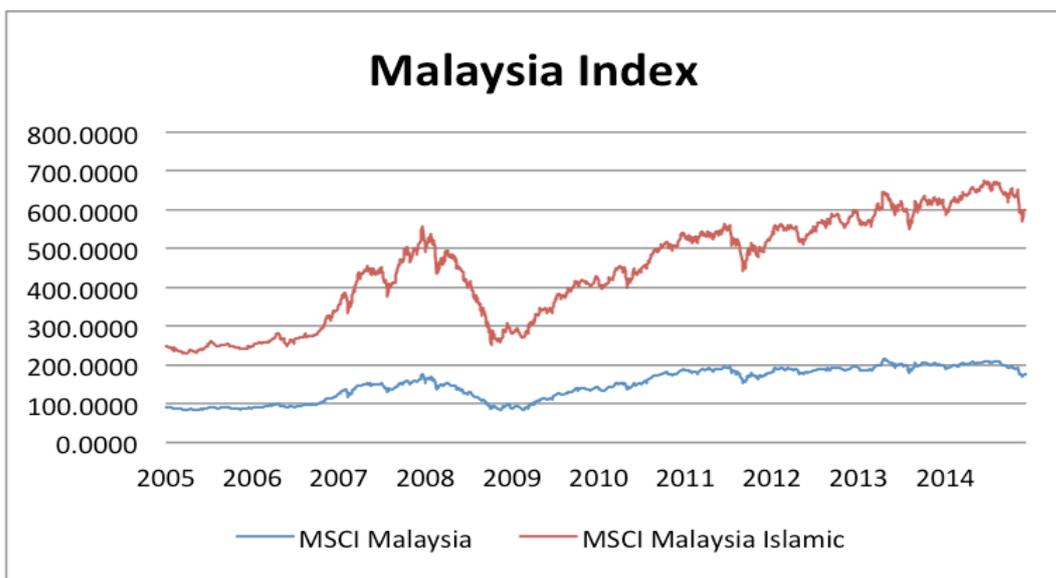
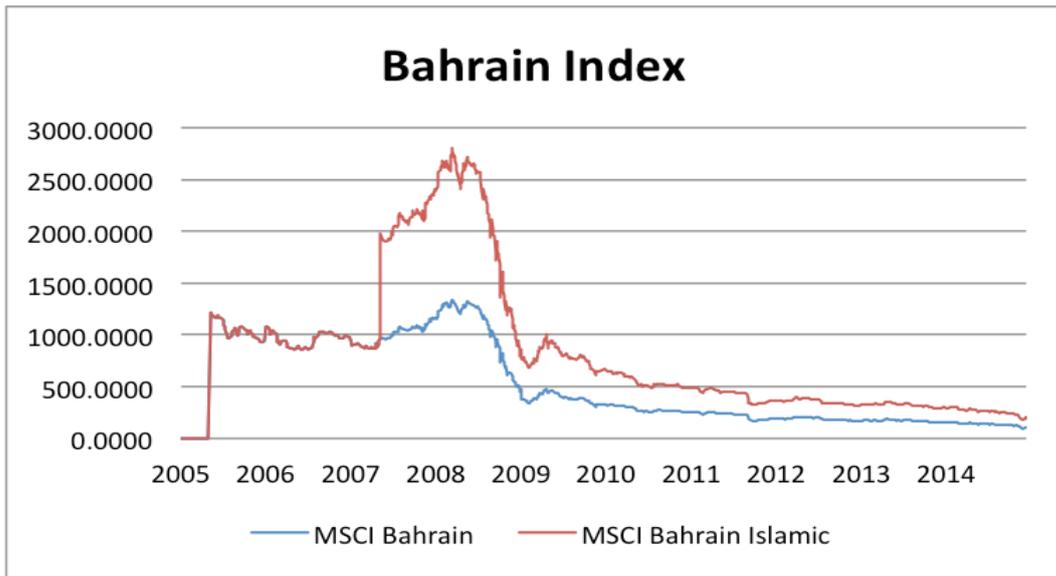
7.5.2.1. Contribution of Islamic finance to stability of financial markets: Can Islamic finance make markets stronger and safer?

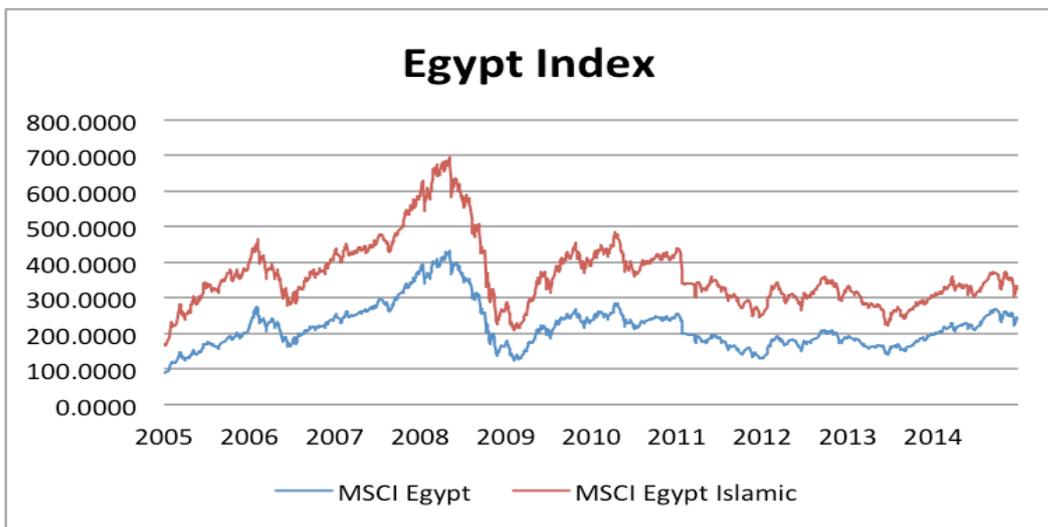
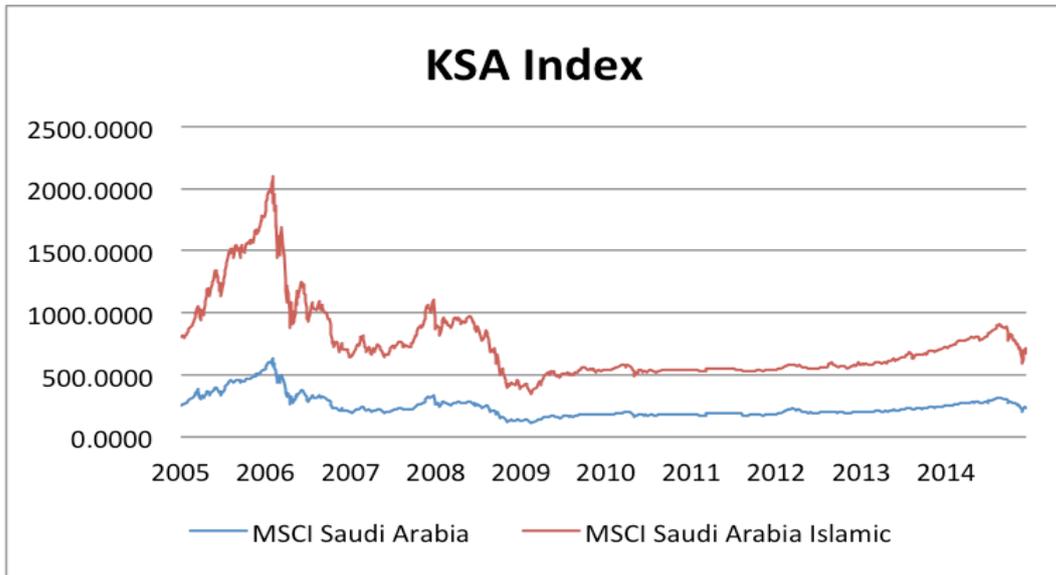
Islamic finance in both mainstay and emerging markets has managed to attract investors who have been previously alienated towards Islamic finance as a result of financial exclusion due to religiosity. In addition, developments in Islamic finance has supported the global financial markets by increasing the number of players and hence the size of the investment pool. With additional channels of funding brought into the financial system through the emergence of IBF and enhanced demand from this alternative financing, this originally ethical proposal was expected to help the financial markets to become safer, stronger by supplying financing for wider perspective of stakeholders to secure faster growth and strong returns. In the light of this argument, this paper tests Islamic finance whether Islamic finance makes financial markets stronger by analysing Islamic and conventional MSCI indices by focusing on 2005-2014 period in ten Muslim countries with relatively strong Islamic assets.

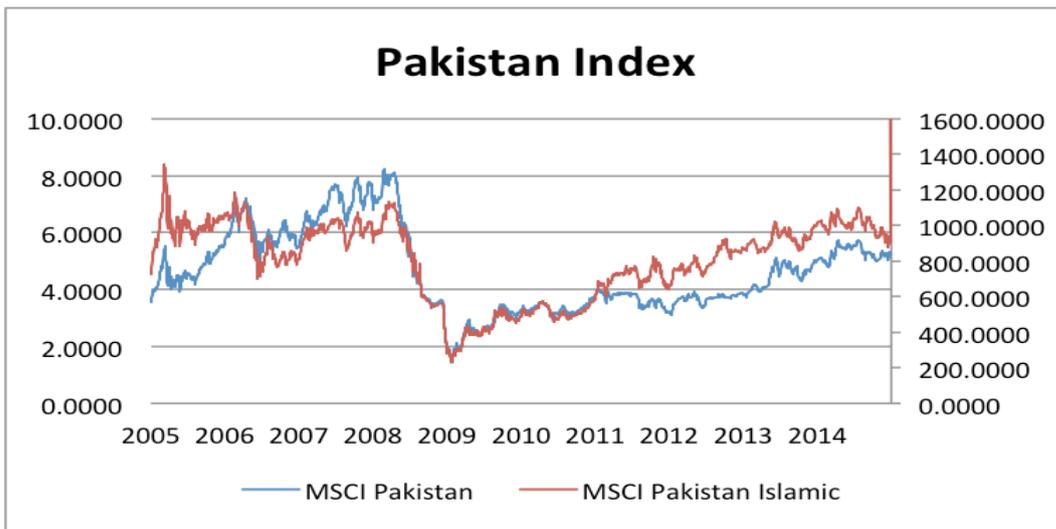
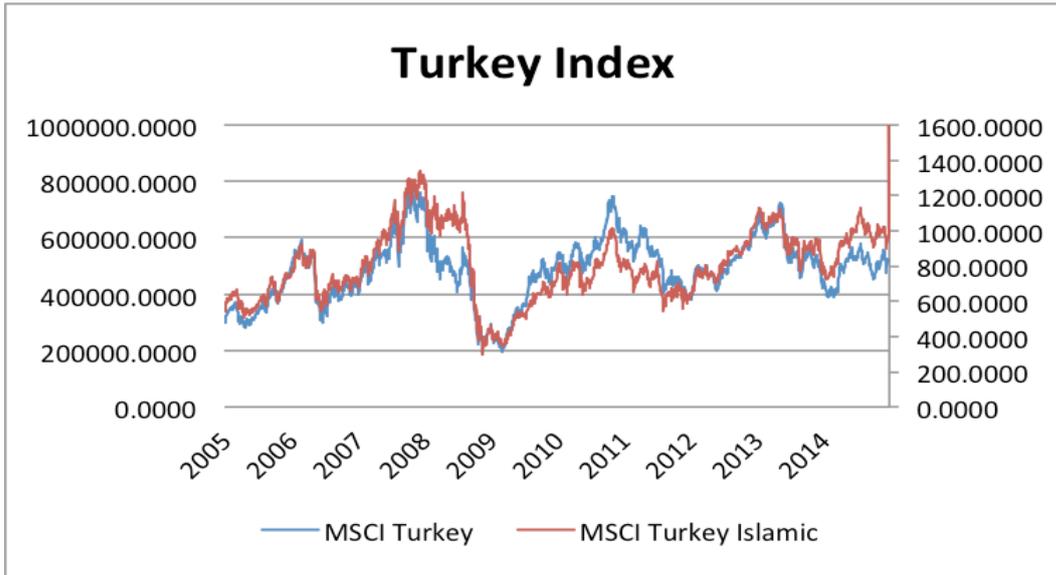
The panel figures under Figure 7.1 depict the trends in Islamic MSCI and overall MSCI in each of the sampled countries. The figures confirm that Islamic finance indices follow the patterns of conventional finance indices and, hence, there is no evidence that Islamic finance provides a significant improvement and strengthening to economy; as figures clearly demonstrates the close correlation between the two in which Islamic finance indices path dependent on conventional finance indices.

Figure 7.1: MSCI Index Performance for Islamic and Conventional Markets









Data Source: MSCI Index

Table 7.7: Correlation Coefficient Statistics MSCI and MSCI Islamic Indices for Selected Countries

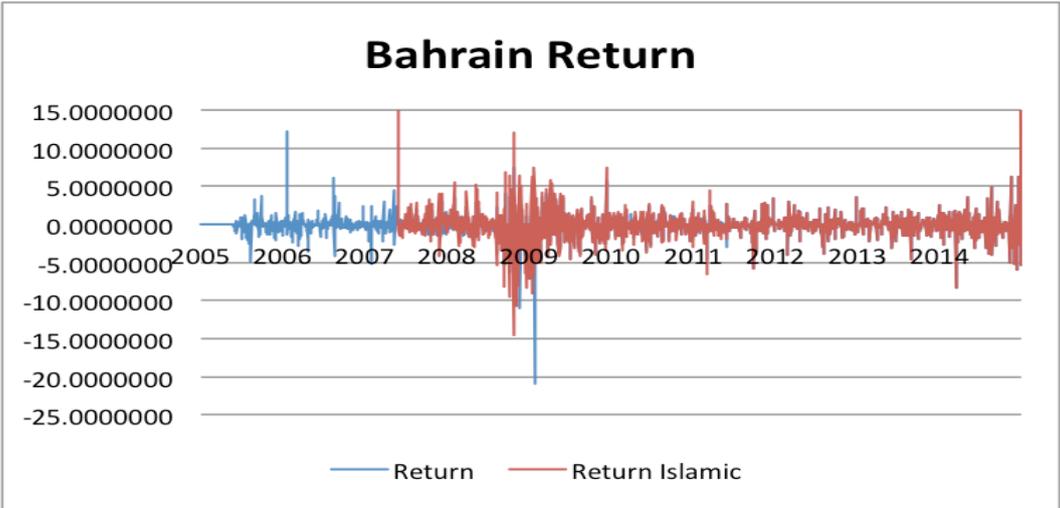
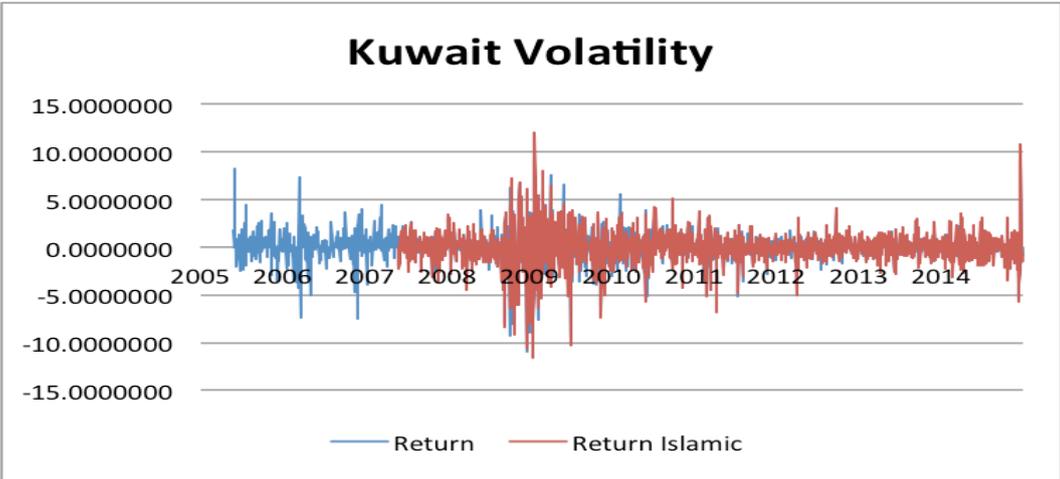
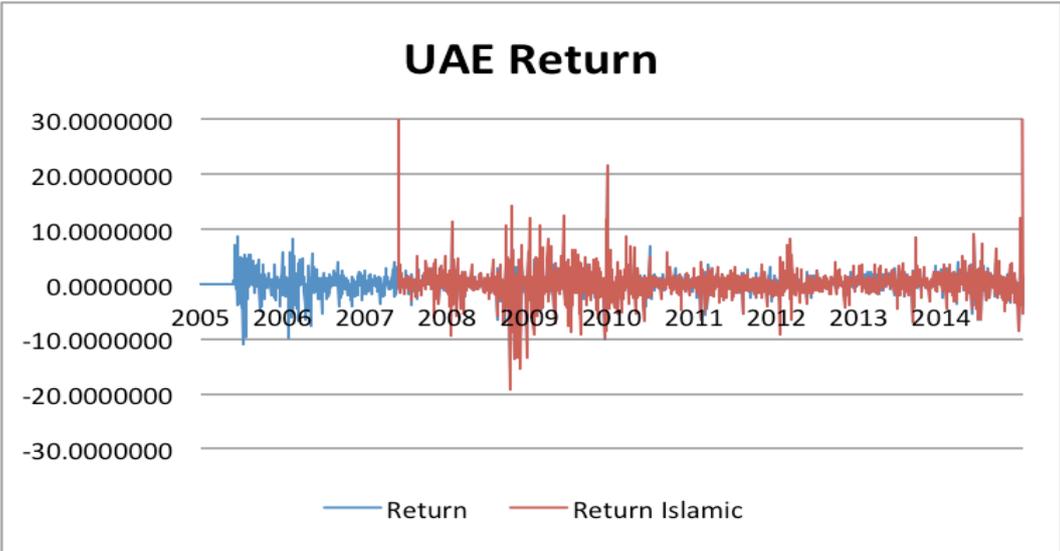
Countries	Correlation Coefficient MSCI and MSCI Islamic
Bahrain	0.9985498*
Malaysia	0.9852480*
Turkey	0.9210557*
Kuwait	0.9898478*
UAE	0.8396057*
Qatar	0.9825808*
KSA	0.9643476*
Indonesia	0.9507226*
Pakistan	0.8438534*
Egypt	0.8480188*

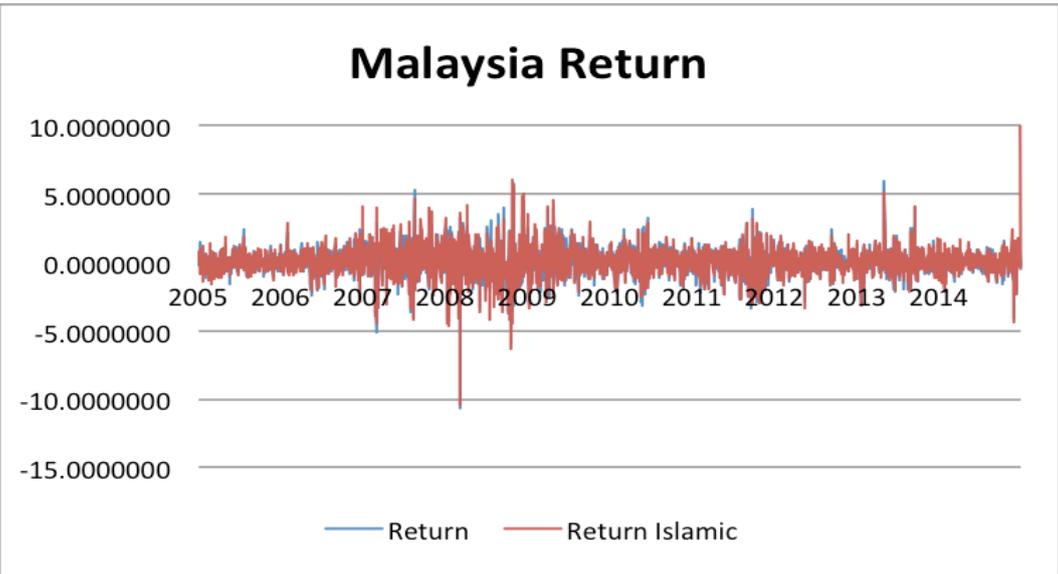
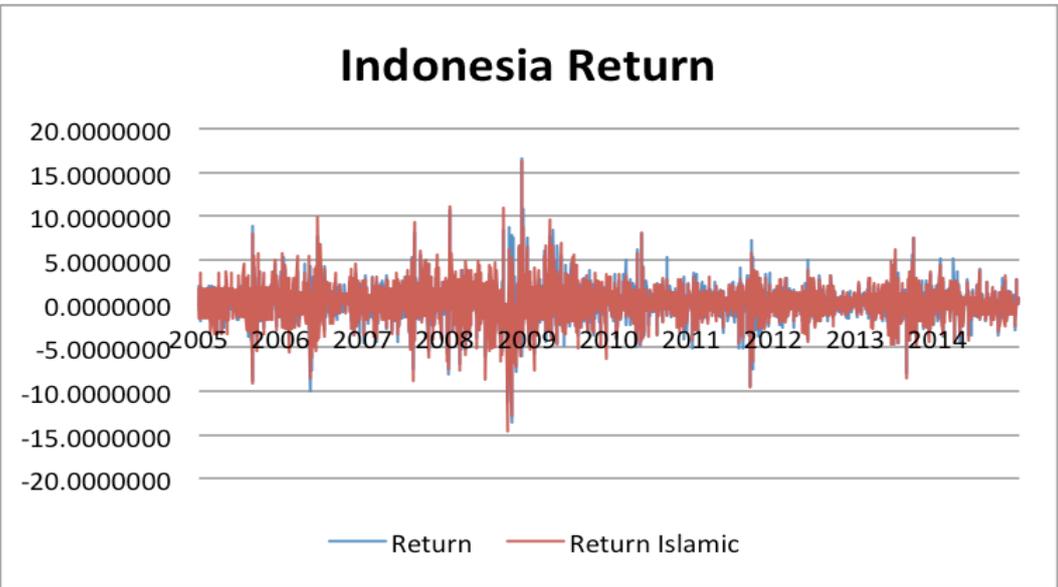
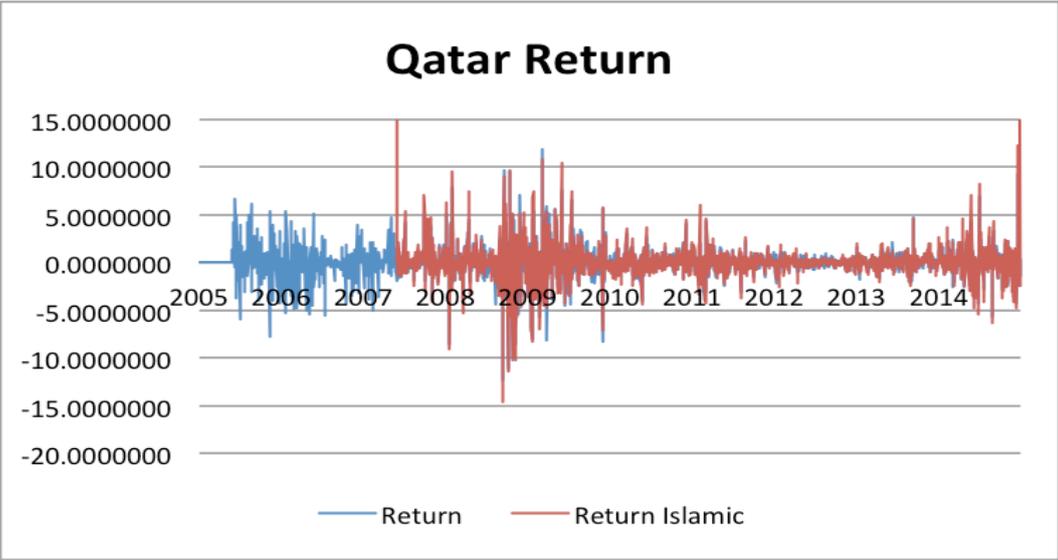
Notes: The effect size of Perason's correlation +/- .5 it is large (*), +/- .3 it is medium (**), and +/- .1 it is small (***)).

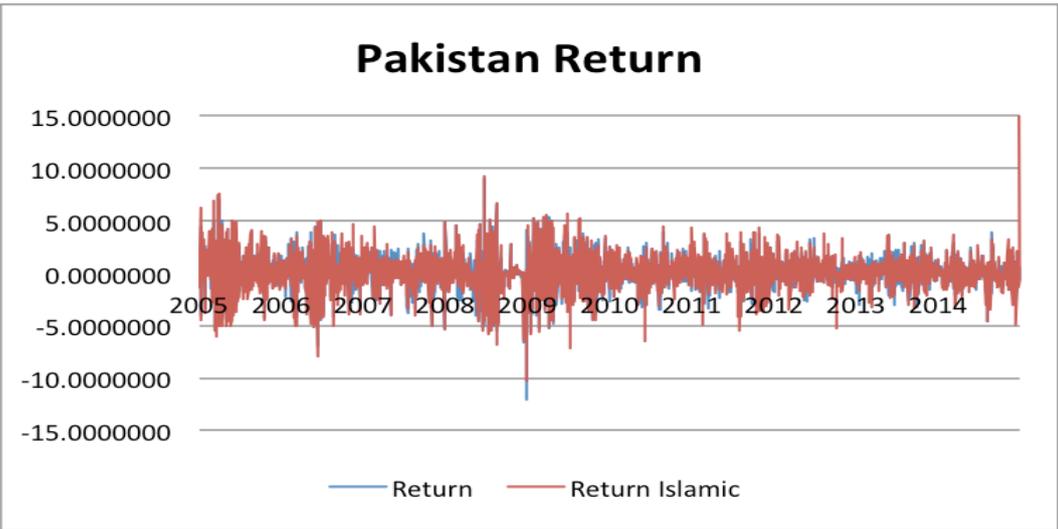
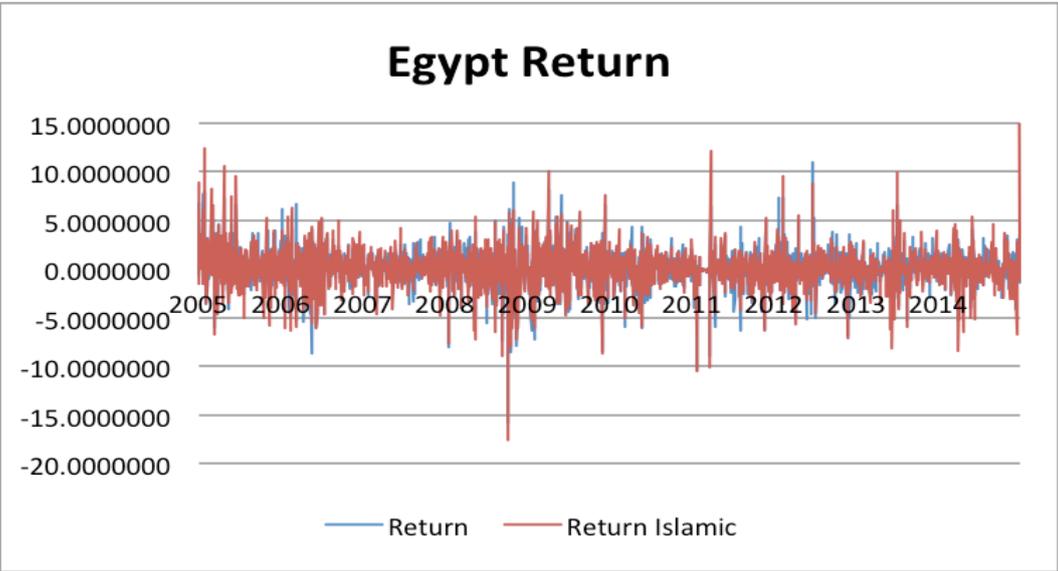
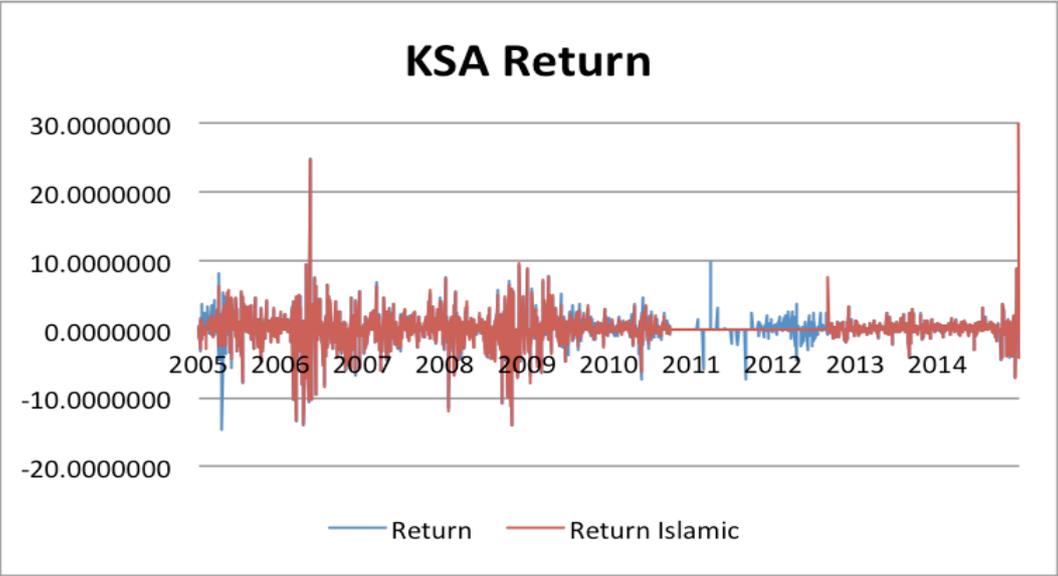
In addition to the graphical depiction of the trends in MSCI and MSCI Islamic indices, as the correlation estimations in Table 7.7 indicates, the growth of the two indices variants is largely similar in selected markets. In other words, high level of correlation between the two indices is observed between in the sampled countries. This study does not examine the direction of the causality, however, knowing that Islamic financial industry size is rather small, then it may be concluded that MSCI Islamic index is caused by MSCI general index.

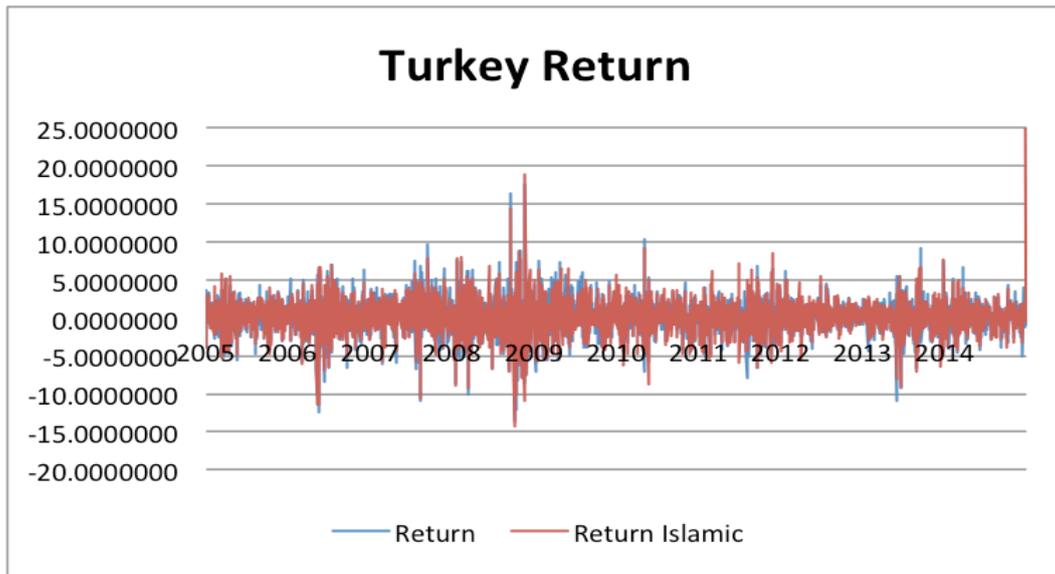
Panel of figures under Figure 7.2 depicts the year-by-year returns of Islamic and conventional indices. In 2007–2008 period a large decrease in both indices is noted reflecting the effect of the recent global financial crisis. In supporting this result, among other studies, Ahmad and Ibrahim (2002), Statman (1987), Hussein and Omran (2005) Abbes (2012) and Aksak and Asutay (2014) confirm that the returns of Islamic investments are not significantly different from those of conventional investment.

Figure 7.2: Returns for MSCI Conventional and MSCI Islamic Indices





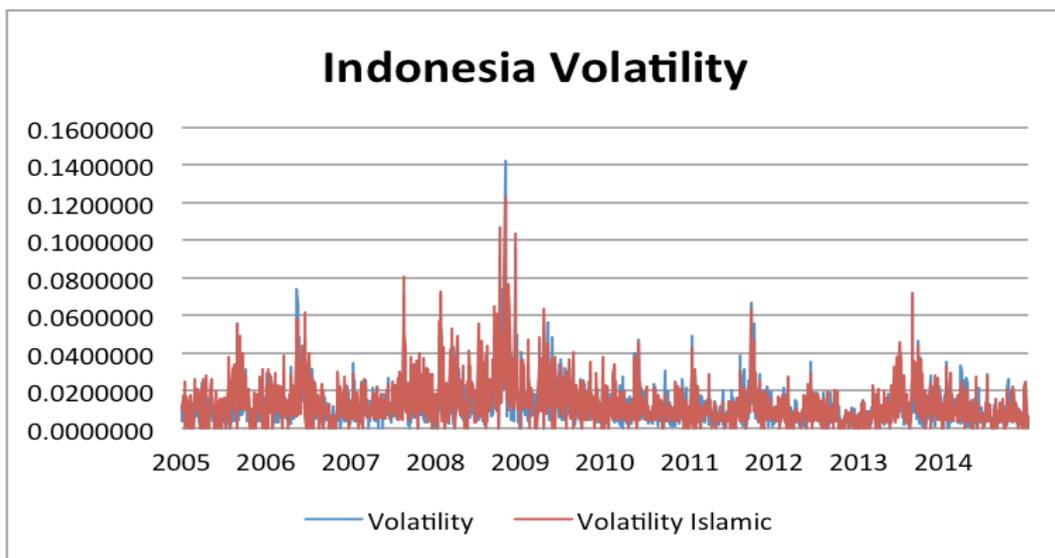


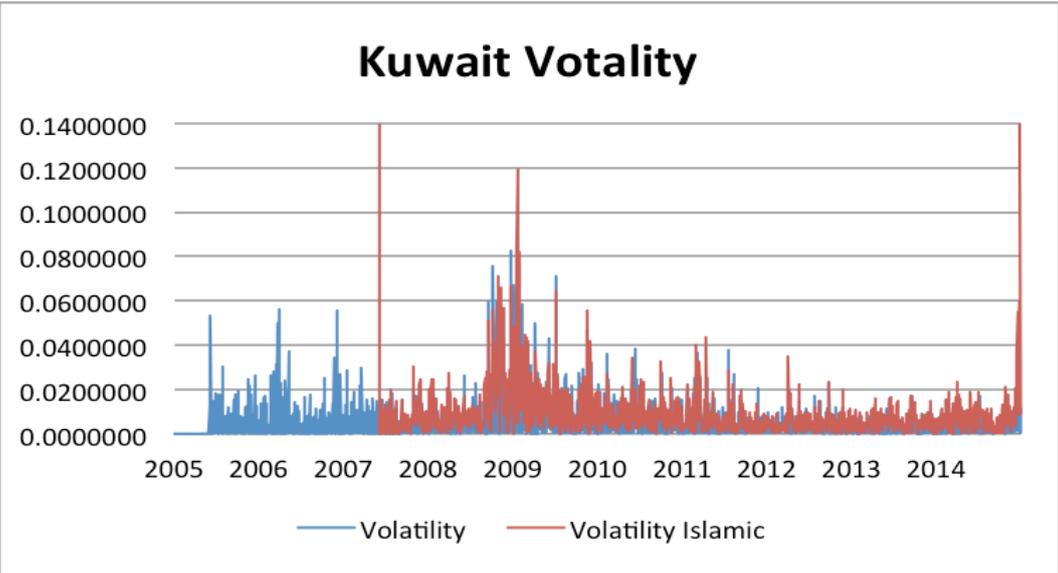
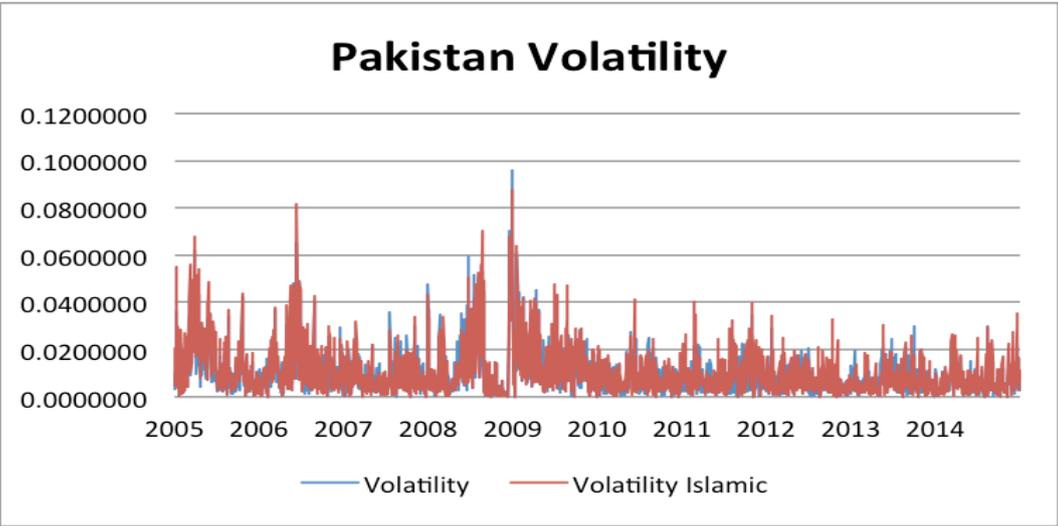
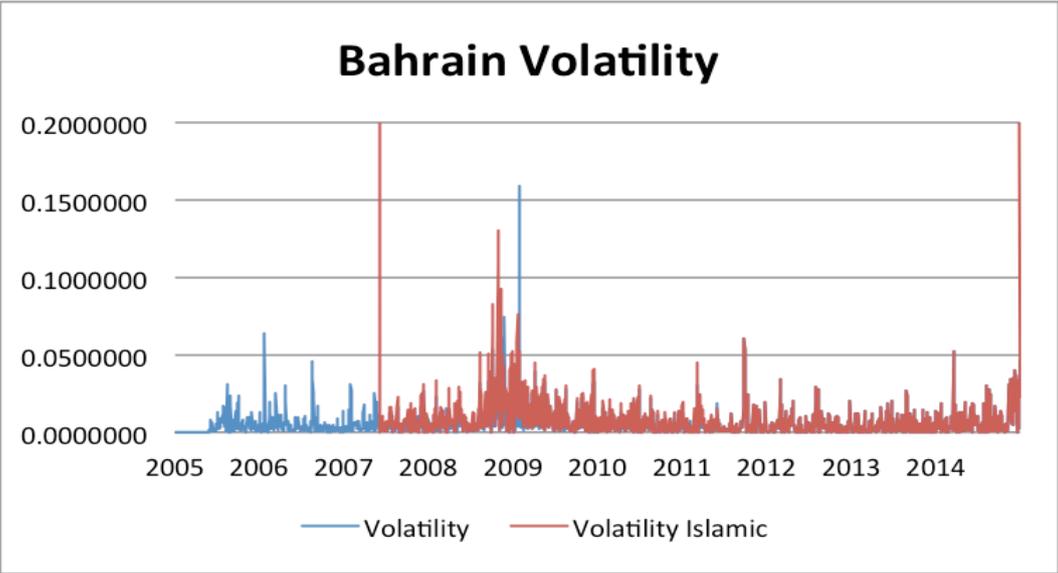


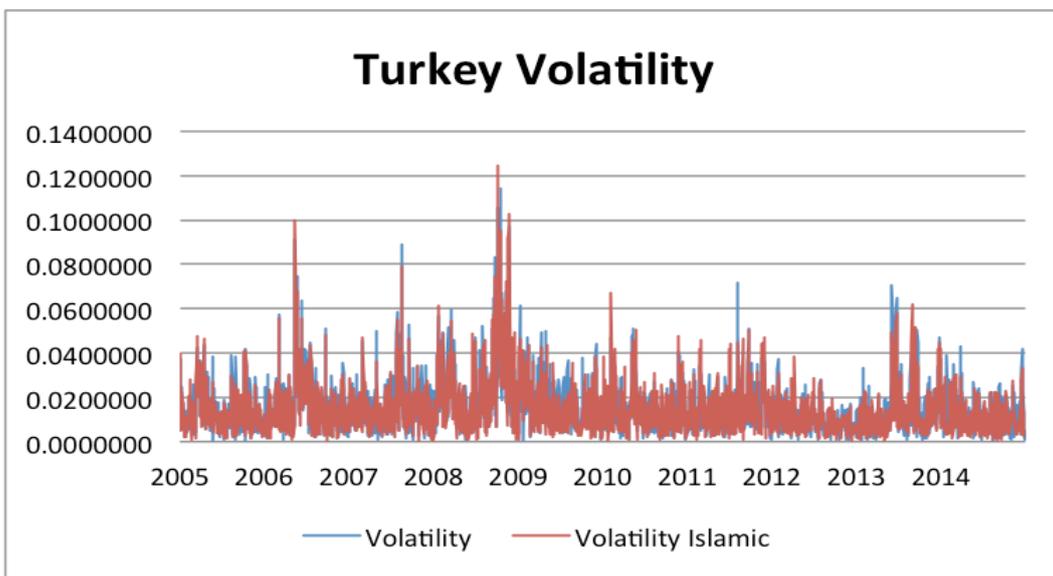
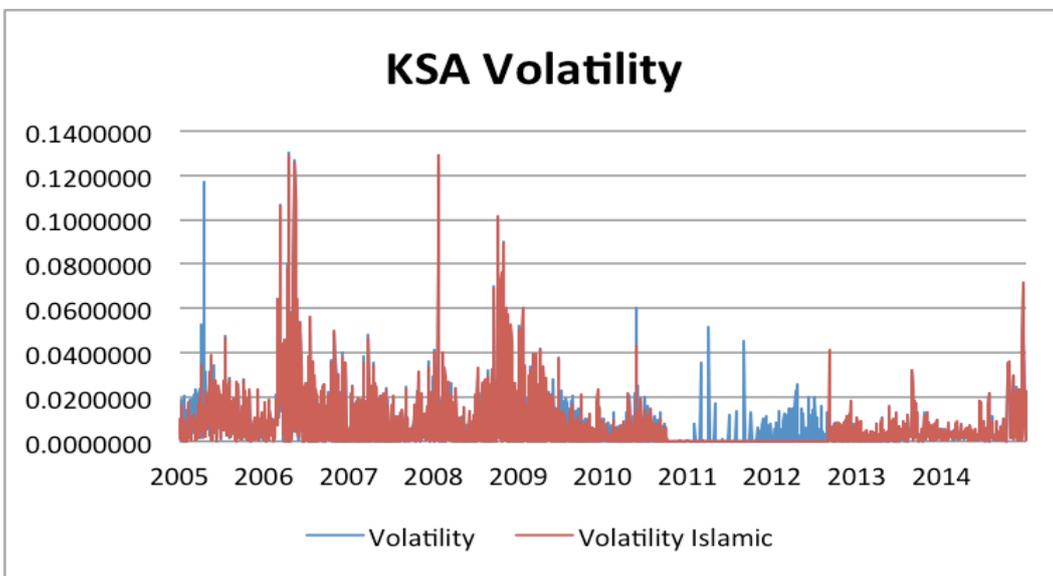
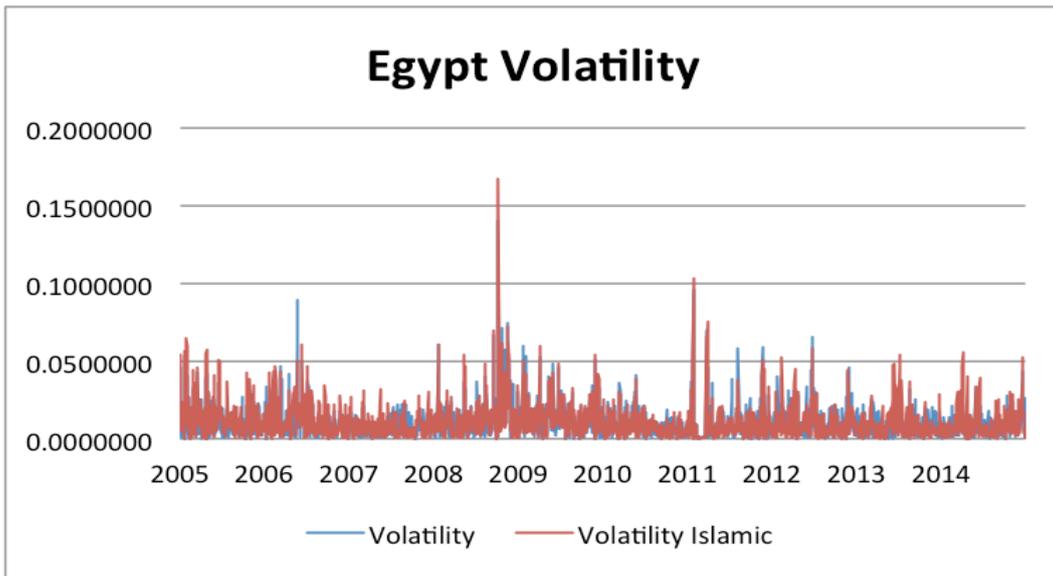
Data Source: MSCI Index

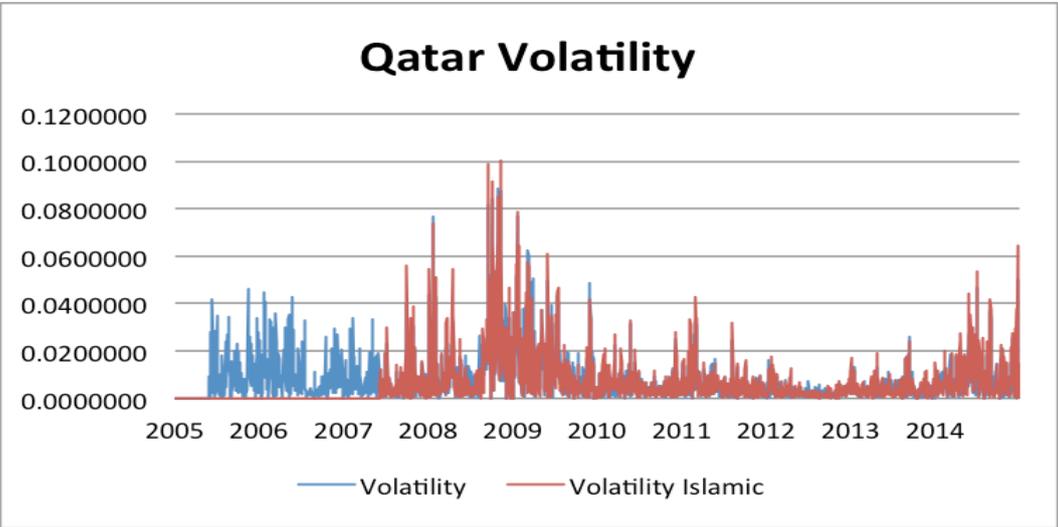
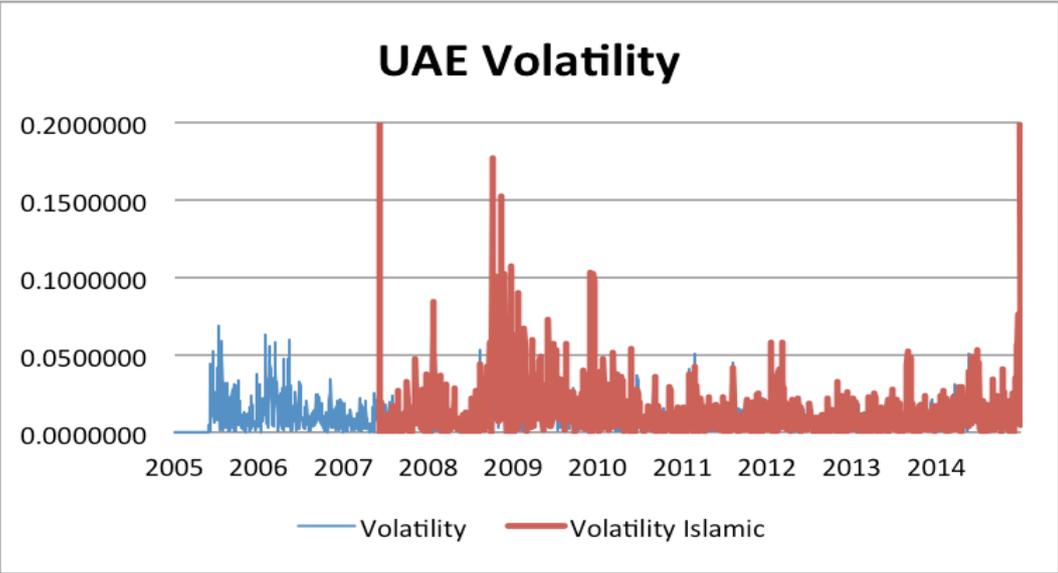
An asymmetric relationship between returns and volatility is noted for conventional indices as well as for Islamic indices in selected studied markets. Analyses in figure 7.2 and 7.3 on return and volatility further confirm that Islamic markets do not provide higher returns to the investors neither protect them against uncertainty and volatility. Volatility is measured as the range of an asset's price about its mean level over a fixed amount time, which is linked to the variance of an asset's price. The greater the volatility, the greater is the risk. Since the volatility of Islamic finance is the not different from the volatility of conventional finance consequently Islamic finance does not provide safer financial environment.

Figure 7.3: Volatility for MSCI Conventional and MSCI Islamic Indices









Data Source: MSCI Index

Table 7.8: Correlation Coefficient Statistics for GDP, Financial Market of Selected Countries and MSCI Islamic

Countries	Correlation Coefficient Return and Islamic Return	Correlation Coefficient Volatility and Islamic Volatility
Bahrain	0.8638418*	0.8428829*
Malaysia	0.9145551*	0.8910007*
Turkey	0.8934753*	0.8513600*
Kuwait	0.9019152*	0.2936832**
UAE	0.9223118*	0.9171301*
Qatar	0.9434778*	0.9403924*
KSA	0.9488883*	0.9343446*
Indonesia	0.8595528*	0.8299781*
Pakistan	0.8752417*	0.8586724*
Egypt	0.8422080*	0.8130435*

Notes: The effect size of Pearson's correlation +/- .5 it is large (*), +/- .3 it is medium (**), and +/- .1 it is small (***).

In addition to graphical depiction of the relationship between returns of MSCI and MSCI Islamic indices (Figure 7.2 panels) and volatility in MSCI general and MSCI Islamic indices (Figure 7.3 panels) indicating close relationship, the correlation estimates in Table 7.8 for both the relationship shows a very high correlation for all the sampled countries reaching to nearly 95% in the case of Saudi Arabia and Qatar. This would not be able to inform the direction of causality; however, knowing the relatively smaller size of Islamic financial sector as compared to conventional finance, with confidence it can be suggested that MSCI Islamic index is caused by MSCI general index.

In overall, the figures 7.1, 7.2 and 7.3 provide evidences that despite of impressive growth of Islamic indices, the directions that Islamic finance follows are in contrast to the aspirational expectations articulated by IME as there is no indication of embeddedness as having the same patterns and trends implies that IBF is closely following the same financialisation root as conventional finance. Instead of becoming alternative viable paradigm, which will secure more stability into financial markets, Islamic finance has become an integrated element of the global financial markets inherently carrying the same weaknesses and fragilities, as descriptive results indicate Islamic finance's mimicry role.

7.5.2.2. Assessing Islamic banking sector's ties to the real economy

IME's definition of Islamic finance relates to real economy; and hence refers to embeddedness in real economy and normative relations. Therefore, financial transactions in Islamic finance are expected to have an underlying 'real economy' value. As the essential features of Islamic finance suggests that real assets must be bought and sold as opposed to the trading of intangible pieces of papers, such as the infamous derivatives, which brought down many institutions during the financial crisis. Thus, Islamic finance is conceptualized as being de-commodification and non-fictionnes oriented within the IME paradigm. This section hence aims at assessing such features of Islamic banks in relation to its link to real asset and real economy.

In order to measure the links between Islamic financial markets and the real economy, as essential requisite for validity of transactions in Islamic economy, the financial returns of both conventional and Islamic finance in various jurisdictions are contrasted with the GDP growth of the selected economies. This will help to establish whether Islamic finance benefits the real economy to perform better and fulfil the expected link with real economy as assigned by IME.

The Islamic market has captured the interest of not only Muslim but non-Muslims investors who were originally and willingly estranged from conventional financial system and place their assets in socially responsible portfolios. These new investments that have been added to the system are supposed to stimulate economic growth, productivity and efficiency. Since, the moral background of Islamic finance according to Aksak and Asutay (2013) stresses economic growth and development, it could be further assumed that the advancement of Islamic finance similarly provides a boost to the growth and development efforts operating within the real economy.

The findings presented in Figures 7.1, 7.2 and 7.3 as well as in Tables 7.7 and 7.8 confirm a strong correlation between Islamic and conventional financial markets but at the same time it confirms dis-embeddedness of Islamic finance in terms of being de-linked with real economy. Abbas (2012) also investigated performance of Islamic indices between 2002 and 2012 and confirmed that both indices (Islamic and conventional) flow the same trend and same directions same in developed or emerging markets. In addition, Abbas (2012) and

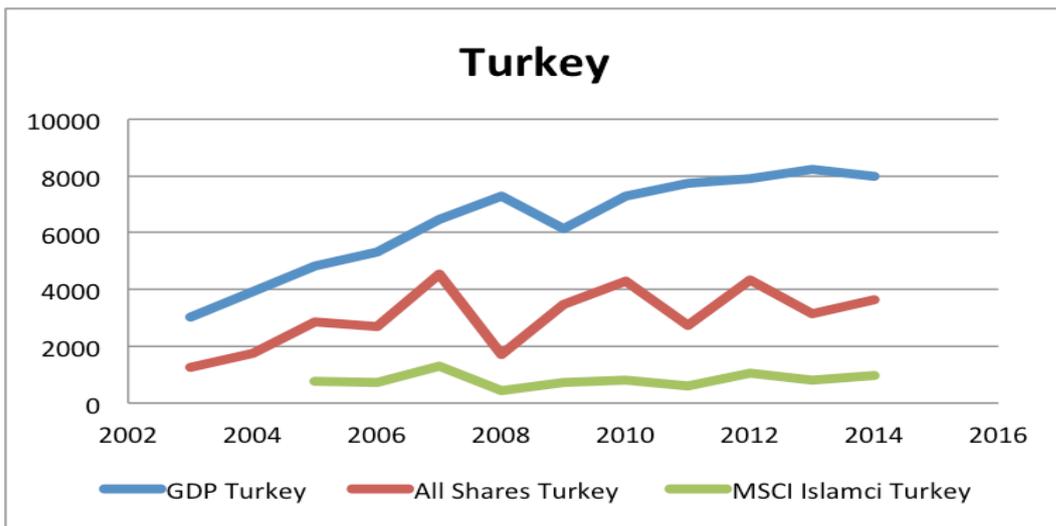
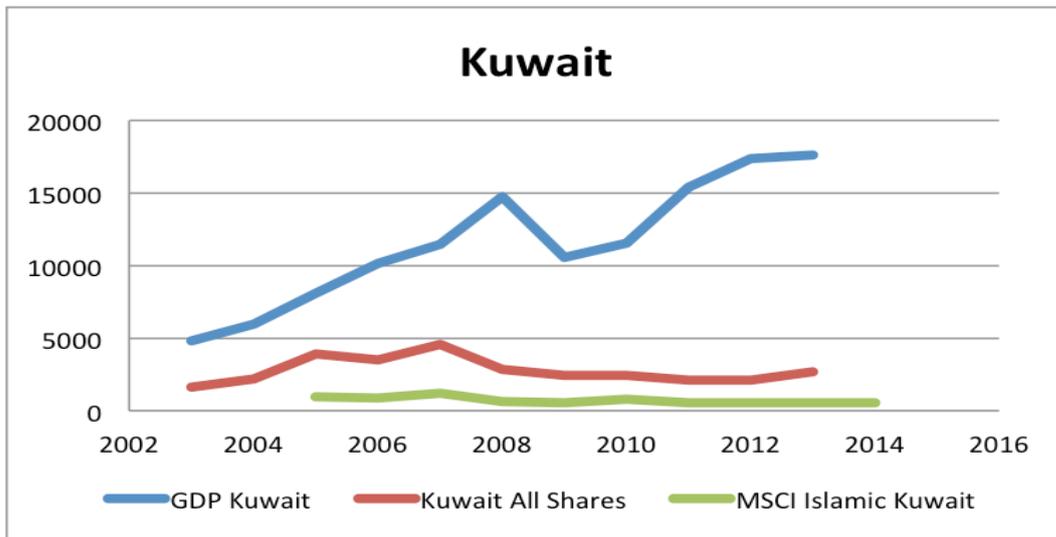
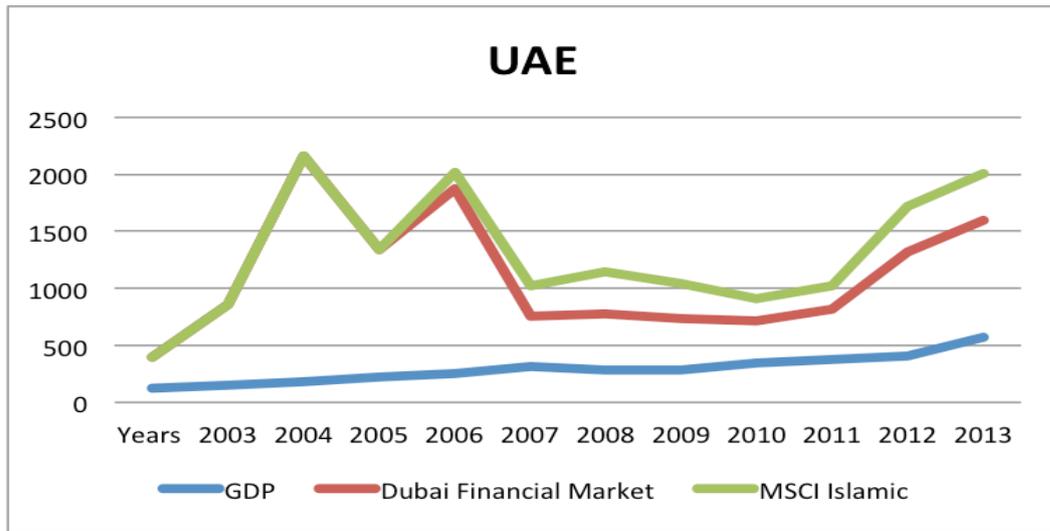
Charles *et al.* (2010) discovered that during the crisis, both Islamic and conventional indices were affected to the same degree by variance changes.

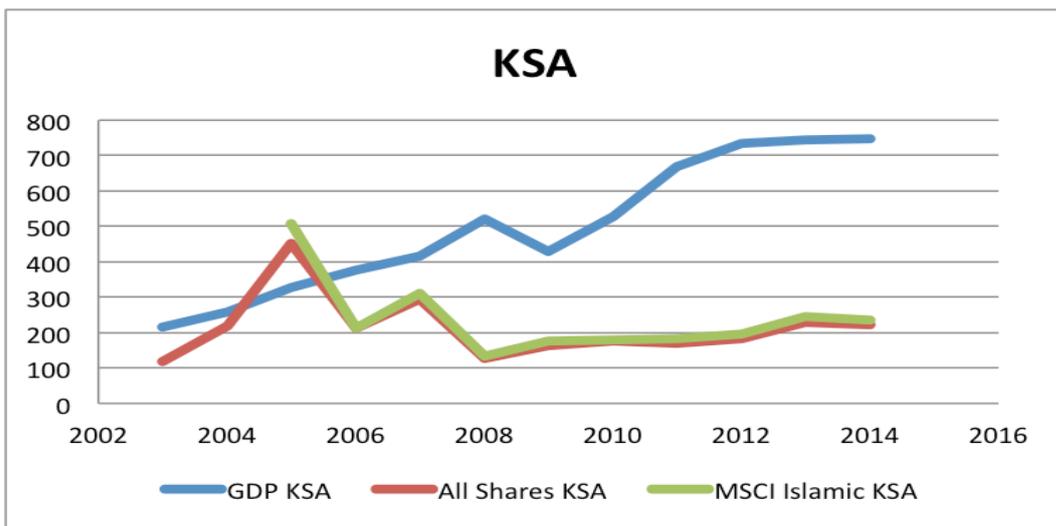
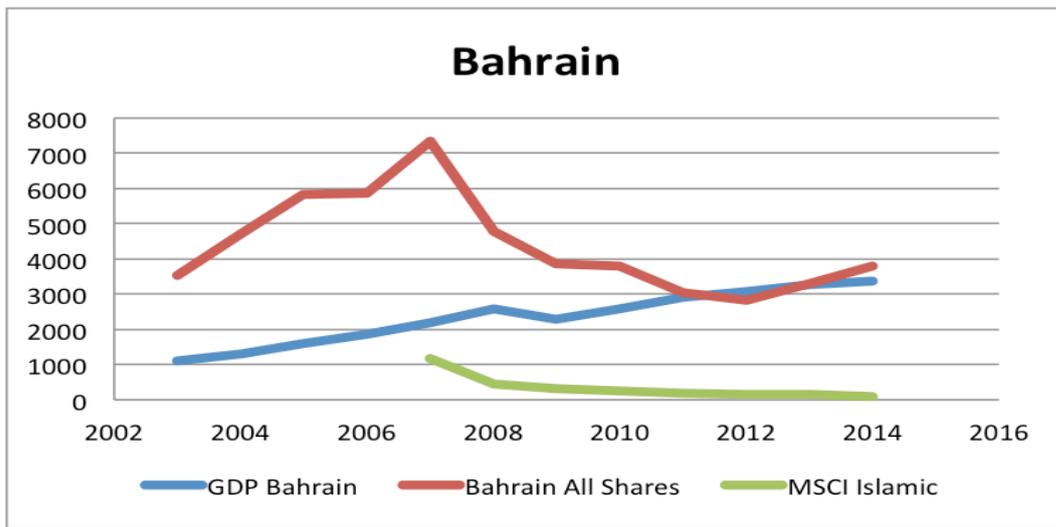
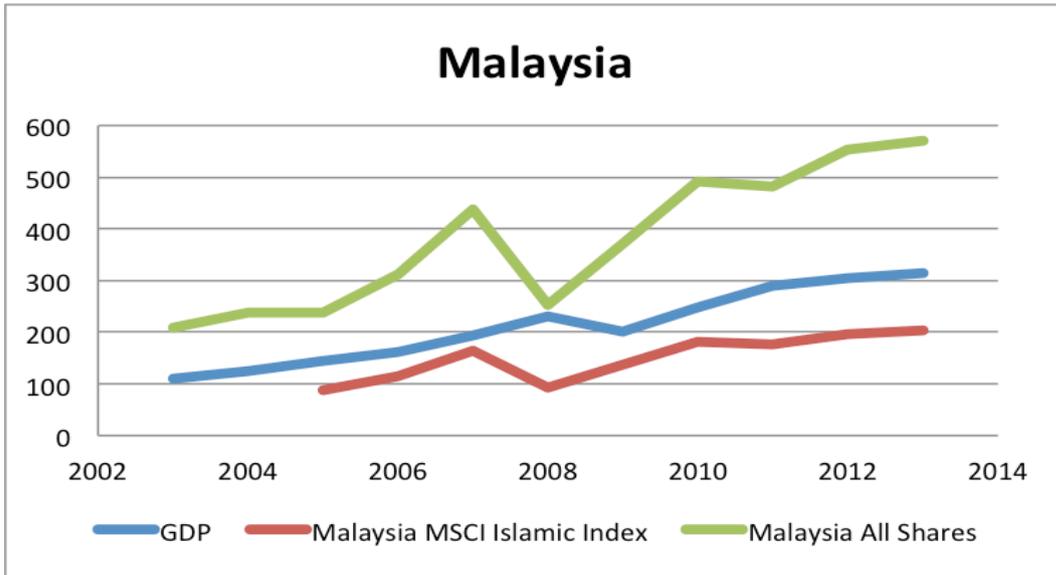
Arshad and Rizvi (2013) performing the wavelet coherent chart between conventional World Financial Services and Islamic World Index found that prior to 2000, there did not seem to be very strong coherence between two industries. However, in post 2000 period, they found a very high correlation between Islamic and conventional indices, indicating divergence of Islamic finance from its value proposition of embeddedness and convergence towards debt-based financialisation of conventional market.

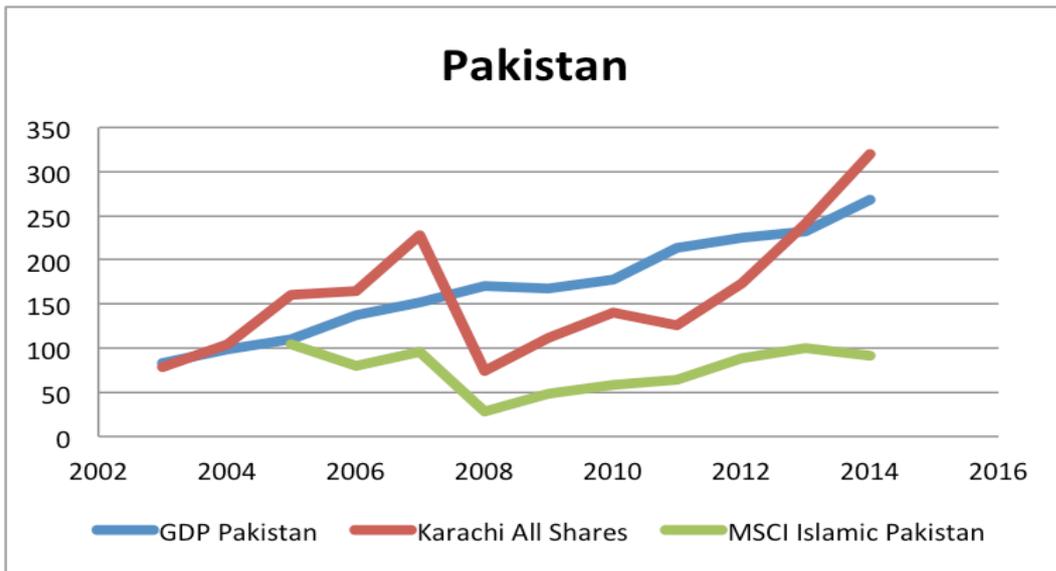
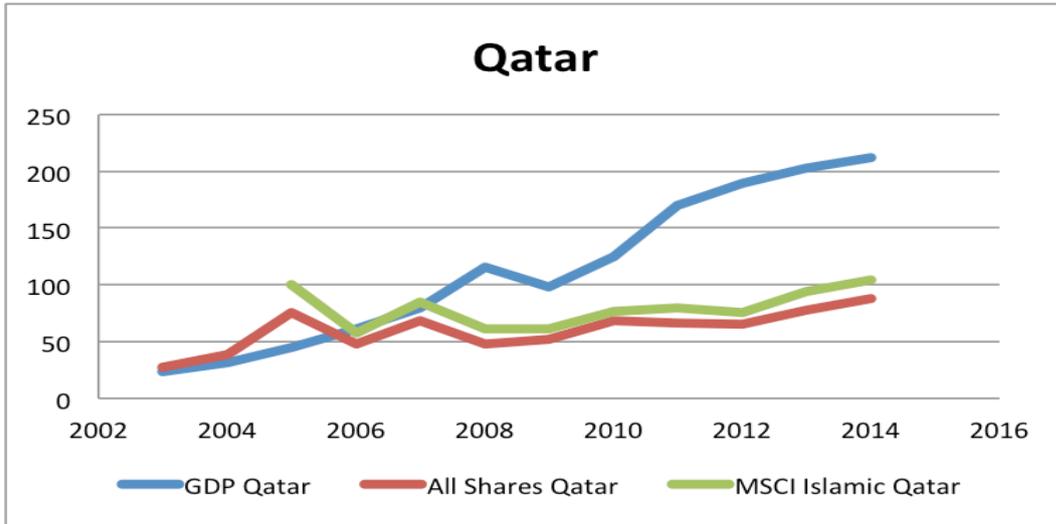
These observations go against both the intuitive understanding of the *Shari'ah* screening methodology based on form related *Shari'ah* compliancy (Hakim and Rashidan, 2002) and IME's proposition relates to the essentialisation of substance (Asutay, 2007 and 2013). The current high level of co-movement between the two could be explained by the fact that the underlying universe of stocks for both indices is heavily skewed to the US market. Therefore, any shock to financial services kicks in the herd mentality in the US market. Thus, the overall decline in the US market, contributed towards this high co-moving pattern. This observation intuitively is acceptable, that as financial shocks in the global markets happen, they have a ripple effect that is translated into real economy via economic slowdown and cost of money increasing, thus inducing higher costs. This influences the real sector performance in the emerging markets, which heavily rely on exports to the US and Europe. Therefore, any economic slowdown influences their economies thus translating into shocks to their equity markets.

The strong link between Islamic and conventional markets as shown in Figure 7.1, 7.2 and 7.3, as well as Tables 7.7 and 7.8 might also be attributed to adopting mimicry and hybridization strategies in product development and the size disadvantages of Islamic finance sector to spend on authentic product innovation. This is further sustained with the tendency of Islamic finance investors' use of conventional markets as a benchmark for their diversification and, by extension, their risk management purposes (Aksak and Asutay, 2013). These factors contributed to the observed divergence between realities of Islamic finance and the aspirations of IME in terms of 'real economy impact', which has resulted in convergence towards conventional finance operations.

Figure 7.4: Contrasting GDP, Financial Market of Countries and MSCI Islamic







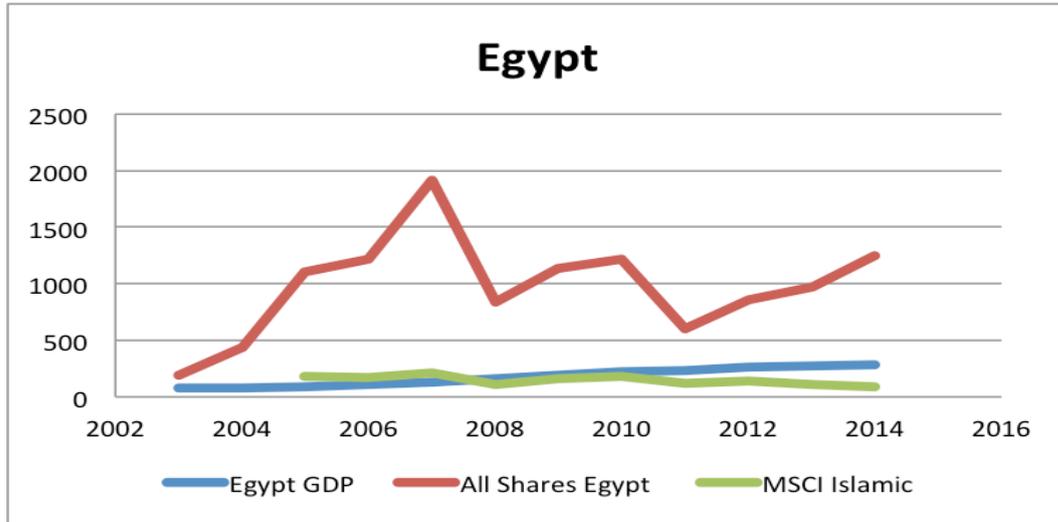


Table 7.9: Correlation Coefficient Statistics for GDP, Financial Market of Selected Countries and MSCI Islamic

Countries	Correlation Coefficient GDP and MSCI Islamic	Correlation Coefficient Financial Market and MSCI Islamic
Bahrain	-0.743208664*	0.964615992*
Malaysia	0.808975599*	0.99780152*
Turkey	0.068441224	0.881785029*
Kuwait	-0.616859155*	0.936883971*
Qatar	0.353902791**	0.967372093*
KSA	0.204722034***	0.998019957*
Indonesia	0.569838567*	0.841422408*
Pakistan	0.080757207	0.749829374*
Egypt	-0.709341253*	0.631997383*

Notes: The effect size of Pearson's correlation +/- .5 it is large (*), +/- .3 it is medium (**), and +/- .1 it is small (***).

The strong correlation between the financial markets, both conventional and Islamic as observed in Figure 7.4 and Table 7.9 depict strong evidences of disconnection of Islamic finance from the real economy and development. As the correlation estimates in Table 7.9 for GDP and MSCI Islamic index show that among the sampled countries in the case of Bahrain, Malaysia, Kuwait and Egypt, there is a relatively strong association between MSCI Index and GDP growth, while in the case of Pakistan and Turkey, the correlation is very low. However, as can be seen, the correlation between MSCI Index and Financial Market

developments in the sampled countries is rather high implying the financialisation trends in Islamic finance sector.

It is, on the other hand, true that impressive financial performance of the Islamic markets as evidenced by the returns of the MSCI Islamic benchmark indices is contributing to financial growth by inducing additional capital into the global economic system. However, the overall impact through investigating the correlation between financial markets show that the link between Islamic markets and conventional markets in Figure 7.4 and Table 7.9 are much stronger than between Islamic financial markets and the real economy.

Islamic finance as a new intermediary between Muslim investors who estranged from conventional finance in origin or new individuals who abstained from engaging with financial markets in the past because of their religious concerns is supposed to answer to moral expectations by providing economic growth and development within the real economy. In order to show the financial impact rather than real economy impact of IBF, it is useful also to observe the trends in the Islamic indices during the recent financial crisis. Figure 7.5 demonstrates the performance of Dow Jones Islamic Market World Index and Dow Jones Islamic Market Global Equity Commodity Index for post-2005 period with the objective of capturing the impact of financialisation in the sense of how exposed IBF for financialised developments.

Figure 7.5a: Dow Jones Islamic Market World Index (10 Years Performance)

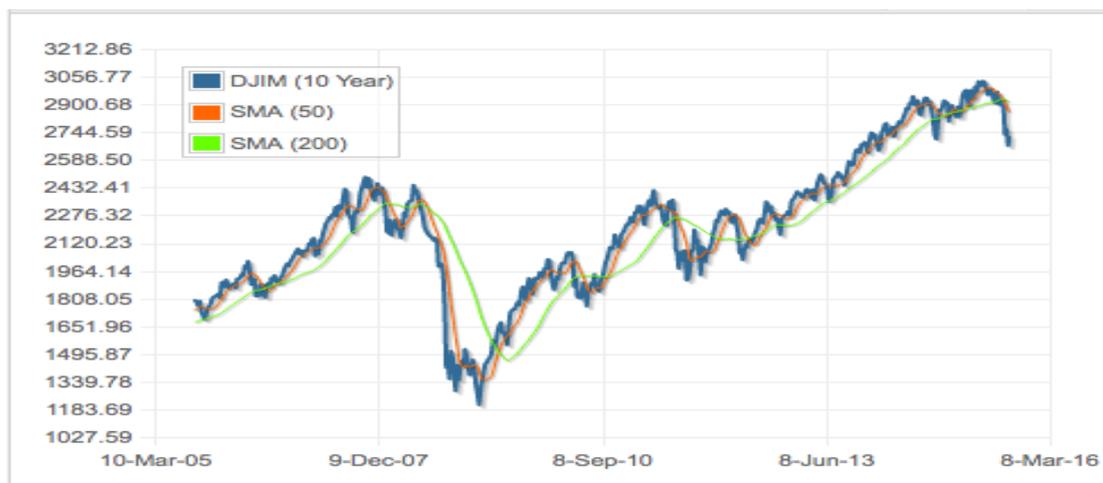


Figure 7.5b: Dow Jones Islamic Market World Index (5 Years Performance)

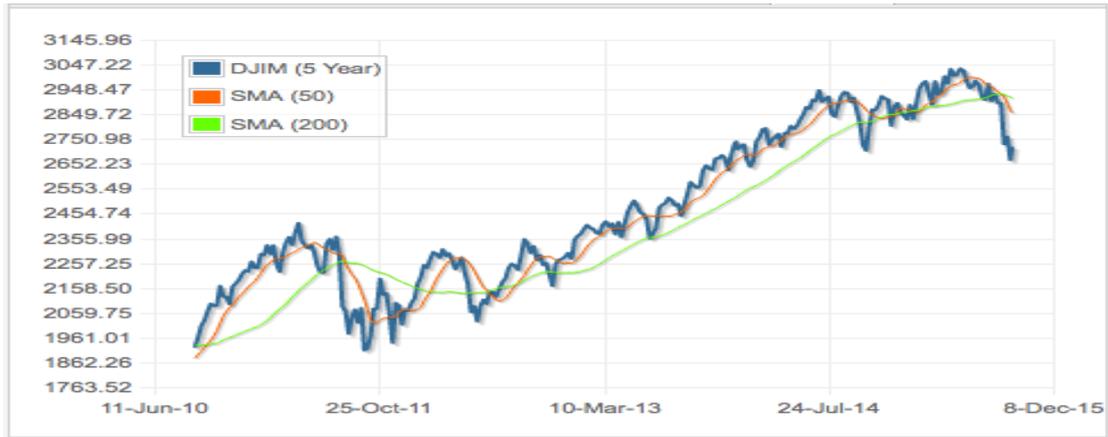


Figure 7.5c: Dow Jones Islamic Market World Index (3 Years Performance)

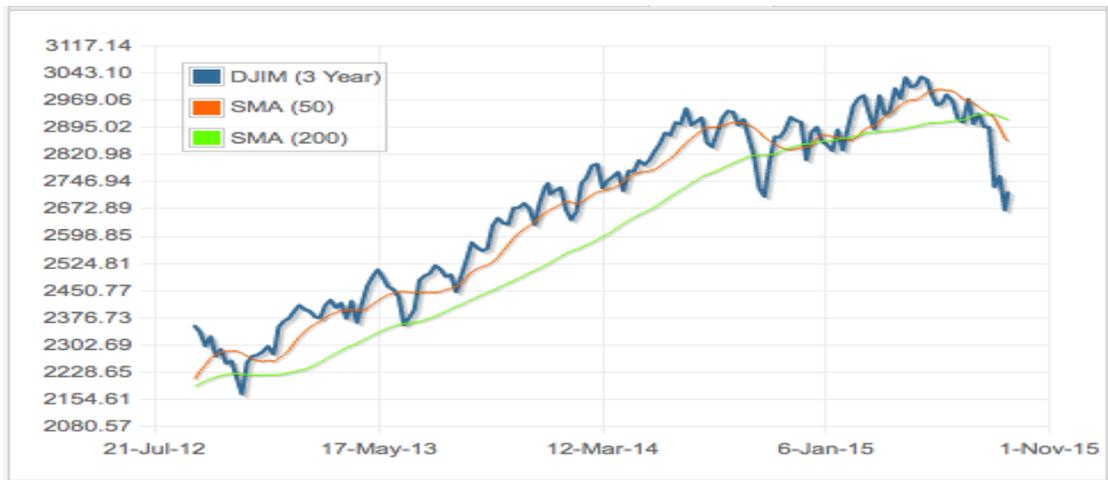


Figure 7.5d: Dow Jones Islamic Market World Index (1 Year Performance)

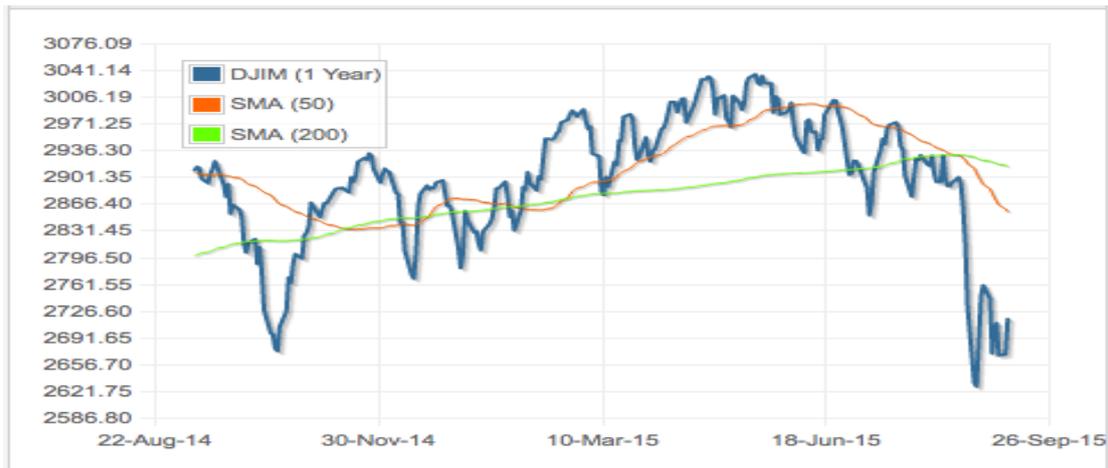


Figure 7.5e: Dow Jones Islamic Market Global Equity Commodity Index (10 Years)

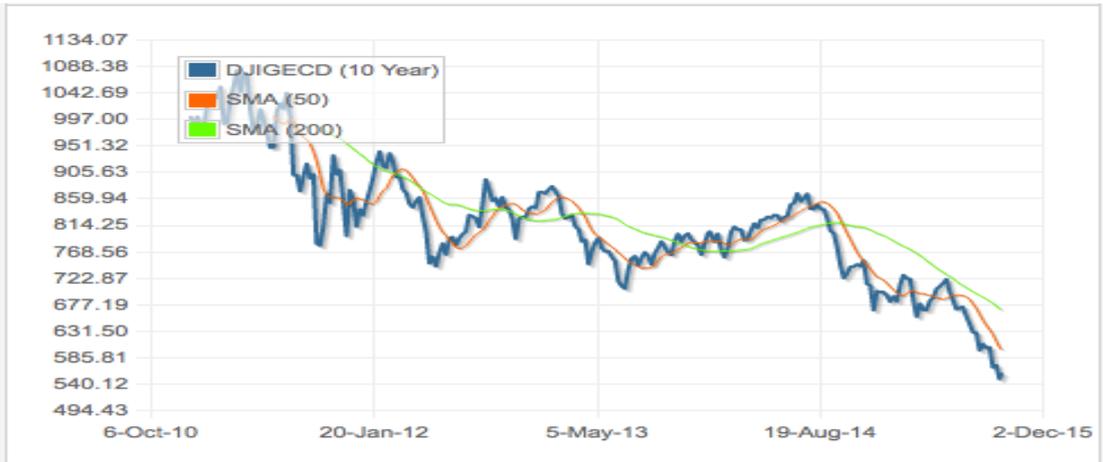


Figure 7.5f: Dow Jones Global Equity Commodity Index (10 Years)

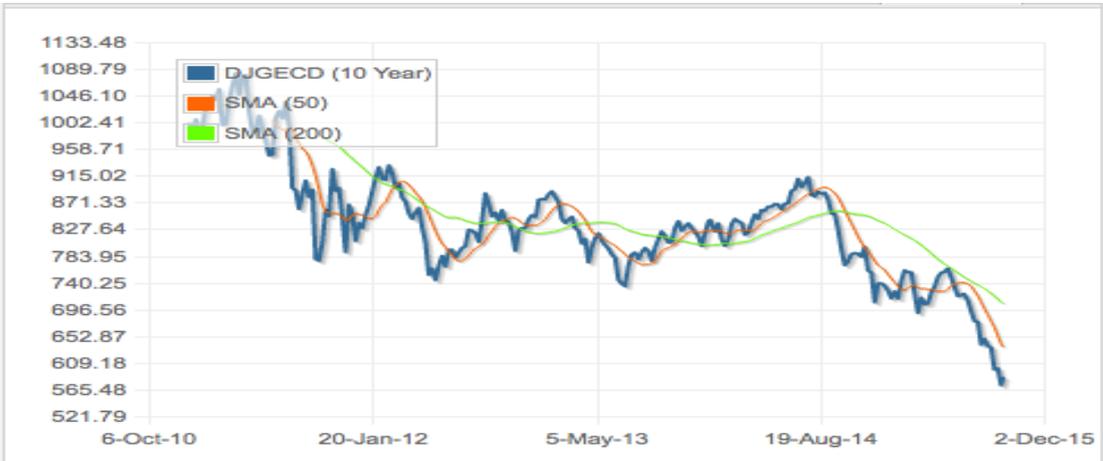


Figure 7.5g: Dow Jones Islamic Market Global Equity Commodity Index (5 Years)

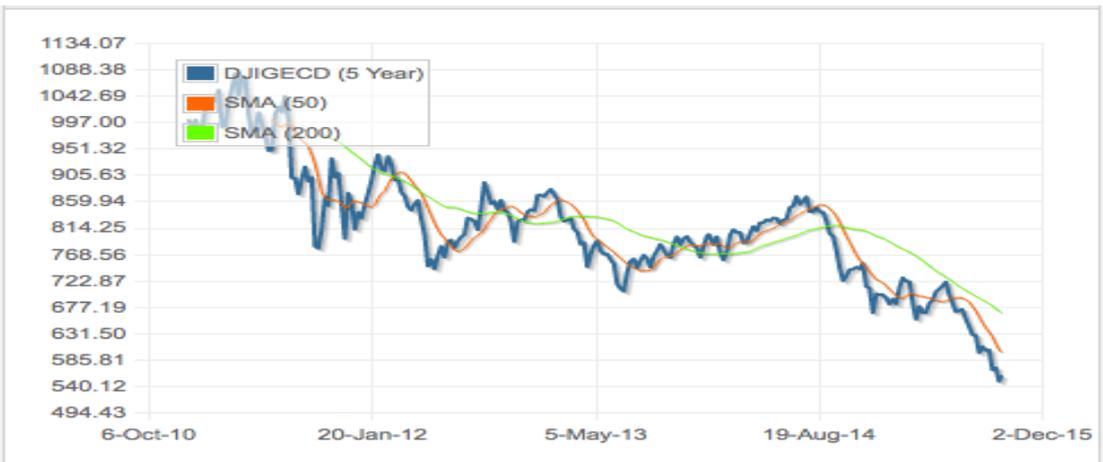


Figure 7.5h: Dow Jones Global Equity Commodity Index (5 Years)

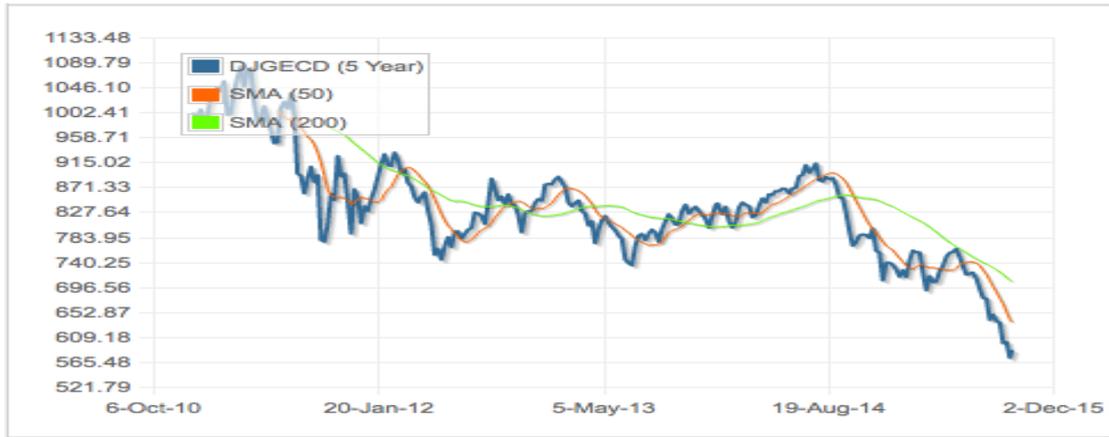


Figure 7.5i: Dow Jones Islamic Market Global Equity Commodity Index (3 Years)

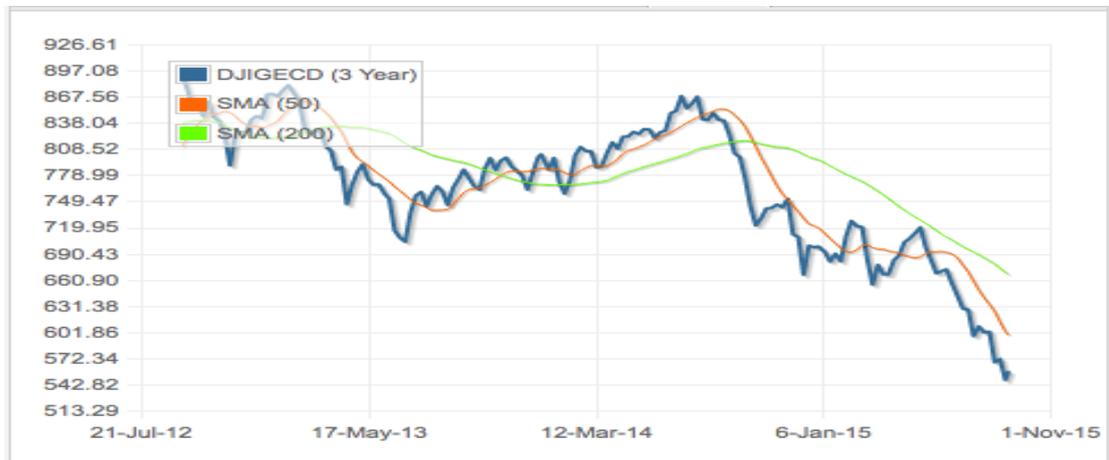


Figure 7.5j: Dow Jones Global Equity Commodity Index (3 Years)

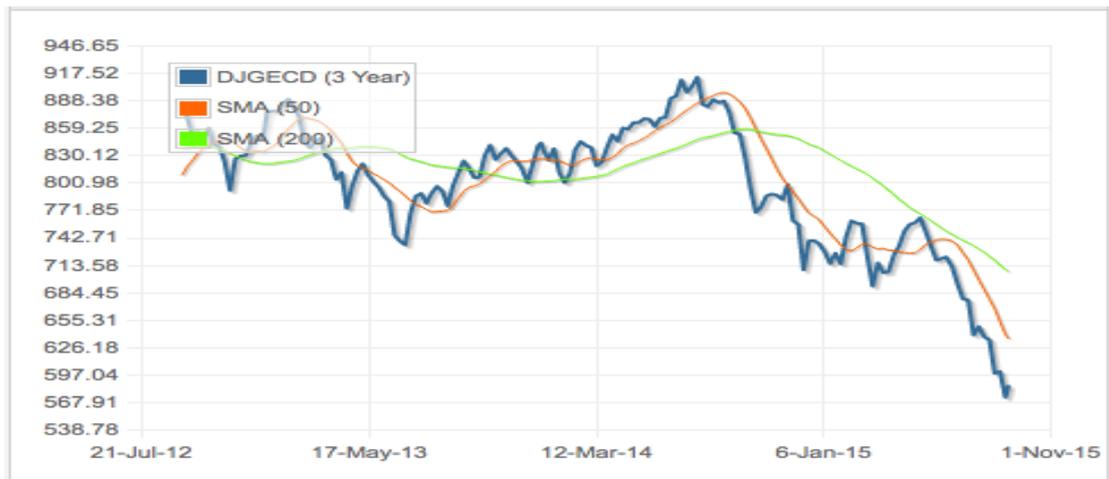


Figure 7.5k: Dow Jones Islamic Market Global Equity Commodity Index (1 Year)



Figure 7.5l: Dow Jones Global Equity Commodity Index (1 Year)



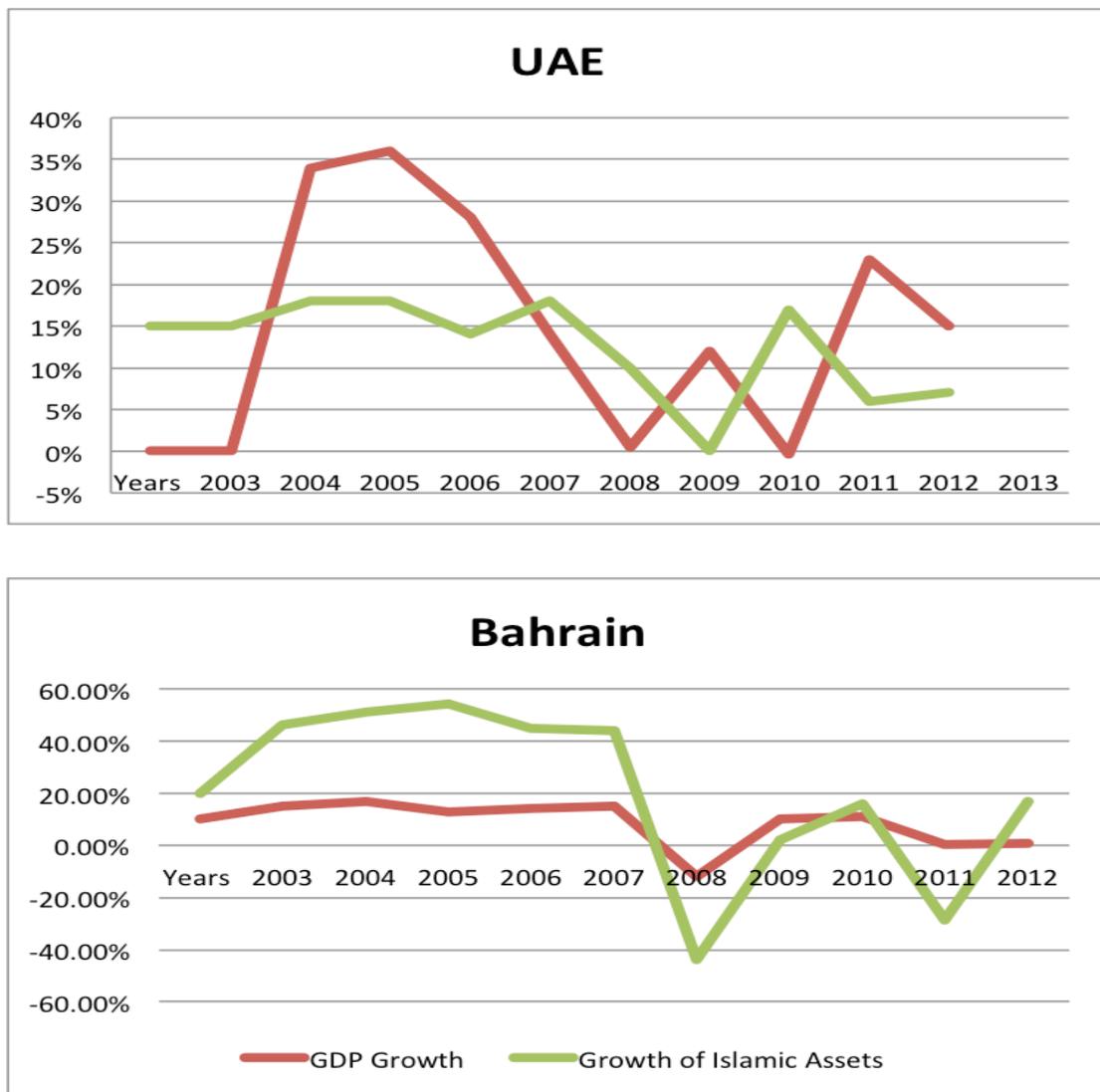
As is illustrated by the Figure 7.5 the movement of the Islamic market index indicates is, however almost identical to those of the conventional ones. This strong correlation confirms mimicking nature of Islamic finance industry, which is also presented during the global financial crisis. Therefore, the reliance on financial performance of Islamic market constitute the main factor of disembeddness in Islamic financial industry.

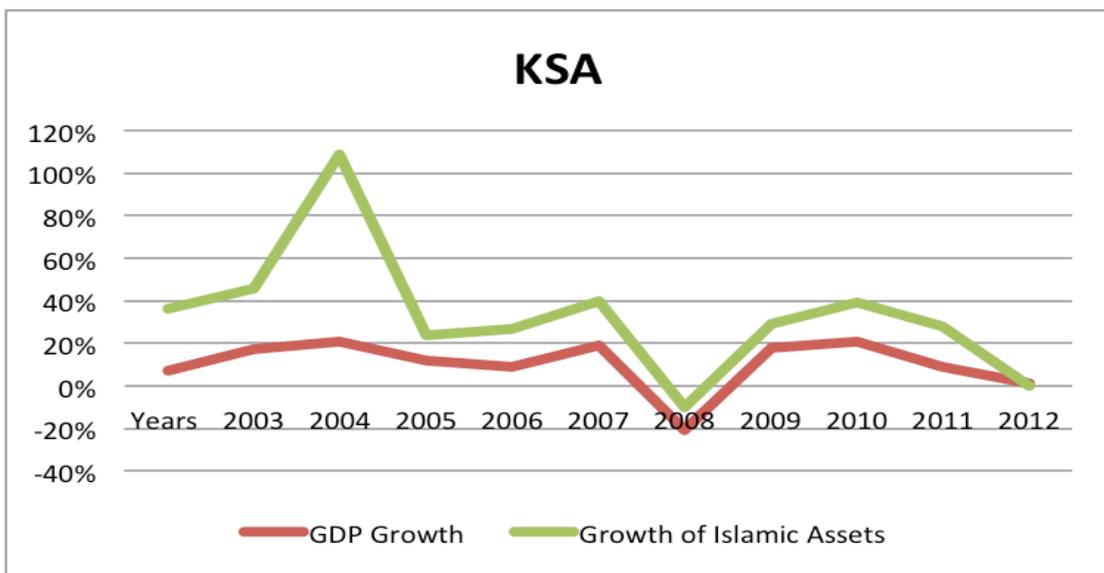
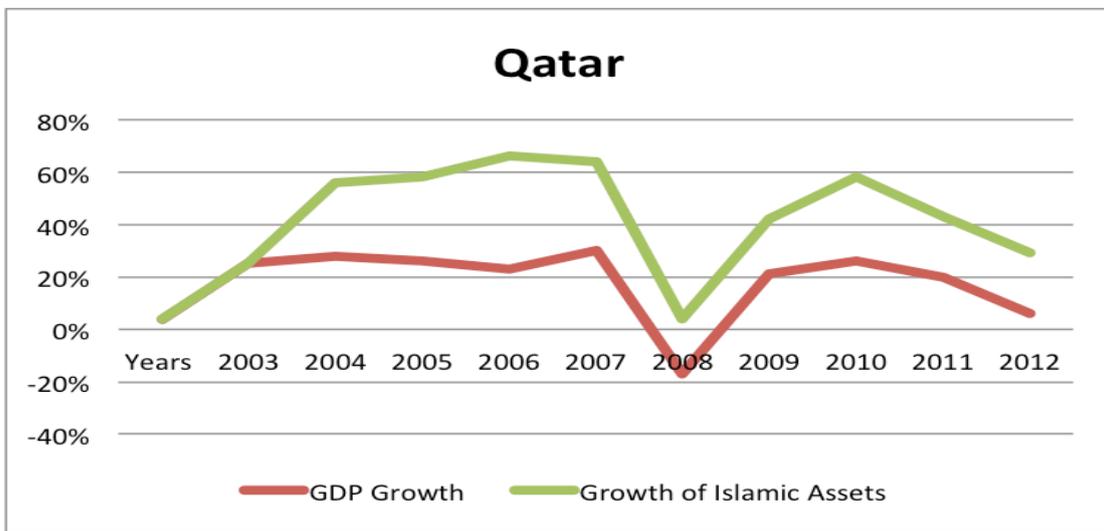
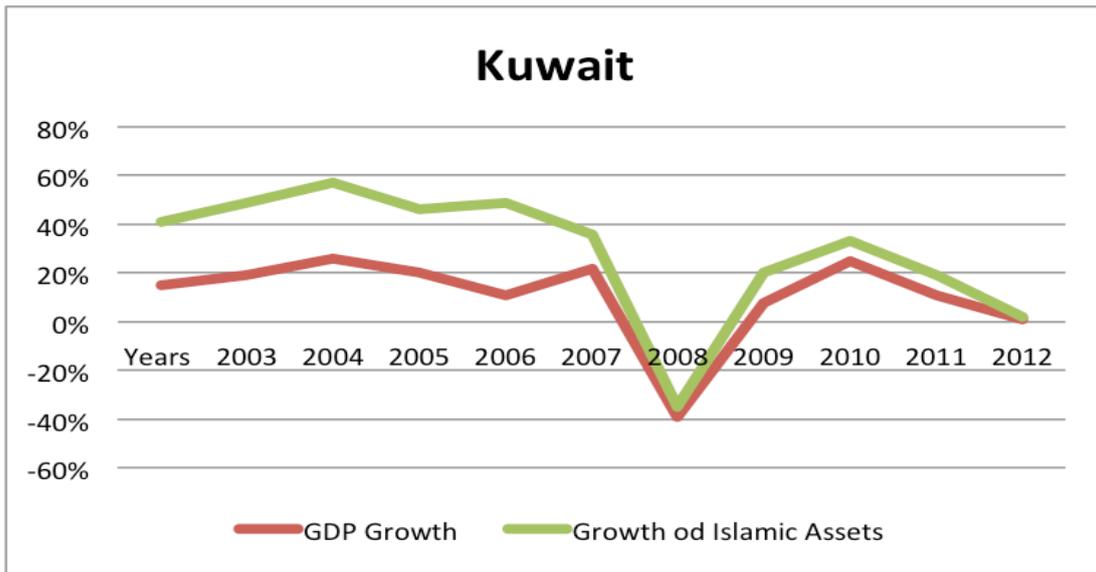
The findings presented in the Figure 7.5, reveals the evidence of high correlation between the financial markets, both conventional and Islamic and hence confirms a reduced connection to the real economy.

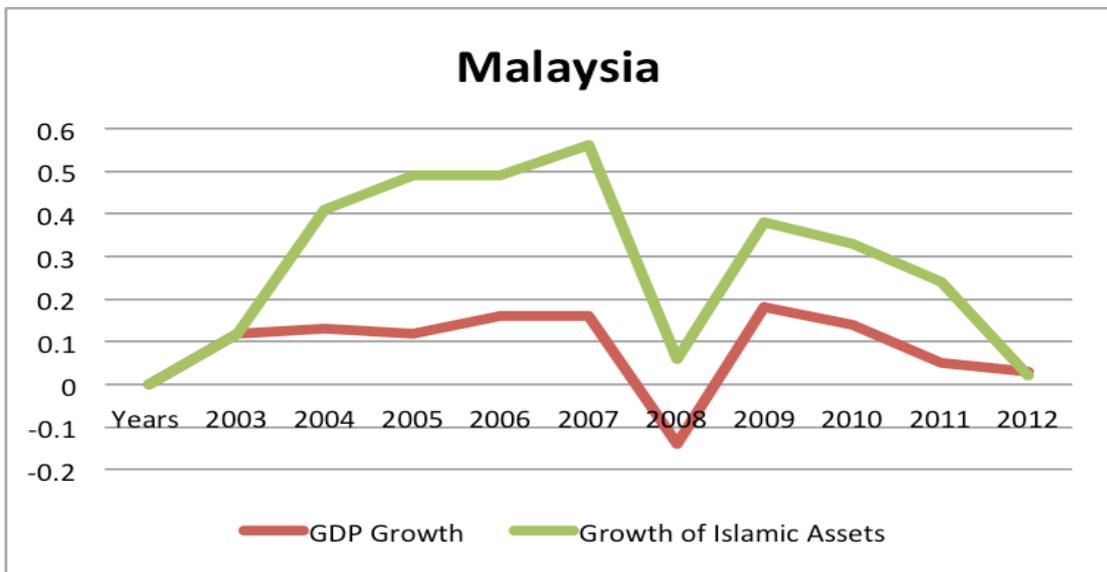
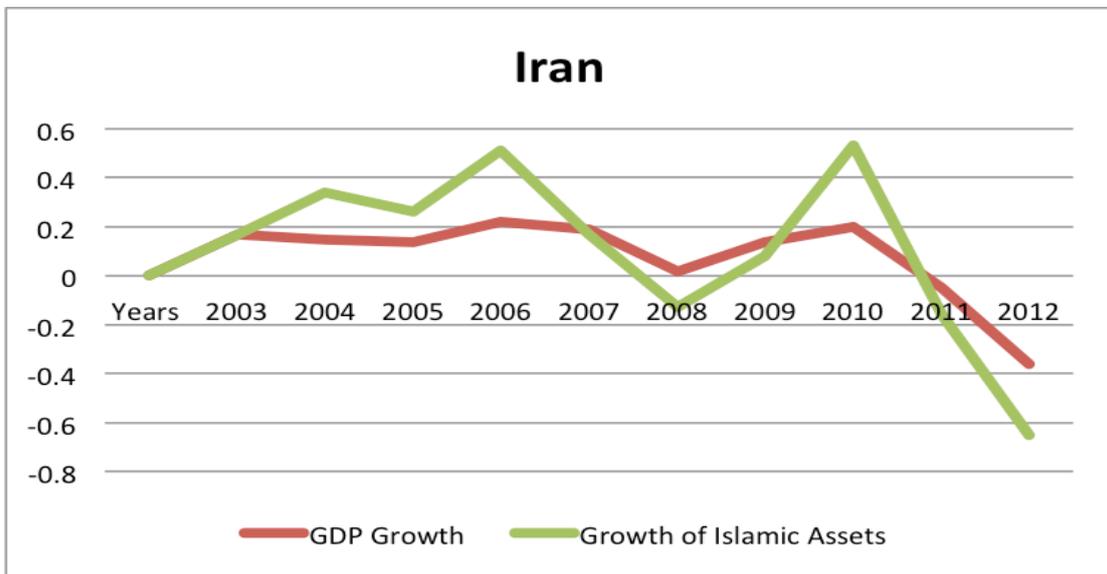
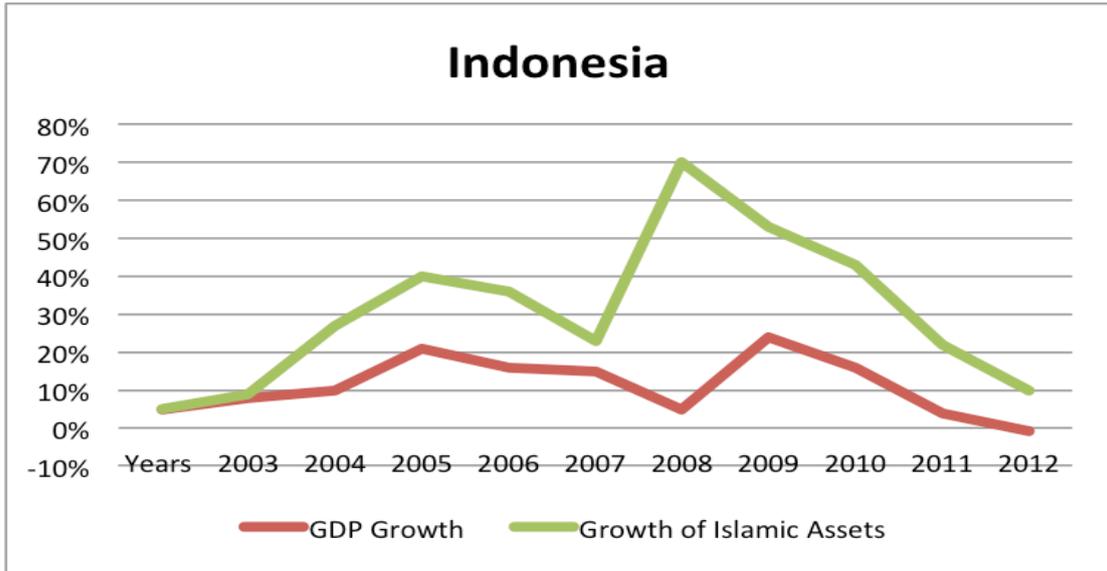
7.5.2.3. Contributions of Islamic finance to economic growth

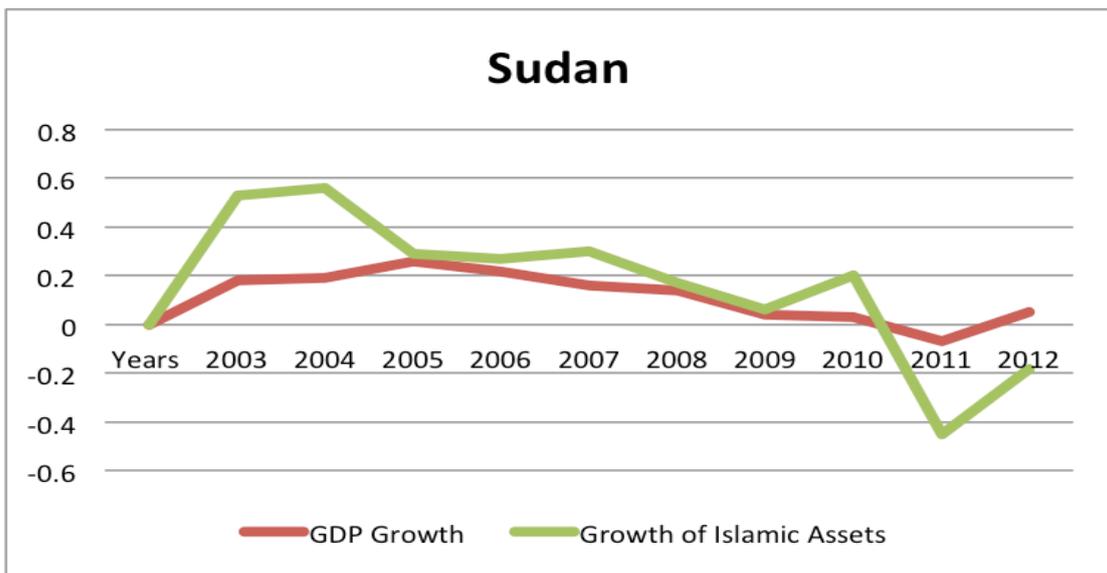
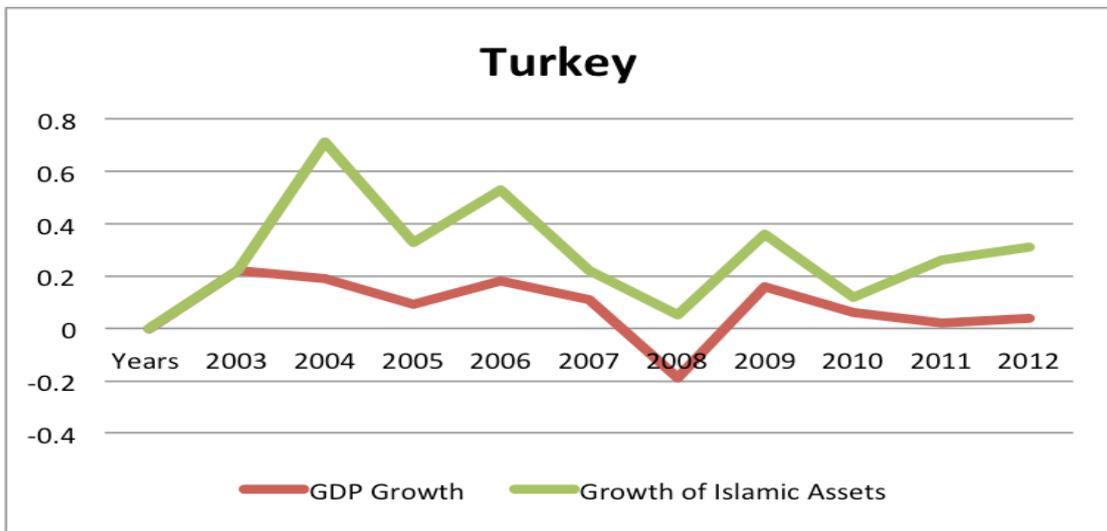
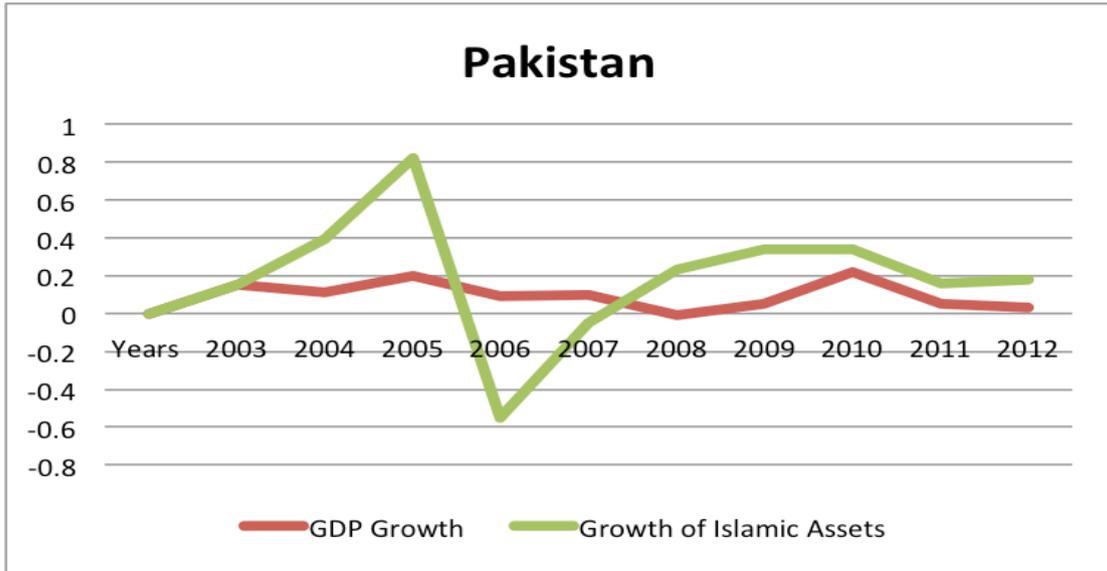
In the further analysing as to how the performance of IBF relates to real economy, in this section the growth of assets of Islamic financial institutions in selected countries are correlated with economic growth in the form of GDP for the sampled countries. The panels of figures under Figure 7.6 and Table 7.10 confirm that the growth of Islamic assets exceeds the growth of real economy before and after financial crises. However, all selected countries, suffered from the fictitious accumulation of assets, thereby indicating the speculative nature of Islamic banking. Aksak and Asutay (2013) also confirm the speculative nature of Islamic finance and identify its core weakness due to the divergence from the ideal of *maqasid al-Shari'ah*.

Figure 7.6: GDP and Islamic Assets Growth









The dichotomous nature of economies separating the real from monetary makes money mere a veil behind which products are exchanged and produced. In such economies, accumulated financial assets have no influence on real economy performance but their speculative growth is the cause of an impending financial crisis.

Table 7.10: Correlation Coefficient Statistics for GDP Growth and Growth of Islamic Assets

Countries	Correlation Coefficient GDP and Growth of Islamic Assets
Bahrain	0.241978099***
Malaysia	0.432336095**
Turkey	0.864426332*
Kuwait	0.480736235**
Qatar	0.548684094*
UAE	0.13343639***
KSA	0.404990073**
Indonesia	0.952418026*
Pakistan	0.167695535***
Iran	0.797533504*

Notes: The effect size of Pearson's correlation +/- .5 it is large (*), +/- .3 it is medium (**), and +/- .1 it is small (***).

In further examining the identified trends in GDP and Islamic financial asset growth nexus in the panel of figures under Figure 7.6, correlation estimates are provided in Table 7.10. As can be seen in the case of middle income countries such as Indonesia, Iran and Turkey, high correlation is found, which can explain the impact of the nature of Islamic financing in these countries. However, in rest of the countries, the association between these two variables are rather low. This provides further evidence for the observed trends and the relations in Figure 7.6.

7.5.2.4. Contribution of Islamic finance to the economic growth and development through sectorial financing

Despite the recent unprecedented growth in IBF sector, it is claimed that the direction has

diverged from the original aspiration and development in the light of *al-maqasid al- Shari'ah* (Ahmed, 2011; 2012). In other words, IBF as the institutional forms of IME, has achieved remarkable financial performance and impressive growth in assets (as evidenced in Table 7.11) and the number of institutions; but has failed to serve the social and developmental needs of Muslim world (Asutay, 2012), as the industry focused only on growth at the expense of equity.

Table 7.11: IBF-Regional and Global Growth Totals (\$ M)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	CAGR 2007-2014 %
GCC	127,826.60	178,129.60	262,665.40	353,237.50	372,484.20	434,893.10	404,896	496,942	561.01	17.81
Non-GCC MENA	136,157.60	176,822.20	248,264	315,090.50	337,948.20	416,382.20	487,426	489,755	537.09	16.47
MENA Total	263,984.2	354,951.70	510,929.40	668,328.50	710,434.00	851,275.30	892,323	986,698	1,098.10	17.51
Sub-Saharan Africa	3039.3	4708	6662.1	8369.7	10,765.10	13,711.10	10,733	10,365	10.56	14.84
Asia	98,709.6	119,346.50	86,360.30	106,797.30	130,904.10	166,652.80	208,482	248,586	259.48	11.34
Australia/Europe/America	20,300.20	21,475.70	35,105.20	38,654.80	42,779.50	53,939.10	54,716	21,704	23.53	1.66
Global Total	386,033.30	500,481.90	639,076.90	822,135.10	894,882.70	1,086,462.90	116,625.5	1267,355	1,391.68	15.73

Data Source: The Banker Special Issue-Islamic Finance (various issues)

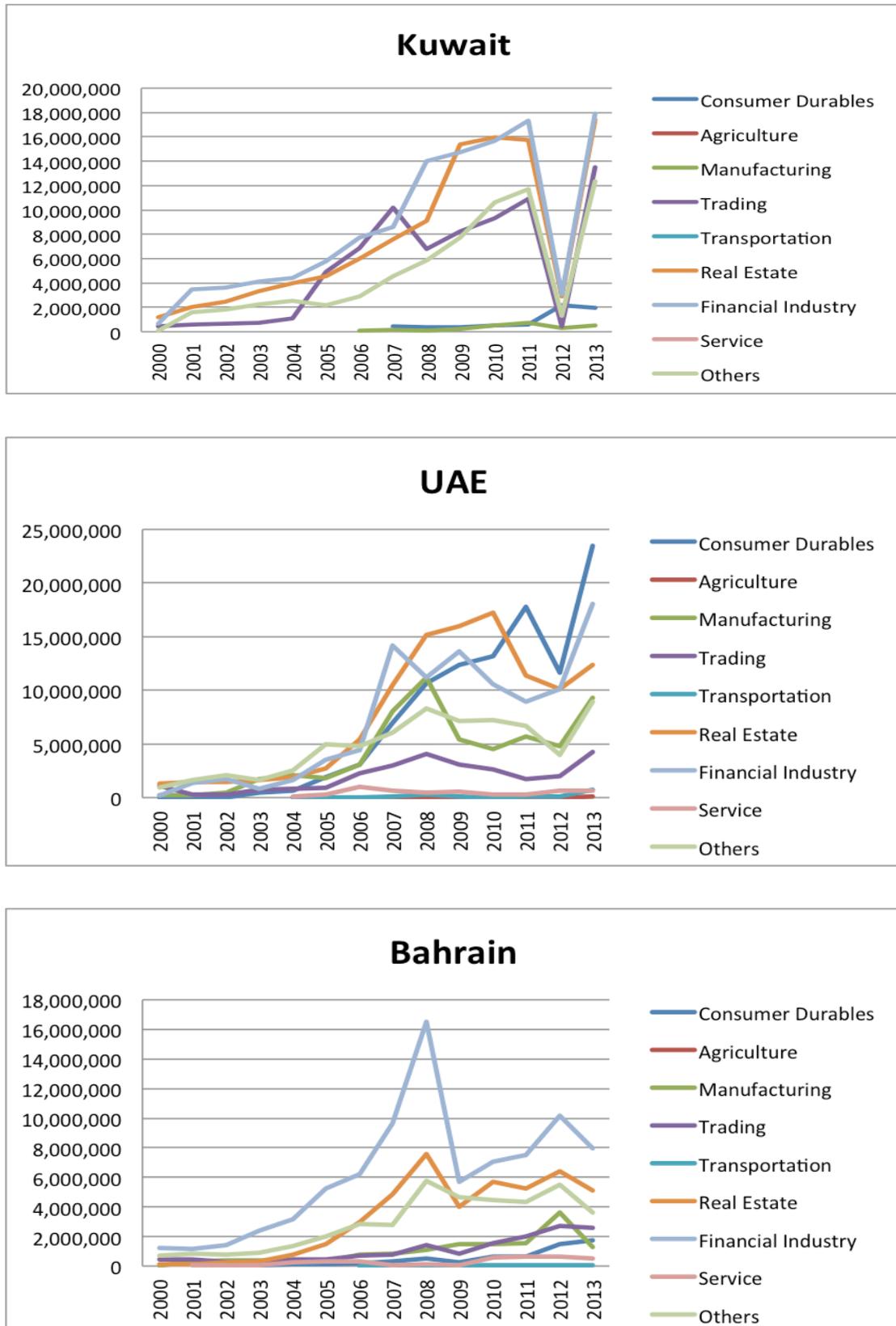
Asutay (2012) illustrates that in terms of economic development: lack of long term financing and specific concentration on real estate sector instead of agriculture, industry and manufacturing, demonstrates that the IBF industry only focuses on financial growth but not to the development.

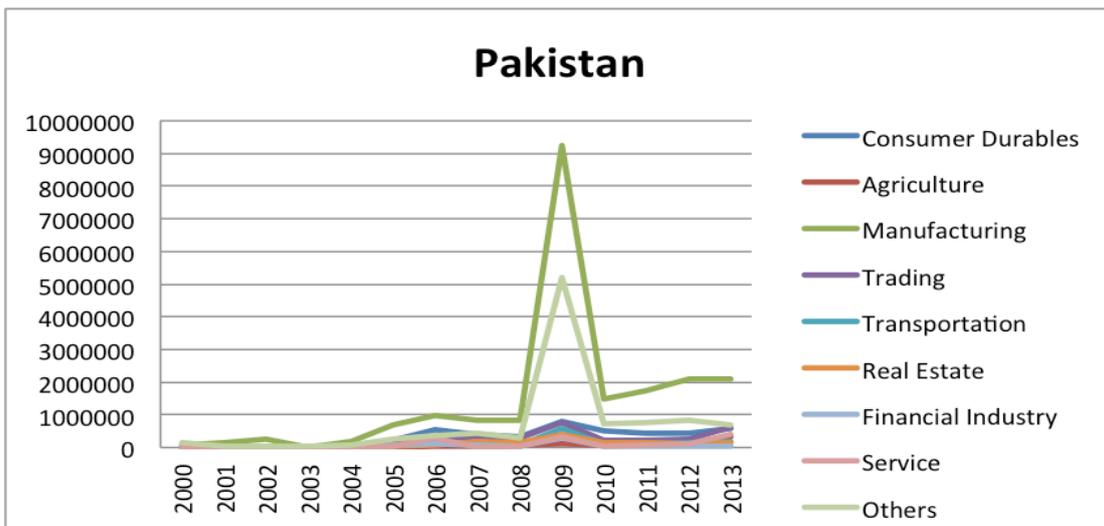
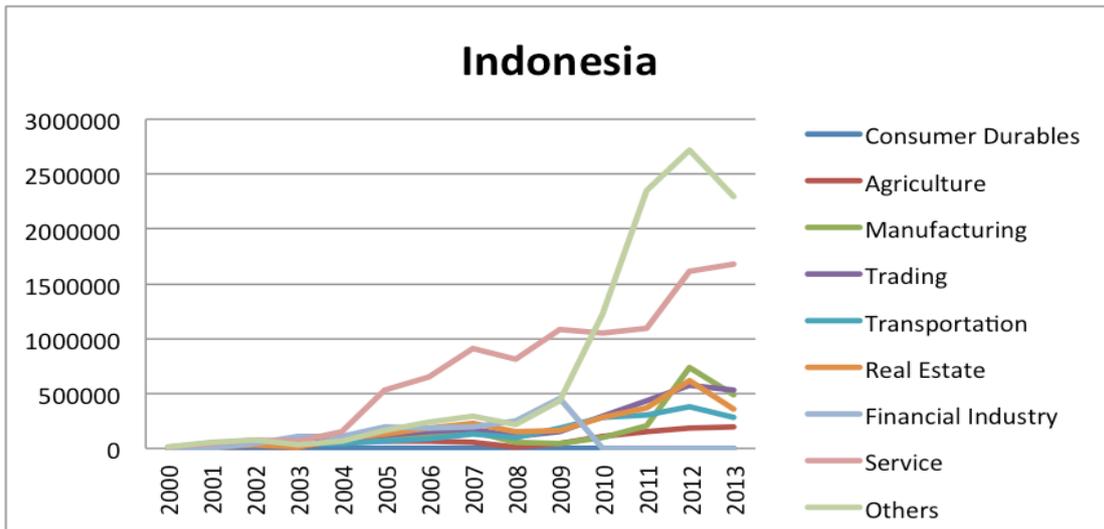
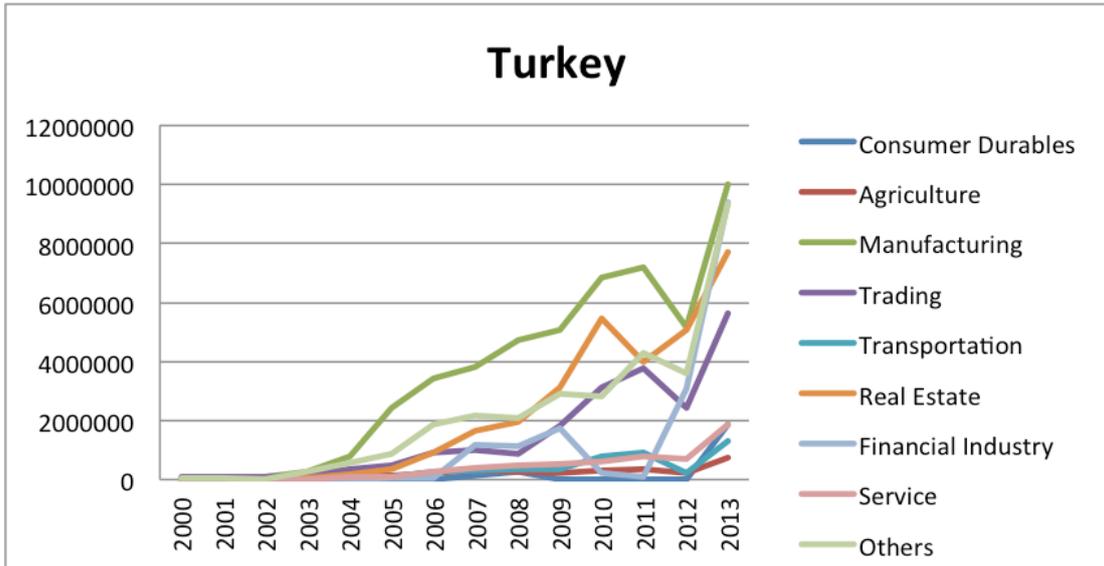
In evidencing this, several studies, among others Aggarwal and Yousef (2000), Iqbal and Molyneux (2005), Hasan (2007), Nagaoka (2007), Khan (2011) and Asutay (2012) examines the sectorial distribution of Islamic banking financing. They all confirm that debt-based financing is dominant feature, while real estate sector, financial sector, consumer durables has become the majority financing areas in the IBF industry and hence financialisation has become driving factor of the industry. Such financialisation can be observed in Table 7.4 depicting instrument based financing in selected countries.

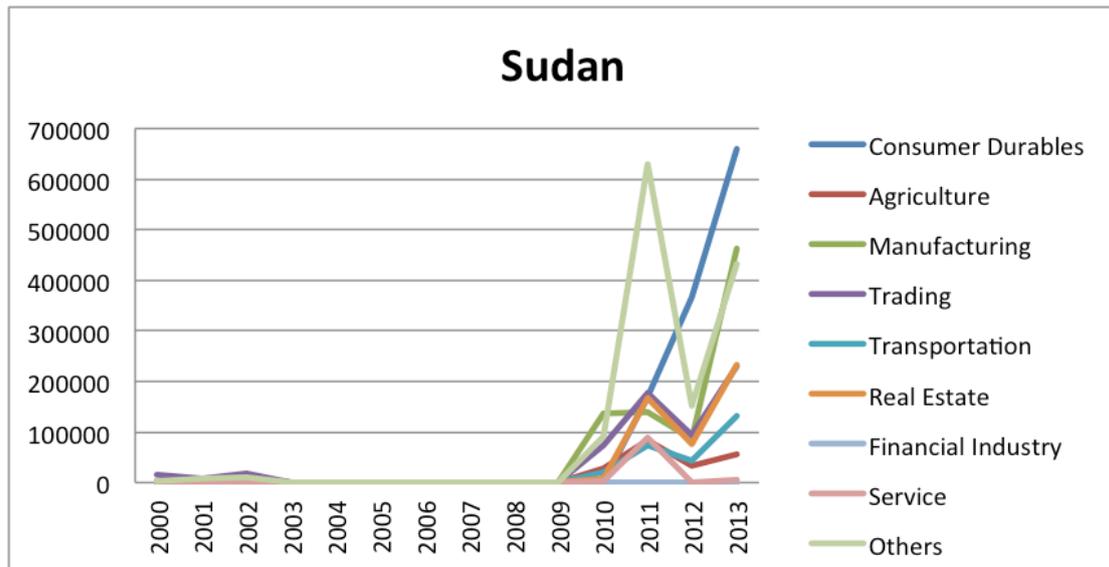
As can be seen in Figure 7.11, Islamic banks, mostly allocated their funds for real estate sector, financial sector, consumer durables. Thus, financialisation of Islamic banking mainly in the GCC model and the Malaysian model is obvious. However, emerging countries, such as Indonesia and Turkey, seems to have different trajectory; as it seems that Turkish and Indonesian Islamic banks provide financing to manufacturing industry contributing to real

economy, as expected. Thus, perhaps Turkey and Indonesia will lead entirely different model of Islamic finance formation.

Figure 7.7: Financing Sectors of Islamic Banks and Industry Formation







Data Source: The Islamic Banks and Financial Institutions Information (www.ibisonline.org)

IME assumes that IBF should be based on the ideal for of asset based financing as opposed to the debt financing, and therefore debt financing is discouraged, as the proposition aims to develop a healthy and stable economy by preventing the financialisation of the economy. Therefore, as mentioned above, theoretically risk sharing and profit-and-loss sharing financial instruments are prioritised to develop a participatory economy. However, empirical evidence indicates that due to the commercial banking model, IBs have moved towards debt-based financing by essentialising *murabahah* and hence leading to ‘*murabahah* syndrome’

Nagaoka (2007) evidences that on average, from 1984 to 2006, *murabahah* instrument financing (mark-up priced financing products, which are debt-based) constituted 88.1% of the mode of financing for the Bank Islam Malaysia Berhad, and 67.3% for the Dubai Islamic Bank for the period of 1988 to 2006. For the same period, however, *mudarabah* and *musharakah* instruments of financing (both joint venture capital products and hence asset-based) remained on the average about 1.7% for the Bank Islam Malaysia Berhad, and 9.3% for the Dubai Islamic Bank (Nagaoka, 2007). In a more recent study, Jan (2011) also provided similar evidences.

In table 7.12, the data shows composition of profit and loss sharing financing combined with *qard al-hasan* financing compare to other debt based modules for selected countries. As can be seen in the table, no country from the sample has financing through *mudarabah* between 2007-2013. As for the PLS *musharakah* model it is hardly used across the sample

countries. Data for Kuwait and Turkey shows that these two countries do not use *musharakah* at all. On the other hand, Indonesia and Sudan have above quite significant use of *musharakah* model above 10%. Overall, both *musharakah* and *qard al-hasan* modes of financing constituting less than 1% on average between 2007-2013 in Kuwait, KSA and Qatar, 1-5 % in UAE, Bahrain, and Malaysia, and above 5 % in Indonesia, Pakistan and Sudan.

Despite that Indonesia, Pakistan and Sudan Bank have substantially higher use of *musharakah* and *qard al-hasan* compare to other countries, debt-based modules of *murabah* and *ijarah* composite the majority of financial products across all countries in the sample. The data confirm that more than 70% of financial products are based on debt-based instruments except for Indonesia where debt-based products come less than 50% across the examined years. Perhaps this also confirms that Indonesian Islamic finance industry is closer to aspirational form IME than the other countries.

Table 7.12: Distribution of PLS and Debt Financing Methods in Selected Countries

Countries	IBF Instruments	2007	2008	2009	2010	2011	2012	2013
Kuwait	<i>Musharakah</i>	N/A						
	<i>Mudarabah</i>	N/A						
	<i>Qard alhasna</i>	N/A						
	<i>Murabaha</i>	79.78 %	72.73 %	83.39%	86.91%	86.96 %	85.90 %	83.80 %
	<i>Ijara</i>	16.93 %	21.26 %	19.65 %	17.94 %	17.95%	17.83 %	19.28 %
	<i>Salam</i>	N/A						
	<i>Istisna</i>	5.67%	11.12%	2.96 %	2.21 %	1.70 %	1.26 %	1.58%
UAE	<i>Musharakah</i>	3.89%	7.13%	7.22%	6.18%	4.65%	3.85%	2.87%
	<i>Mudarabah</i>	N/A						
	<i>Qard alhasna</i>	0.02%	0.04%	0.06%	0.10 %	0.17 %	0.15%	0.05%
	<i>Murabaha</i>	61.21%	49.38%	47.39%	43.01%	39.42%	48.93%	48.65%
	<i>Ijara</i>	22.42%	27.54%	32.11%	40.81%	45.35%	42.58%	43.50%
	<i>Salam</i>	N/A	N/A	N/A	0.88%	2.19%	2.50%	3.03%
	<i>Istisna</i>	5.62%	6.14%	6.45%	5.45%	5.00%	3.03%	2.35%
Bahrain	<i>Musharakah</i>	2.34%	3.07%	4.13%	5.59%	5.89%	8.74%	5.38%
	<i>Mudarabah</i>	N/A						
	<i>Qard alhasna</i>	5.02	5.29%	0.01%	0.00%	0.00%	0.00%	N/A
	<i>Murabaha</i>	104.20%	82.08%	69.56%	82.35%	82.28%	40.90%	69.41%
	<i>Ijara</i>	15.35%	12.61%	16.16%	16.03%	15.85%	37.37%	23.04%
	<i>Salam</i>	N/A	N/A	N/A	N/A	N/A	N/A	0.39%
	<i>Istisna</i>	2.18%	0.02%	0.13%	0.21%	0.02%	0.07%	0.16%

Saudi Arabia	<i>Musharakah</i>	1.13%	0.82%	0.75%	0.73%	0.50%	0.60%	N/A
	<i>Mudarabah</i>	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	<i>Qard alhasna</i>	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	<i>Murabaha</i>	99.64%	168.03%	160.81%	97.49%	98.26%	97.35%	97.13%
	<i>Ijara</i>	0.32%	0.38%	0.34%	0.23%	0.17%	0.20 %	N/A
	<i>Salam</i>	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	<i>Istisna</i>	2.07%	1.31%	0.82%	0.29%	0.00%	N/A	N/A
Malaysia	<i>Musharakah</i>	0.51%	0.44%	0.62%	1.90%	2.49%	3.88%	4.73%
	<i>Mudarabah</i>	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	<i>Qard alhasna</i>	0.23%	0.17%	0.09%	0.03%	0.001%	0.02%	0.00%
	<i>Murabaha</i>	73.43%	66.04%	64.84%	63.53%	61.07%	61.52%	60.39%
	<i>Ijara</i>	21.88%	27.31%	26.77%	23.81%	22.51%	20.68 %	24.19%
	<i>Salam</i>	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	<i>Istisna</i>	2.17%	1.12%	0.90%	0.72%	0.50%	0.26	0.17%
Qatar	<i>Musharakah</i>	0.09%	0.00%	0.63%	0.33%	0.15%	0.14%	0.43%
	<i>Mudarabah</i>	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	<i>Qard alHasna</i>	0.01%	0.0%1	0.00%	0.00%	0.00%	N/A	N/A
	<i>Murabaha</i>	72.11%	47.61%	67.39%	73.28%	79.97%	79.75%	77.28%
	<i>Ijara</i>	23.37%	19.83%	19.13%	15.98%	14.33%	16.49 %	19.24%
	<i>Salam</i>	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	<i>Istisna</i>	11.00%	6.71%	6.62%	5.83%	4.97%	3.47%	2.51%
Turkey	<i>Musharakah</i>	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	<i>Mudarabah</i>	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	<i>Qard alhasna</i>	20.00%	N/A	N/A	N/A	N/A	25.21%	N/A
	<i>Murabaha</i>	66.91%	85.66%	90.30%	98.87%	98.15%	73.47%	98.83%
	<i>Ijara</i>	4.27%	2.97%	1.33%	0.77%	1.23%	1.01 %	2.75 %
	<i>Salam</i>	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	<i>Istisna</i>	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Indonesia	<i>Musharakah</i>	20.73%	24.55%	16.84%	17.31%	16.18%	15.10%	19.42%
	<i>Mudarabah</i>	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	<i>Qard alhasna</i>	3.53	3.47%	2.86%	5.44%	9.67%	6.26%	4.09%
	<i>Murabaha</i>	50.29%	51.12%	29.79%	34.46%	37.65%	41.38%	41.10%
	<i>Ijara</i>	0.47%	0.02%	1.12%	1.02%	0.44%	0.27 %	0.22%
	<i>Salam</i>	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	<i>Istisna</i>	1.49%	1.05%	0.50%	0.20%	0.16%	0.08%	0.06%
Pakistan	<i>Musharakah</i>	6.13%	9.80%	9.98%	10.85%	12.51%	14.85%	18.29%
	<i>Mudarabah</i>	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	<i>Qard alhasna</i>	0.00%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%
	<i>Murabaha</i>	72.96%	72.32%	76.48%	75.49%	73.52%	67.92%	67.34%
	<i>Ijara</i>	18.43%	16.06%	11.76%	12.58%	10.60%	10.01 %	10.60 %
	<i>Salam</i>	0.27%	0.59%	0.55%	0.51%	1.09%	1.17%	2.39%
	<i>Istisna</i>	0.07%	0.97%	1.82%	4.61%	8.03%	9.15%	11.88%
Sudan	<i>Musharakah</i>	14.93%	15.20%	11.11%	13.04%	12.63%	9.20%	12.67%
	<i>Mudarabah</i>	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Qard alhasna	0.11%	0.19%	0.04%	0.01%	0.05%	0.01%	N/A
Murabaha	65.21%	62.67%	64.20%	57.40%	60.22%	63.66%	49.55%
Ijara	0.47%	0.41%	0.42%	0.48%	0.55%	0.71 %	N/A
Salam	0.20%	0.80%	0.26%	0.29%	0.18%	0.38%	0.08%
Istisna	3.28%	4.36%	3.71%	5.62%	10.67%	5.66%	10.78%

Data Source: ifsbonline.org

It can easily be concluded from the analysis that utilization of *musharakah*, *mudarabah* and *qard al- hasan* is insignificant compare to the overall development of the country or banking sector. As the dominance of financialisation within the industry PLS instruments *mudharabah* and *musharakah* have been given up and replaced with *murabahah* syndrome and more recently with *tawarruq* syndrome. This sends a message that IBF replicates the conventional products to serve the market, instead of the society (Ahmed, 2011) and the real economy, and hence diverge from the expectation as Islamic economic manifestation (Asutay and Aksak, 2013).

In short, the remarkable financial performance of IFIs in terms of growth (Table 7.11) does not mean that the industry is moving in the right direction, the compromise on the foundational issues in terms of developmentalist consequences bring into question the credibility of IBFs. It can therefore be argued through critical analysis of the progress, expansion and performance of Islamic banks that the values and norms of IBF are compromised for the ‘financialisation’ through financial engineering, which helped to endogenise the problems of ‘current financial system’ into the IBF realm. It is therefore important to make reference to norms and values of IBFs as formulated by the IME, which give meaning to the ‘Islamicness of IBF’. For this, the framework of IME should be articulated and IBF should be located within this framework in order to express the distinguishing nature of IBF as a value proposition.

7.5.3. Testing Legitimacy, Sustainability and CSR Practices of Islamic Banks

The assessment of legitimacy of Islamic financial institutions based on *maqasid*, infers that several additional factors should be separately considered in assessing their performance as endogenous factors, such as sustainability and corporate social responsibility (CSR) practices. As by definition of ‘Islamicity’ in IBFIs requires such outcomes as necessitated by *maqasid* should be direct consequence of IBFIs, while for conventional banks and financial institutions they may remain as endogenous expectations. IME and IPE normative world of

IBFIs directly require such endogenised consequences so that the legitimacy of IBFIs can be achieved.

As for sustainability which relates to CSR practices, the human ecosystem completely depends on ecology of this planet, and as many studies cited by Naveh. (2005:230-31) suggest that the biggest threat to human ecology, communities and its perseverance is from the environmental changes; therefore, they directly effect the scope of preservation of *maqasids*, as the extent of damage to human preservation by environmental changes is colossal. Consequently, sustainability must be an endogenous consequence of IBIFs which, by definition, provides legitimacy. In theological terms, the notion of sustainability is an extrinsic good, which draws so much value from the tenets of Islamic thought that is to be viewed as intrinsically good; similar to the philosophical intrinsic goodness in *wudhu* (ablution) in relation to original intrinsically good prayers.

Without the sustainable environment, none of the *maqasids*, can be preserved, therefore it may be inferred that sustainability is an unconditional public goodness of utmost importance. The goodness in sustainability is not only drawn from the *maqasids*, as the notion of sustainability is also warranted by all the major tenets of Islamic creed. The theological premises that humans are vicegerent of God (Idris, 1990:99) is the tenet that strongly supports the notion of sustainability, as this premises puts the burden of responsibility for preserving the environment and ecology directly on human beings, making it a collective duty with attached implications in the hereafter. In other words, as discussed before, *tawhidi* knowledge base and paradigm requires sustainability to be achieved, as complementarity of everything in the world is essential. In addition, as explained in detail previsouly, *tazkiyah* and *rububiyah* axioms necessitates sustainability. Furthermore, beyond theological debates, and within the Islamic legal theory, the sustainability is justified on the same principle.

Many studies in recent years, as surveyed by Harte (2007:223), have concluded that the human factor is responsible for majority of specie extinction and current environmental degradation. This deterioration in the environmental conditions is not only a threat to ecological systems of our planet, but also peril of extinction for communities and societal as known to human beings, as human beings are the cause of all this, therefore the analogical

comparison of this could be made to a unconscious communal suicide of humanity, which would be subject to *fiqhi* rulings similar to individual suicide in Islamic law.

The authorities and reasoning on, which the notion of sustainability can be based on in Islamic thoughts, require that sustainability be redefined from the point of view of the traditions. The responsibility of humans as vicegerent makes them responsible for all matter, therefore sustainability for Islamic thoughts is not just about maintenance of current state of planetary environment, but it also includes the depleting in the damaged done to the ecosystems, and safeguarding of all the species, and preservation of their habitat in a proactive manner as *rububiyah* and *tazkiyah* axioms necessitate.

Inclusion of sustainability in the measures that give legitimacy to Islamic financial institutions, does not infer that IBFI's are directly responsible for the sustainability of planet earth; instead what it infers to is that measurement of IBFIs' legitimacy should incorporate the initiative the institution takes for improvement in environmental conditions. The measurement of a value of a business based on their sustainability performance is not an unfamiliar concept in the business industry, and many companies are using environmental cost accounting as part of their financial measurement system, such as Baxter International Inc. for last two decades have been using different methods of assessing its performance by measuring the environmental initiatives, within its operations (Sustainability Report, 2013). The argument for environmental cost accounting for the operations of IFBIs is not just theological, as it also has economical importance, as KPMG's International Survey on Corporate Responsibility Reporting highlights sustainability as the most common driver that is (Ferguson, 2009:23): "directly linked to increased shareholder value or market share, or indirectly linked through increased business opportunities, innovation, reputation and reduced risk (39% reported improved shareholder value and 21% increased market share as an important reason for sustainability)". Therefore, it is in the institutional interest of Islamic financial institutions to incorporate sustainability as part of measuring the business value.

In support of sustainability risk, the critical analysis of the performance of IBFIs evidences that CSR performance has been rather weak and poor despite the fact that most of these studies did not consider environmental factors in evaluating CSR performance of IBFIs. Among others, Sorially (2005), Dusuki (2007), Hanifa and Hudaib (2007), Hassan *et. al.*

(2010) and Mohd Noor and Asutay (2011) provide evidence for the lack of CSR initiatives in the IBFIs indicating that IBFIs have failed to develop a pro-active engaging in CSR activities despite that fact that it should be considered as an endogenous value system and outcome. In particular, Sorially (2005) and Dusuki (2007) show that the CSR perception of IBFIs remain within the framework of *zakah* distribution and other non-systemic charitable activities.

The study conducted by Maali *et al.* (2006) using the *fiqhi* based index for examining the level of the social disclosure of twenty-nine Islamic banks from sixteen countries also confirms that Islamic banks pay less importance to social matters. It also concludes with a discouraging statement stressing, “Islamic banks have some way to go in meeting the expectations of the Islamic community” (Maali *et al.*, 2006: 286).

In terms of CSR indices, Haniffa and Hudaib (2007) have laid the ground by measuring the reported ethical identity of Islamic banks with an ideal ethical identity within the *fiqhi* framework. Their study revealed that Islamic banks in the GCC region do not put enough effort into communicating information in a consistent manner and ensuring equivalence between the CSR disclosure practices in the annual report and the moral benchmark based on *Shari’ah*. Later on, many studies followed the methodological framework of Haniffa and Hudaib (2007) such as the study by Hassan *et al.* (2010), which extended the research through investigating the impact of ethical identity index on the market value of Islamic banks in the sample. The results of the research indicate significant variations in the levels of disclosure communicated by Islamic banks in Bangladesh. Also, study by Zubairu *et al.* (2011) evaluates the CSR disclosure of four Islamic banks in Saudi Arabia. The findings of this research indicate a poor level of CSR disclosure practices by Islamic banks in Saudi Arabia. Additionally, Hassan and Harahap (2011) investigate the CSR disclosure of seven Islamic banks from Bahrain, Bangladesh, Indonesia, Malaysia, Saudi Arabia, Kuwait, and the United Arab Emirates through analysing the annual reports of banks and constructing the CSR disclosure index based on the Islamic business ethics framework. The results of this study also indicate that CSR-related issues are not the top priority of the agendas of Islamic banks. Moreover, Kamla and Rammal’s (2010) study examines the role of social justice played by Islamic banks. Annual reports of ten Islamic banks from different countries are analysed by the ‘explicative content analysis technique’. The results of the study confirm

the absence of information related to social justice from the annual reports and websites of Islamic banks. This stipulates that explored disclosures by Islamic banks do not indicate that Islamic banks have serious schemes targeting poverty elimination or enhancing social justice in society (Kamla and Rammal, 2010). The mentioned studies are in line with the findings of Hanifa and Hudaib's (2007) research, establishing the existence of a significant gap between the theoretical and ideological claims of Islamic finance industry and the actual reality as this paper also elucidates upon.

In addition to ethical index based on *fiqhi* framework of Haniffa and Hudaib (2007) other studies take the *maqasid al shari'ah* as a measuring stick for the social responsibility of Islamic banks (Lladin and Furqani, 2013; Bedoui and Mansour, 2015; Asutay and Harningtyas, 2015). The *maqasid* framework, as it is mentioned, encompasses safeguarding of life, intellect, faith, lineage and property by all means (Kamali, 2008). Bedoui and Mansour (2015) propose that in an ideal business setting, all five dimensions of the *maqasid* would be fulfilled to the maximum extent should the ecology and the stakeholder's right are taken into consideration; this was empirically tested in Asutay and Harningtas (2015). However, they extend the Ghazalian *maqasid* frame by introducing 'ecology and stakeholders rights' through an extended *maqasid* index to evaluate the *maqasid* or moral performance of Islamic banks. Their *maqasid* index is an extended version of the initially developed index by Bedoui and Mansour (2015). The presented results confirm unimpressive performance of Islamic banks from six countries. The highest score was recorded for Indonesian bank (BSM) with 59.41% out of 282.84%; whilst the least score of 7.01% is given to EIIB. Meanwhile, for the country performance, Indonesia is leading with 56.83%, followed by Pakistan, Malaysia, Turkey, Qatar and United Kingdom (Asutay and Harningtyas, 2015). Hence, the study evidenced very low social performance despite their ethical identity.

On the other hand, Lladin and Furqani (2013) suggest that the *maqasid* do not necessarily pertain to the five dimensions mentioned above, but rather translate into the ends of Islamic finance, which are defined as wealth circulation, fair and transparent financial practices and justice in the macro- and micro-level, in the sense of individual and societal level. Therefore, they suggest development of Islamic finance on *maqasid* foundations in order to realise its full potential as a system without providing only simplistic means for doing financial business or stopgap means of surviving the crises.

The main difference between *fiqhi* and *maqasid* based indices as presented here is that the former mainly islamizes the existing criteria and indices by including *zakah*, whereas later brings proactive articulation of morality and introduces the consequentialist methodological framework in the CSR analysis.

An interesting example for the social failure of IBFIs within *maqasid* framework is in their investment attitude, which is expected to be shaped according to ethical expectations of Islam. However, the evidence shows that they are not much different than the conventional banks and financial institutions. For example, the infamous Zamzam Towers in Makkah can be considered as an example in the ‘social failure’ of IBFIs, which were built just in the very close proximity of Kabah, the most holy place in the Muslim land and the direction of prayers. Zamzam towers were built by the financing facilitated by Islamic finance to provide up-market luxurious accommodation for high-net-worth pilgrimages. However, the project is not socially and religiously right; as it undermines equal opportunity in this most holy place; undermines the spirituality and the historicity of the place and damages the environmental nature of the place. A personal discussion with the financiers and the *Shari’ah* scholar who approved the financing of the project however indicates that they even failed to consider such issues in their decision-making. In other words, their decision-making process is based on efficiency, and equity and also CSR issues did not even cross their mind. This is indeed a disturbing issue, as conventional banks do withdraw from projects due to their social costs, yet IBFIs even would not attempt to understand such matter let alone withdrawing from such projects. Similar other projects can be given as examples in IBFI financing ignoring the extended CSR and sustainability issues, which questions the legitimacy by paving the way for social risks discussed above including legitimacy risk, trust risk and *Shari’ah* risks.

7.6. CONCLUSION

As discussed in detail in this chapter, and, in particular in this research, in the origin, as expressed by Islamic moral economy, IBFIs has a role to play in developmentalism – human, social and individual development. Thus, Islam as a prefix in Islamic finance suggests a worldview and value system, which, therefore, distinguishes IBFIs from conventional finance, otherwise, operational differences do not constitute a particular distinction; as they are expected to be part of a Islamic social formation, and develop and

work within an Islamic modes of production, and hence to generate an emergence science in the form of embeddedness based on productive and redistributive frame. Therefore, in analysing the performance of Islamic banks and financial institutions, financial analysis and the related risk areas will not provide a comprehensive understanding of their contribution. For this, social performance but also the social risks areas it faces should be considered as part of the expanded performance and risk areas. Therefore, the implicit social risks areas suggested by this paper completes the system in the sense of financial, managerial and operational risks and performance areas are complemented by social risks areas. These implicit social risks emerges in relation to the origin being expressed in IME and IPE, which are legitimacy, credibility, *Shari'ah*, trust and sustainability risk. This methodological shift in endogenising social risk areas requires definition of *maqasid* performance; as this study argues that IBFIs cannot and should not be only evaluated in relation to its financial performance due to the ontological-moral economy reasoning.

This paper presents a detailed examination of the IBFIs performance in relation to the identified implicit social risk areas. As the evidence depicts and suggests IBFIs social, developmentalist and moral performance does not indicate a success as can be seen in their financial performance. In terms of their link with real economy, economic growth, economic development and financialisation, as the evidence shows the implicit or social risk areas have become rather essential. Because, if IBFIs cannot be different in terms of their operations and outcomes from the conventional finance, then, they are facing *masdaqiyah* or credibility risk, as they will lose their credibility of being different and distinct in terms of ontology and social formation. This immediately leads to *shariyya* or legitimacy risk, as there are already questions on the legitimacy of the current practice of IBFIs beyond form oriented understanding in relation to aspirational and *maqasid* expectations. This, consequently, results in IBFIs to face *Shari'ah* risks implies, as IBFIs' transactions and operations seems not to comply with Islamic precepts and aspirational principles beyond form compliancy. In this, *Shari'ah* is considered as the culmination of 'form and substance' and not only as 'form compliancy'. In turn, credibility, legitimacy, and *Shari'ah* risks will result in trust or *thiqah* risk, as customers and investors' religious trust in the operation of IBFIs will be adversely affected and diminishes, as they have generated important concerns in relations to fulfil such trusts in terms of substance. This in the end might pave the way for 'sustainability risk', as if such social risks emerge and exist, then the existential question

relates to the reason of existence of IBFIs in the sense of adhering to the IME principles in their operations. In other words, the observed convergence with conventional finance results in unsustainability of authentic meaning and operation of IBFIs. Thus, the current financial and economic operations of IBFIs seem to generate such social risks due to the disembeddness is evidenced, which should be considered as serious and should be endogenised to prevent the emergence of such risk areas or at least their consequences should be moderated.

In overall, while referring to the *Qur'an* and locating the principles governing Islamic finance in *Qur'an* refers to authenticity, consequences of financing by IBFIs do not show success in the intended meaning of its authenticity or *Shari'ah* as located in the aspirational notions of IME and IPE. As argued, IBFIs have not been making any essential contribution in terms of developmentalism or to the lives of the people in the periphery beyond creating a new middle class and contributing to asset diversification of high-net-worth individuals (Asutay, 2013). Thus, as a financing proposition, with the current working mechanism of IBFIs, they will further financialise and dis-embed the society and economy. Therefore, IBFIs should avoid the mimicry and mirroring the conventional finance and banking to have a positive impact.

As a corrective strategy, therefore, non-banking Islamic financial institutions should be institutionalised to respond to the development needs of Muslim societies; as they require development beyond financialisation. Hence, in the new institutional development phase for future, Islamic social banks, Islamic investment banks, Islamic development banks, Islamic development funds, *awqaf* system; *zakah* funds for development; Islamic microfinance; and Islamic entrepreneurship, among others. Through such institutionalisation, real economy and value added economic development with individual emancipation and empowerment as well as community and capacity development can be achieved; hence developmentalist objectives can be closer to actualisation. However, in their operation, IBFIs should also consider at least embracing and achieving Sustainable Development Goals (SDGs) and Ethical, Social and Governance (ESG) maxims in line with conventional banks and financial institutions. This will help to moderate the shortcomings and the adverse consequences of IBFIs in relation to transformational or moral expectations. Considering the hegemonic legitimacy of *Shari'ah* scholars in the process and operations of

IBFIs; and considering their societal status; they have to remain an important stakeholder in leading the way to get the IBFIs to understand that Islamic banking and finance cannot be only emergent pattern; as there is a promise as hidden in the 'Islamic prefix'. Thus, their *Shari'ah* hegemony, which provides legitimacy for IBFIs will be important.

In concluding, while IBFIs have contributed to the transactional expansion in the world, their dis-attachment with the social formation and modes of production as well as developmentalist, social and moral expectations of IME will remain as an issue unless the paradigm change in the sense of developing authentic practices is not taken up. Thus, there is a need to move from the observed disembeddedness to embeddedness through actualising substantive morality.

Chapter 8

CONCLUSION

8.1. OVERVIEW AND REFLECTIONS ON THE FINDINGS

This research commenced with several research questions and several aims which were intended to be reached through realising of certain objectives as detailed in the introduction of this study. The previous chapters, comprising the six main essays, have shown how those aims were achieved by providing in-depth analysis on each of the topics defined as research questions.

Firstly, developments in political economy, from political economy to economics, and from economics to political economy in accordance with historical progress have been presented. The paper shed light on the Islamic finance and its proper allocation of studying within the Islamic political economy rather than economics due to the comprehensive and integrative nature of knowledge Islam proposes through *tawhid* or complementarity framework, and therefore, it is argued that what is meant by Islamic economics cannot be comprehended by the term 'economics' and therefore Islamic economics should be a political economy project in the form of Islamic Political Economy. Hence the body of knowledge of authentic Islamic thought is looked to ascertain as to why Islamic economics should be Islamic Political Economy. From historical perspective the main difference between economics and political economics stems from the formulation of social and private choices as well as transdisciplinary and endogenisation of institutions. Economics assumes individual as the key construct, and the allocation of given resources constitutes the main problem. It utilises a mechanical model of minimisation and maximisation as its determinants. On the other hand, political economy theory starts its analysis with the social individual who faces contingent choices in the political and economic market as well as religious impact between choices between this world and hereafter with bounded rationality. This new way of Islamic

political economy, where Islam provides its unique concepts and perspectives on human centric development which focus on the moral and spiritual foundations of human development and social order as a priority and hence Islamic finance as a functional tool of such system is expected to perform the assigned roles. As such the research questions related to whether Islamic economics should be considered within the political economy and moral economy frameworks, has been answered in affirmative way confirming political economy nature of Islamic economics and Islamic finance is functional tool.

In the second essay, the notion of moral economy and its relevance to Islamic economics is examined by arguing that due to the nature of Islamic economics it should be considered as Islamic moral economy by going beyond the narrow and neo-classical formulation of 'Islamic economics'. As a pre-modern economy, Islamic economies were (should be) moral economies as Polanyi explains, because they were/are an integral part of social relations and noneconomic institutions and factors as indicated by its ontological sources and epistemology, namely substantivist economies. Thus, the normative world of Islamic economics justifies and necessitates to conceptualise the substance of Islamic economics as moral economy leading to IME, while its systemic frame is provided by Islamic political economy. Therefore, the essay aimed at constructing Islamic economics beyond 'economics' as a 'moral economy' embedded in the Islamic social formation. The construct of IME in modern times will benefit from such features and contents of moral economy in transforming Islamic economics into IME, which is not only a historical reality and its features remained in the past, but such features and qualities echo to present and future in constructing new imaginations. Therefore, IME should not be considered as part of history, but its features and contents relates to today and the future imagination to make a better economy essentialising human well-being.

This study recognises the failures in the Muslim societies not upholding the objectives of IME and failing to embed such normativeness in their everyday life and actions. However, reform is an important axiom of IME, which should help to transform the Muslims societies to develop qualities in ensuring IME wholly or partially. Islamic finance has commenced to transform financing aspect, but entangled with capitalistic forms and norms. While it managed to be successful to a certain degree in expanding the transactional base of the society; it has failed to become an instrument of transforming the social formation of the

society. Thus, in a Polanyian sense of being a counter movement against the capitalist hegemony, IME aims to transform the society by embedding economic, financial and business base of a society according to the Islamic social formation.

Thus, with the initial essays, this research argues that IPE is the frame and structure and IME is the substance and the contents of this frame. This is a consequence of *tawhidi* axiom's complementarity and unitarity nature to produce an integrated system understanding with frame and structure as well as its substance. Therefore, this constitutes the novelty of this study.

After re-defining the frame and substance for Islamic economics, the third essay explores the relationship between Islamic economics and heterodox economics in terms of knowledge universe. The essay confirms the rejection of IPE of many mainstream economic stances with the idea of developing its own responses through Islamic ontology, classical knowledge and experience developed over the centuries. The paper argues that in responding to existing neo-classical hegemony, IPE and IME also shares many communalities with other heterodox positions. Therefore, the essay suggests that in term of knowledge map, IPE and IME knowledge should be located within the heterodox economics umbrella. In this way, heterodox economics' range is further expanded ontologically where revealed knowledge can be part of economic consideration; as all the heterodox economics schools and positions is based on secular worldview. Having located IPE and IME within heterodox economics further distances Islamic economics from neo-classical construct of 'economics'. In other words, searching for a sphere in the knowledge map for Islamic economics, heterodox open system provides an opportunity for IPE and IME to be treated within mainstream academic knowledge and activism relating to economics.

In a progressive manner, the previous three essays established frame and substance, and located Islamic economics' place in the heterodox tradition by clearly defining its nature. Building on these foundations, the following essays explores microeconomic foundations of IPE and IME.

Collective choices for establishing SWF as discussed in this research, thus, builds on religious based social function from the point of Islam. The fourth essay attempts to explore

the possibility of an Islamic social welfare function (ISWF) within IPE, as IME essentialises social norms defining its nature. Therefore, building blocks of the ISWF is also explored. The essay builds on Western perspective in SWF and extends to the possibility of creating an ISWF, which does not necessarily have to fulfil Arrow's conditions. This requires a different ontological and epistemological base for social welfare modelling. Islam, in this manner, suggests constrained approach within *fiqhi* understanding, which this research expands by considering an axiomatic approach within an IME framework. Thus, ISWF can be possible with augmenting the *fiqhi* approach developed by the previous literature with moral foundations of Islamic economics. IME based SWF, therefore, has distinctive characteristic than those proposed as an in-paradigm alternatives to the establishment of ISWF; and social justice through *ihsani* process remains the essence of this paradigm. The proposed model of ISWF endeavours to incorporate the larger stakeholders in decision process as suggested by the *tawhidi* framework essentialised by IPE and IME. Since *fiqhi* based decisions substantially differ in practice due to *ijtihadi* nature (diversity of scholars opinions in deriving the rulings based on textual understanding) and getting a social preference ordering in which every individual's preferences are reflected in their *fatwas* are much difficult. Therefore, Arrowian SWF which requires either homogenous individual behaviour or consensus of *Shari'ah* scholars to meet objectives. Consequently, the Islamic axioms which define Islamic economics' moral and normative base aim to create a *homIslamicus* individual type to ensure that ISWF can work. An important distinction here is the fact that IME conceptualises Muslims as individuals being in a state of 'becoming' project and hence 'becoming process' never ends. Hence, they are not forced to reach the *homIslamicus* or 'tab'ay' individual as a 'state', as long as they do struggle as a process for it. Thus, in process sense, two layers model suggested by thus essay does not adhere to a consequentialist approach, but in terms of contents, consequentialism is essential to ensure the substance of the process, as it is contents and substances ensure the robust sojourn to 'becoming'.

Beyond simply emphasising on the stating the inconsistency of constructing SFW based on a value free economy, this study provides a solution within IPE and IME as to how it might be reached. It considers morality as an embedded part of the economy, intertwined with other disciplines through which the construction of SWF under the value understanding might be resolved. This new approach of moral economy does challenge the establishment of social

preference ordering in which every individual's values are reflected. IME, at this point, can contribute to social welfare issues through introducing its distinctiveness within an IPE approach by creating embeddedness in terms of essentialising *ihsan* as part of its substantive morality (beyond *fiqhi* based instrumental morality) in suggesting a different social contract and hence a distinct SWF in the form of ISWF.

Exploring the construction of ISWF brings another important aspect of the 'economics' issue to the agenda, that is the concepts of value and utility. For the development of the foundation of Islamic microeconomics, there is a tremendous need for defining Islamic utility independent from the neo-classical theory, which should be applied in the analysis of individual behaviours to meet their own needs and needs of those who they care for in the society so that ISWF can be reached as amalgamation of morally constructed utilities. Therefore, Chapter 6 defines Islamic utility and its function within IPE frame and IME substance whereby it extends the utility formation from one dimensionality to two time dimensions: this worldly dimension through the performance of good deeds and the hereafter dimension through accomplishing *falah* in individual level and *ihsan* in societal level. In such conceptualisation, rather than neoclassical concept of rationality as a driving factor of neoclassical utility, a model of Islamic rationality (*rooshed*) is highlighted along with its meaning, implications and elements that are integrated in an Islamic worldview.

In conceptualising Islamic utility formation, the essay also clearly re-defines 'satisfaction' which provides an important contents for utility formation. Conventional understanding of 'satisfaction', which comes from the inner-self, and as a consequence the satisfaction will be obtained in desiring the wants of *nafs*. On the other hand, Islamic conceptualisation of satisfaction, which derives from the value system of Islamic ontology subsequently will be fulfilled through submitting to the commands of God while accepting the *tawhidi* methodology. Hence, the essay confirms that we cannot speak of maximizing satisfaction in the ordinary utilitarian sense in describing and analysing Muslim behaviour. Since there are norms and goals defined by the value system of Islam, the orientation of action towards maximal conformity with the norms will lead to satisfaction, which comes from concept of surrender or *hudhu*.

The new model of Islamic utility formation, based on the Islamic ontological and epistemological principals is represented through the axioms as the philosophical foundation

within which utility formation takes place. The articulation of the axioms into reality, which is to crystallise the Islamic ideals, start with the aforementioned smallest but rather crucial elements of empowering natural forces against physical and vital forces of the spirit. Based on the inspiration of the foundations (ontology and epistemology articulated through the axioms), the individuals in forming their Islamic utility must be functioning and dynamically self-actualised to increase the impact of factors that strengthen the axioms. An individual concerned with the Islamic utility maximisation is expected to be an active agent of change and therefore respond to the development of other individuals, society, the natural environment and the state.

Since the initial five essays attempt to construct the conceptual formations of IPE and IME and two of their micro-foundational concepts, this research put a strong emphasis on ‘moral economy’ nature of Islamic economics within IPE. It essentialises ‘substantivism’ and the ‘submerge’ or ‘embeddedness’ of Islamic economics and, therefore, assumes that the institutions emerged from such a ‘systemic position’ should also follow the same moral norms and essentialise moral outcomes. Therefore, essay six in Chapter 6 is an empirical paper which examines the moral consequences of Islamic banking and finance in relation to ‘IME’ expectations. As it is argued that Islamic banks and financial institutions emerged to be institutional tools of IME and IPE imagination. Therefore, it is important that their performance in relations to such targets should be evaluated. The aim of such analysis is, primarily, to evaluate the social and development performance of these banks, and understand the complete picture of how much Islamic banking and finance within the selected countries adhere to the true essence of IME. It also analyses the extend by which Islamic financial modes for promoting PLS and risk sharing instruments such as *musharakah* and *mudarabah* has been utilised as opposed to the fixed income and debt based instruments which IME and IPE discourages. In addition, the essay discusses how these funds are distributed over various sectors to analyse the role of IBF in economic development of sampled countries. The results clearly show that debt-based financing has become the major source of financing in IBF industry as in conventional banking system.

The analysis of financed sectors and industries by Islamic banks also shows that sectors such as agriculture, industry and manufacturing, which play an important role in the development of economy, are not the dominant sectors in the financing strategy of Islamic

banks, as real estate and financial markets alongside consumer durables are the main sectors benefiting from Islamic bank financing. It can, therefore, be concluded that Islamic banks are opting for short term financing rather long term, while using debt-like mode of financing which brings a much higher return with minimum risk. In addition, panel data regression analysis conducted to identify the impact of Islamic banking asset and financing on HDI and Gini coefficient as proxies for development and social welfare for which only limited impact could be located. Only significant determinant for income distribution was education. As for development total Islamic financing makes impact on human development. Thus, the current financing strategy of Islamic banks indicates their involvement in financialisation as opposed to financing according to objectives of IME to promote development, real economic activity and social welfare. Thus, the paper argues that Islamic banks have deviated from the economic development and social welfare objectives as imagined by IME Economy and they have become part of the international financial markets with profit maximization as a sole objective. Thus, in answering the research question whether Islamic banks perform in regards to IME expectations, the essay confirms that the 'social failure of Islamic banks' whereby they lead to the emergence of a number of social risk areas which are discussed in detail in the essay. Thus, with such developments, legitimacy risk, sustainability risk, *Shari'ah* risk and trust risks type of social risks emerge as additional risk. Thus, IME's expectations has not been fulfilled by main institutions emerged from such an imagination.

8.2. CRITICAL REFLECTIONS ON FRAMING AND MAPPING ISLAMIC ECONOMICS

This study has identified microeconomic foundations of Islamic political/moral economy which locates the role of economic and legal institutions within the wider social development process. Hence, it shows that in order for any economic institutions to contribute to the morally assigned expectations as intended, the value system of Islam has to be emplaced and included in economic analysis as well as institutions so that an embedded and, hence, Islamic social formation based economy can be developed as a counter hegemony against the imposition of capitalism. Therefore, any financial initiatives can only be effective in an environment where Islamic axioms such as *tawheed*, *adl*, *ukhuwah*, *maqasid* and others are emplaced to define the scope and substance of these activities.

The implications of this research for Islamic economics is, hence, quite profound in building the systemic understanding of the micro foundations of Islamic political/moral economy which are based on an authentic perspective within Islamic ontology and epistemology for economic activities to take place. These are discussed as follows:

8.2.1. Implications of the Research for Islamic Political Economy

Amongst the more valuable contributions of this work to the existing literature are its implications for the field of IPE. The research clearly locates system of Islamic economics within the IPE paradigm, and in an attempt to identify an interacted and integrated system understanding, the essays presented in this research firmly establishes the link between economic, social and political aspects that prevail in Islamic society.

The importance of political economy nature of Islamic economics is emphasised in this study as the missing elements, which lead to the failure of fulfilling the expectations of Islamic economics, as without defining the distinct frame for Islamic economics, the outcome can only be hybridity. As many current problems in the Muslim world require solutions which extend far beyond the economic and legislative realms into the cultural, moral, political and social spheres. Thus to speak of economic human centric development in Islamic economics is to see only part of the picture but rather academics and policy makers alike must now address the issues of injustice and inequality which deeply impact the lives of Muslims throughout the world. Hence, as this work identifies, there is a need for IPE framework along the lines of Islamic morality to act as guiding philosophy for Islamic economy and financial industry. This study should act as an initiator of the debate around such issues of political economy and the need to move away from sole wealth creation, but how a new modes of production can be developed so that the roles and shares of land, labour, capital and knowledge/entrepreneurship can be redefined for a 'just economic system' as emphasized by IME, whereby land, labour, capital, entrepreneurship/knowledge can be rescued from the shackles they have been held. Thus, there is an urgent need to question the legitimacy of economic and political power in the Muslim world.

As discussed throughout this research, the economic development failure in the Muslim world has been mainly caused by implanted socialist and capitalist modes of production

which mainly do not comply with Islamic economic system. As discussed in essay 1, 2 and 3 the nature of Islamic economics is rooted in IPE in terms of form and IME in terms of substance. This two defines system of Islamic economics, within which economic and non economic activities have to be delivered. Consequently, the field of Islamic economics needs to be studied within the heterodox economics and it shares many overlapping points and rejects many stances of capitalism and socialism.

The core of this research is also contribute to the conceptual developments in microeconomic foundations of Islamic economics, utility and public choice and welfare function, which are essential in providing the necessary foundation for the economy and the finance sector. As Islamic economics essentialises 'sharing prosperity' as a core principle; however, theoretical base of such sharing has not been defined while it is imposed on Islamic banks and financial institutions. Therefore, Essays 4 and 5 aimed at developing the foundation of such as sharing economy by identifying the Islamic social formation as the base of a social contract within the integral part of Islamic economic system beyond narrow understanding of these issues within *fiqh*.

8.2.2. Implications for Research in *Shari'ah*

Similar to the point above, *Shari'ah* scholarship must also broaden its vision from the narrow, reductionist approach of the legal experts, towards developing an Islamic vision which encompasses the moral and spiritual aims of Islam in a complementary and uniterarity nature as IPE's *tawhidi* framework identifies. This paradigm shift amongst Islamic scholars is the most critical as truly authentic solutions are required and as such this work requires profound understanding of the Islamic ontology and vision.

This study identifies a need for Islamic public choice to take place not only among the *Shari'ah* scholars and jurist but wider stakeholders in order to establish widely accepted Islamic financial institutions and products which essentialises IME. As *Shari'ah* compliant industry mainly attracts relatively small number of privileged stakeholders whereas the majority are marginalized. Therefore, financial system of Islam has to be guided through Islamic political/moral economy framework in order to generate benefit for the majority of stakeholders through empowering financial inclusion strategies. This implies that *Shari'ah* scholars' '*Shari'ah* legitimacy' should be reconsidered so that a comprehensive system based

on complementarity and unitarity of *tawhid* beyond *Shari'ah* scholars' form based *fiqh* is essential. Therefore, they should understand that between intentionalism of *Shari'ah* scholars and consequentialism debate, IME and IPE suggests that their intentionalism has to be substantiated with moral economists' consequentialist positioning in a complementarity manner.

It should be noted that the implementation of IME can only be workable through a clear understanding of *Shari'ah*, where *Shari'ah* should not be confined within its limited legalistic consequent independent deontological parameter, but should be recognised as an ethical, value oriented process, whereas the *maqasid al-Shari'ah* should be policy oriented with the objective of interpreting and contextualising the realities of time within the Islamic epistemological and ontological order, endogenising morals in dynamic manner rather than only confining them to legal mechanism in a static order (Zekavat, 2007). Hence to enable this and allow IME to be implemented align with the Islamic development, there is a need for a comprehensive understandings by the *Shari'ah* scholars in particular to think beyond the *taqlidi* mentality.

In conclusion, *Shari'ah* scholars should not be the main stakeholders of Islamic financial industry but other stakeholders in the Muslim world with religious and scientific knowledge should be consulted in order to implement IME within the sphere of Islamic financial industry.

8.2.3. Implications of the Research in Islamic Moral Economy Turn for Islamic Finance

Islam economics considers the process and the outcomes as mere means to achieving the multidimensional goal of human being summarised by the term *falah*, which can be only realised through actualisation of *maqasid al-Shari'ah* and axioms of IME. The process of development in Islam is not merely a result of persuasion of individuals' personal interests but also an outcome of mutually interdependent individuals, connected through a bond of brotherhood, in bringing meanings to the society and its everyday functioning. However, the expectations of IME, through its financial tools could only be possible by implementing the *maqasid al-Shari'ah* and axioms of Islam beyond instrumental understanding of *Shari'ah* in terms of *halal* and *haram*. The current shape of Islamic finance industry across the globe

which is patronised by *Shari'ah* scholars and bankers/financiers trained in conventional settings makes it difficult to implement the IME in true spirit as can be viewed from the growth of Islamic financial markets, which in return hinder the implementation of the development process formulated and proposed throughout of this study especially at societal level.

In the practice of Islamic finance, *fiqh* has been used as a mere power tool to justify the financial models and strategies proposed by managers and practitioners of Islamic financial institutions in creating controversial products with the support they draw on *Shari'ah* scholars. Therefore, in such culture, the authentic financial products, which are based on the aspirations of IME is unlikely to happen. Therefore, redirecting the industry towards the aims and objectives of IME would inevitably lead to different outcomes.

In addition, the conditions to implement Islamic morality within Islamic financial industry could only be possible if there is clear Islamic economic theory, which can constitute the base for analysing and directing financial practices. Without clear microeconomic theory, which will guide individual behaviours to demand for authentic Islamic economic and financial activities, Islamic financial industry will remain controversial financial model based on fulfilling the form based legal expectations with no connection to the substance of Islam.

Lastly, reflecting on global developments in economy and finance, the emergence of ESGs and SDGs indicate that even within the existing system, there is a search for alternative ways of 'doing economy and finance'. In particular, the Encyclical released by Pope Francis titled as *Laudato Si'* or *On Care for Our Common Home* (2015) provides a moral and structural response to the economic, social and environmental crisis and challenges; as he states that "Ecological culture cannot be reduced to a series of urgent and partial responses to the immediate problems of pollution, environmental decay and the depletion of natural resources. There needs to be a distinctive way of looking at things, a way of thinking, policies, an educational program, a lifestyle and a spirituality which together generate resistance to the assault of the technocratic paradigm" (Pope Francis, 2015:111). By providing a radical re-thinking, Pope Francis directly refers to the nature of moral economy and need for developing such a moral economy when he refers in particular to "a distinctive way of looking at things, a way of thinking ... a life style and a spirituality ...[to] generate resistance" (Pope Francis, 2015: 11) to the present way of doing things. Considering that

Catholicism has not developed any particular and distinctive Catholic institutions for economy and finance, Pope Francis' fresh call provides essential discourse of developing a moral economy. Therefore, emergence of Islamic economics and finance should be considered important; as Islamic worldview has come up with discourse, structures and operations in shaping economy and finance and individual economic and financial behaviour regardless of the authenticity of such institutionalisation. However, it is also unfortunate that Islamic banking, financial institutions and non-banking financial institutions have been moving into the realm and sphere of existing capitalist paradigm through the convergence process rather than being a counter hegemony to rescue, land, labour and human through the authentic imagination of Islam and way of thinking that Pope Francis highlights and call for. Therefore, Muslim economists, social scientists and moralists should also search for 'alternative way of thinking and doing economy and finance' by preventing the development of 'Islamic capitalism' but rather bringing back the substantive morality promise of Islam into economy, finance, environmental and social life. The future research, therefore, should take up the Islamic call for alternative ways of organising society and economy so that the flourishing Islamic economic movement should not be submitted to 'technocratic paradigm' of the hegemony.

8.3. LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

Although this research aims to present a comprehensive understanding of IPE and IME as well as heterodox economics within the Islamic ontology and epistemology, there are some limitations that this research has pointed out. First, this research presents general but comprehensive theoretical understanding of IPE by integrating the worldly aspects with spiritual in the form of *falah* in *akhirah*, which does not cover differences of opinion within Islam discourse. Therefore, comprehensive approach in Islamic discourse should be carried out for highlighting the nature of political economy in Islam beyond comparative understanding of Islamic, capitalist and socialist schools of thought.

With regard to association of Islamic economics with heterodox economics, the contribution of Islamic economics should be further highlighted beyond expansion of positivistic ontology within heterodox diversity to reveal knowledge. The contribution of Islamic economics within the heterodox family should further be explored.

Third, while presenting two-tier model for Islamic welfare function which essentialises complimenting *fiqh* with ethicality, the model does not provide the working mechanism that needs to be emplaced in choice theory.

Importantly, in evaluating the performance of Islamic finance in the selected Muslim countries, mainly the tools of conventional economics and finance are utilised. This might be considered as a shortcoming. However, there are no other tools developed yet from Islamic perspective. It should also be stated that while those tools can be conventional in nature, in terms of consequences very much refer to similar the expectations of IME. Thus, there are similarities in the substance while the form might be different. In addition, the size of Islamic banking and finance industry is a source of concern in locating the industry's impact on economic development dimensions; as with a very small size, whether Islamic banking can manage Islamic developmentalism. However, regardless of the size, due to the definition and having the prefix of 'Islam', it is by definition that Islamic banks and financial institutions are expected to be embedded beyond the *fiqhi* position of disembeddedness.

Based on the discussion developed and presented in this research, the following suggestions and recommendations are developed for future research in an attempt to enhance the theory of IPE and IME to meet the demand of changing circumstance and time:

- (i) The boarder definition of *maqasid al-Shari'ah* can be further analysed to formulate detailed goals of Islamic economics for policy implications in Islamic financial industry;
- (ii) The framework of political economy and substance of moral economy in this study can be an important areas to identify the theological, political, social and economic boundaries for changing the society to produce IME oriented developmentalism;
- (iii) This research essentialised '*homoislamicus*' as the unit of analysis; however, dialectic nature of this must be explored and identified;
- (iv) Further theoretical development is essential in exploring the constituting elements of ISWF and Islamic utility formation together with their mathematical explorations;
- (v) All the suggested goals can be measured and verified to enhance the overall wellbeing of citizen in the Muslim country using the different methodologies.

8.4 EPILOGUE

This research, as mentioned in Chapter 1, aims to explore and analyse IPE and IME as an alternative system of economy and society in an attempt to propose authentic Islamic economic framework. Alongside the material development, this Islamic framework also includes the spiritual aspect in order to help individuals to achieve *falah*, an ultimate goal of Islam, through the maximisation of *ihsani* social capital. In the map of knowledge, this research exceeds the *fiqhi*, neoclassical and socialist scope for studying Islamic economics into heterodox economics by expanding its boundaries towards revealed knowledge. In order for social capital to be maximised and hence ultimate success (*falah*) is achieved, microeconomic foundations of Islamic economics (utility, public choice and welfare function) are defined so that human actions can be measured and tailored. Hence, expectations of Islamic financial industry can be analysed and shaped according to the theoretical understanding of Islamic political/moral economics. Thus, as can be seen from the foundational chapters (2, 3, and 4), conceptual (5 and 6) and empirical chapter (7) the aims and objectives of this study has now been fulfilled.

BIBLIOGRAPHY

AAOIFI. (2007). *Accounting, Auditing and Governance Standards for Islamic Financial Institutions 1428 H - 2007*. AAOIFI: Manama.

Abu al Makarim, Zaidan (1974). *Ilm al Adl al Iqtisadi*. Cairo: Dar al turath.

Acemoglu, D. and Robinson, J. (2006). "Economic Backwardness in Political Perspective", *American Political Science Review*, 100(1), pp. 115-131.

Acemoglu, D.; Johnson, S., and Robinson, J. (2004). *Institutions as the Fundamental Cause of Long-Run Growth*. Cambridge, Mass.: National Bureau of Economic Research.

Ackerman, F. and Program for the Study of Sustainable Change and Development (Tufts University. Global Development and Environment Institute). (1997). *Human Well-being and Economic Goals*. Washington, D.C: Island Press.

Afzal-ur-Rahman, M. A. (1974). *Economic Doctrines of Islam*. Lahor, Pakistan: Islamic Publications LTD.

Ahmad, A. (2000). "Economic Development in Islamic Perspective Revisited", *Review of Islamic Economics*, 9, pp. 83-102.

Ahmad, H. (2006). "Islamic Law, Adaptability and Financial Development", *Islamic Economic Studies*, 13(2), pp. 79-101.

Ahmad, K. (1979). *Economic Development in an Islamic Framework*. Leicester: The Islamic Foundation.

Ahmad, K. (1992). "Nature and Significance of Islamic Economics" in Ausaf, A and Kazim, A. (Eds.), *Lectures on Islamic Economics*. Jeddah: IRTI

Ahmad, K. (1994). *Islamic Approach to Development: Some Policy Implications*. Islamabad: Institute of Policy Studies.

Ahmad, K. (2003). "The Challenge of Global Capitalism: An Islamic Perspective", in John. H. Dunning (ed.), *Making Globalization Good: The Moral Challenges of Global Capitalism* (pp.181-209). Oxford: Oxford University Press.

Ahmad, Kurshid (1980). "Economic Development in an Islamic Framework," in K. Ahmad and Z. Ishaq Ansari (eds.), *Islamic Perspectives: Studies in Honour of Mawlana Sayyid Abul A'la Mawdudi*. Leicester: Islamic Foundation.

Ahmad, N. and Haron, S. (2002). "Perceptions of Malaysian Corporate Customers Towards Islamic Banking Products and Services", *International Journal of Islamic Financial Services*, 3(4), 13-29.

Ahmad, Z. (1991). *Islam, Poverty and Income Distribution: A Discussion of the Distinctive Islamic Approach to Eradication of Poverty and Achievement of an Equitable Distribution of Income and Wealth*. Leicester: Islamic Foundation.

- Ahmed, A. R. Y. (2002). "Methodological Approach to Islamic economics: Its Philosophy, Theoretical Construction and Applicability", in H. Ahmed (ed.), *Theoretical Foundations of Islamic Economics*. Jeddah: IRTI, Islamic Development Bank.
- Ahmed, Habib (2002). "Analytical Tools of Islamic Economics: A Modified Marginalist Approach" in H. Ahmed (ed.), *Theoretical Foundations of Islamic Economics*. Jeddah: IRTI.
- Ahmed, Habib (2002). "Analytical Tools of Islamic Economics: A Modified Marginalist Approach" in H. Ahmed (ed.), *Theoretical Foundations of Islamic Economics*. Jeddah: Islamic Research and Training Institute (IRTI).
- Ahmed, Habib (2002). "Financing Micro-Enterprises: An Analytical Study of Islamic Microfinance Institutions", *Islamic Economic Studies*, 9(2), pp. 27-64.
- Ahmed, Habib (2002). *Theoretical Foundations of Islamic Economics*. Jeddah: IRTI.
- Ahmed, Habib (2003). *The Role of Islamic Financial Institutions in Financing Microenterprises: Theory and Practice*. Paper presented at the Forum on Islamic Economics and Finance, Amman, Jordan.
- Ahmed, Habib (2004). "Frontiers of Islamic Banking: A Synthesis of Social Role and Microfinance", *The European Journal of Management and Public Policy*, 3(1), pp. 27-64.
- Ahmed, Habib (2007). *Waqf-Based Microfinance: Realizing the Social Role of Islamic Finance*. Paper presented at the Integrating Awqaf in the Islamic Financial Sector, Singapore.
- Ahmed, Habib (2011). *Product Development in Islamic Banks*. Edinburgh: Edinburgh University Press Ltd.
- Ahmed, Habib (2013). "Financial Inclusion and Islamic Finance: Organizational Formats, Products, Outreach, and Sustainability", in Zamir Iqbal and Abbas Mirakhor (eds.), *Economic Development and Islamic Finance* (pp. 203-229). Washington: The World Bank.
- Ahmed, Habib; Asutay, Mehmet and Wilson, Rodney (2013). *Islamic Banking and Financial Crisis: Reputation, Stability and Risks*. Edinburgh: Edinburgh University Press.
- Ahmed, M. (2008). *The Role of RDS in the Development of Women Entrepreneurship under Islamic Micro Finance: A Case Study of Bangladesh*. In M. Obaidullah & H. S. Abdul Latif (Eds.), *Islamic Finance for Micro and Medium Enterprises* (pp. 211-232). Islamic Research & Training Institute, Islamic Development Bank and Centre for Islamic Banking, Finance and Management, Universiti Brunei Darussalam.
- Ainley, M.; Mashayekhi, A.; Hicks, R.; Rahman, A. and Ravalia, A. (2007, November). *Islamic Finance in UK: Regulation and Challenges*. London: Financial Services Authority.
- Akio, T. (2005). "Based View of Strategic Management: The Source of Heterogeneity of the Firm", *Ritsumeikan International Affairs*, Vol.3, pp.125-150.
- Al-Alwani, Taha J. (1990). "Political Science in the Legacy of Classical Islamic Literature", *American Journal of Islamic Social Sciences*, 7(1), pp.9-14.
- Al-Alwani, Taha J. (1991). *Toward a Proper Reading of the Sunnah*. IIIT Occasional Paper. Virginia: International Institute of Islamic Thought.
- Al-Ghazali, Abu Hamid M. b. M. (1990). "Book Thirty-one of the (*Ihya Ulum ad-Deen*) Revival of the Religious Sciences". Translated from Arabic by Martin, S. S. in *AL-Ghazzali on Repentance*. Pakistan: Vanguard.

- Al-Izz, b. Abdeselam (2000). *Qawai'd al-Ahkam fi Masalaih al-Anam*, (The Principles of Rulings in the Benefits of People Volume 1).
- Al-Kinani, Yahya b. Umar (1975). *Ahkam al-Suq*, edited by Abd al-Wahab, Hasan Hasni. Tunis: Al-Shirkah al-Tunisiyah lil-Tawzi.
- Al-Masri, Rafiq (1998). *Ishamat al-Fuqaha Fil Furud al-Asasyiyat Li-Ilm al- Iqtasad*, (Arabic) IDB Prize Winners' Lecture Series No. 14, Islamic Research and Training Institute, Islamic Development Bank, Jeddah.
- Al-Najjar, Fauzi M. (1980). "Democracy in Islamic Political Philosophy", *Studia Islamica*, 51(1980), pp. 107-22.
- Al-Osaimy, Mahmood H. and Ahmed S. Bamakhramah. (2004). "An Early Warning System for Islamic Banks Performance", *J.KAU: Islamic Economics*, 17 (1), p. 314.
- Al-Qaradhawi, Yusuf (1993). *Malaamih al-mujtama'a al-Muslim alladhi Nanshuduhu* (Glimpse of Characteristics of Islamic Society We Aim For). Cairo: Maktabah al-Wahbah.
- Al-Qaradhawi, Yusuf (1999). *Fiqh al-Zakaat: A Comparative Study: The Rules, Regulations and Philosophy of Zakat in the Light of the Qur'an and Sunna*. (Translated by Monzer Kahf). London: Dar al-Taqwa Ltd.
- Al-Shatibi, I. M. (2004). *Al Muwafaqat Fe Usool Al Shariah*. Beirut: Dar Al Kutub Al Ilmiyah.
- Alvey, J. (1999). A short history of economics as a moral science. Palmerston North, N.Z., Dept. of Applied and International Economics, Massey University.
- Alvey, J. E. (2011). "Ethics and economics, today and in the past", *The Journal of Philosophical Economics*, 5(1), pp. 5-34.
- Amemiya, T. (1984). *Advanced Econometrics*. Oxford: Blackwell.
- Antonio, Muhammad Syafi'I; Yulizar, D. Sanrego and Muhammad Taufiq (2012). "An Analysis of Islamic Banking Performance: Maqasid Index Implementation in Indonesia and Jordania", *Journal of Islamic Finance*, 1(1), pp. 12-29.
- Arestis, P. and Sawyer, M. C. (2010). 21st century Keynesian economics. Houndsmills, Basingstoke, Hampshire: Palgrave Macmillan.
- Arif, M. (1985). "Toward a Definition of Islamic Economics: Some Scientific Considerations", *J. Res. Islamic Econ*, 2(2), pp. 79-93.
- Arkoun, M (2002). "Islam", in J. D. McAuliffe (Ed.), *Encyclopaedia of the Quran: Volume two E-I* (pp. 565-570). Leiden, Boston: Brill Publications.
- Arkoun, M. (2002). "Islam", in J. D. McAuliffe (Ed.), *Encyclopaedia of the Quran: Volume two E-I* (pp. 565-570). Leiden, Boston: Brill Publications.
- Arneson, R. J. (2008). "Rawls, Responsibility, and Distributive Justice". In M. Fleurbaey, M. Salles & J. A. Weymark (Eds.), *Justice, Political Liberalism, and Utilitarianism: Themes from Harsanyi and Rawls* (pp. 80-107). Cambridge; New York: Cambridge University Press.
- Arnold, T. C. (2001). "Rethinking Moral Economy", *The American Political Science Review*, 95(1), pp. 85-95.
- Arnold, Thomas C. (2001). "Rethinking Moral Economy". *The American Political Science Review*, 95(1), pp. 85-95.

- Arnsperger, C. and Varoufakis, Y. (2008). "Neoclassical Economics Three Identifying Features", in Fullbrook, E. (Ed.), *Pluralist Economics*. London: Zed Books.
- Arrow, Kenneth J. (1950). "A Difficulty in the Concept of Social Welfare". *Journal of Political Economy*, 58(4), 328-346.
- Arrow, Kenneth J. (1963). *Social Choice and Individual Values* (2nd ed.). New Haven: Yale University Press.
- Askari, Hossein; Zamir, Iqbal; Nouredine, Krichne and Abbas Mirakhor. (2012). *Risk Sharing in Finance: The Islamic Finance Alternative*. Singapore: John Wiley & Sons (Asia) Pte. Ltd.
- Asutay M. (2007). "A Political Economy Approach to Islamic Economics: Systemic Understanding for an Alternative Economic System", *Kyoto Bulletin for Islamic Area Studies*, 1-2, pp. 3-18.
- Asutay, M. (2007). "Conceptualization of the Second Best Solution in Overcoming the Social Failure of Islamic Banking and Finance: Examining the Overpowering of Homoislamicus by Homoeconomicus". *IIUM Journal of Economics and Management*. 15, no. 2, 167-195.
- Asutay, M. (2008). Islamic banking and finance: social failure. *New Horizon*, 169, pp.1-3, October-December 2008. Available at SSRN: <http://ssrn.com/abstract=1735674>, Access date December, 24th 2015.
- Asutay, M. (2011). Islamic Microfinance: An Alternative Development Financing Method. Paper presented at the Microfinance and Its Dual Objective: Financial-Social Inclusion and Sustainable Business Development, IE Business School, Madrid.
- Asutay, M. (2012). "Conceptualising and Locating the Social Failure of Islamic Finance: Aspirations of Islamic Moral Economy vs. the Realities of Islamic Finance", *Journal of Asian and African Studies*, 11(2), pp. 93-113.
- Asutay, M. (2013). "Islamic Moral Economy As the Foundation of Islamic Finance", in Valentino Cattelan (Eds.), *Islamic Finance in Europe: Towards Plural Financial System* (55-68). Cheltenham: Edward Elgar Publishing Inc.
- Asutay, M. and Harningtyas, A. F. (2015). "Developing Maqasid al-Shari'ah Index to Evaluate Social Performance of Islamic Banks: A Conceptual and Empirical Attempt", *International Journal of Islamic Economics and Finance Studies*, 1(1), pp. 5-64.
- Asutay, M. and Turkistani, A. Q. (eds.) (2015). *Islamic finance: Risk Stability and Growth 2*. Berlin: Gerlach Press.
- Asutay, M. and Turkistani, A. Q. (eds.) (2015). *Islamic finance: Political Economy, Values and Innovation. Volume 1*. Berlin: Gerlach.
- Asutay, M. and Turkistani, A. Q. (eds.) (2015). *Islamic Finance: Political Economy, Performance and Efficiency. Volume 3*. Berlin: Gerlach Press.
- Asutay, M. and Zaman, Nazim (2009). "Divergence between Aspirations and Realities of Islamic Economics: A Political Economy Approach to Bridging the Divide", *IIUM Journal of Economics and Management* 17(1) pp. 73-96.
- Asutay, Mehmet and Aksak, Ercument (2011). *Does Islamic Finance Make the World Economically and Financially Safer?* Paper presented at the Eighth International Conference on

Islamic Economics & Finance: Sustainable Growth and Inclusive Economic Development from an Islamic Perspective, in Doha, Qatar, on December 18-20, 2011, organized by Qatar Faculty of Islamic Studies, IAIE, IRTI and SESRIC.

Auda, J. (2008). *Maqasid Al-Shariah as Philosophy of Islamic Law: A Systems Approach*. Herndon: The International Institute of Islamic Thought.

Awdah, J. (2006). *Fiqh al-Maqasidi: Inatah al-Ahkaam al-Syar'iyah bi Maqasidihaa* (Fiqh al-Maqasidi: Formulation of Islamic Legal Rulings Through Islamic Higher Objectives of Shari'ah). Virginia: International Institute of Islamic Thought.

Babe, R. E. (2009). *Cultural studies and political economy: Toward a new integration*. Lanham, MD: Lexington Books.

Backman, K. and Kyngäs, H. A. (January 01, 1999). "Challenges of the grounded theory approach to a novice researcher", *Nursing and Health Sciences*, 1(3), pp. 147-153.

Badeen, D. Ontology and Pluralism: Towards a Cognitive Map of Four Prevailing Ontological Foundations for Economics. Available at: http://www.hetecon.net/documents/ConferencePapers/2011Refereed/Badeen_AHE2011026R.pdf Access Date: 11th June, 2012.

Bagnall, Roger S. (1995). *Egypt in Late Antiquity*. Princeton University Press.

Barney, J. B. (1991). "Firm resources and sustained competitive advantage", *Journal of Management*, 17: 99-120.

Basu, (n.d.). *Prelude to Political Economy*. Oxford: Oxford University Press.

Bedoui, M. Houssein Eddine. (2012). *Ethical Competitive Advantage for Islamic Finance Institutions: How should They Measure Their Performance?* Harvard University.

Behdad, Sohrab (1994) A Disputed Utopia: Islamic Economics in Revolutionary Iran. *Comparative Studies in Society and History*, Vol. 36, No. 4, pp. 775-813.

Bekker-Nielsen, T. (2007). "The One That Got Away: A Reassessment of the Agoranomos Inscription from Chersonesos", in Gabrielsen, V. (Ed.) and Lund, J. (Ed.), *The Black Sea in Antiquity. Regional and Interregional Economic Exchanges* (pp. 123-132). Aarhus University Press.

Bentham, Jeremy (1948). *An Introduction to the Principles of Morals and Legislation*. New York: Hafner.

Berger, Adolf. (2004). *Encyclopedic Dictionary of Roman Law: Transactions of the American Philosophical Society, New Ser., V. 43, Pt. 2*. US: The Lawbook Exchange Ltd.

Bergson, A. (1954). "On the Concept of Social Welfare". *Quarterly Journal of Economics*, 68(2), 233-252.

Bernholz, P. (1973). Logrolling, Arrow Paradox and Cyclical Majorities. *Public Choice*, 15, 87-95. Retrieved from <http://www.jstor.org/stable/30022725>, Access Date: 12th July, 2013.

Bienefeld, M. (2007). Suppressing the Double Movement to Secure the Dictatorship of Finance, in Bugra, A. and Agartan, K. (ed.). *Reading Karl Polanyi for the Twenty-first Century*. (pp.13-32). New York: Palgrave Macmillan.

Black, Antony (1984). *Guilds and Civil Society in European Political Thought from the Twelfth*

Century to the Present. UK: Cambridge University Press.

Black, D. (1969). "On Arrow's Impossibility Theorem", *Journal of Law and Economics*, 12(2), pp. 227-248.

Blankart, Charles B. and Koester, Gerrit B. (2006). "Political Economics versus Public Choice: Two Views of Political Economy in Competition", *International Review for Social Sciences*, 59(2), pp. 1-29.

Blaug, M. (1980). *The Methodology of Economics, or, How Economists Explain*. Cambridge [Eng.]; New York: Cambridge University Press.

Blume, F. H. and Kearley, T. (Ed.) (2009). *Annotated Justinian Code. (2nd Edition)*. Available at: <URL:<http://uwacadweb.uwyo.edu/blume%26justinian/>> Access Date: 8th June, 2014.

Boer, P.; Dijk, H. K.; Franses, P. H.; Heij, C. and Kloek, T. (2004). *Econometric methods with applications in business and economics. (Econometric methods with applications in business and economics.)* Oxford [u.a.]: Oxford Univ. Press.

Boettke, P. J. V. H. S. (September 01, 2002). "Post-classical political economy: polity, society and economy in Weber, Mises and Hayek", *Human Resources Abstracts*, 37(3), pp. 325-472.

Bogdan, R., et al. (2007). *Qualitative Research for Education: An Introduction to Theory and Methods*. Boston: Pearson/Allyn and Bacon.

Bögenhold, D. (2010). "From Heterodoxy to Orthodoxy and Vice Versa: Economics and Social Sciences in the Division of Academic Work", *The American Journal of Economics and Sociology*, 69(5), pp. 1566-1590.

Bollerslev, T. and Wooldridge, J. M. (January 01, 1992). "Quasi-maximum likelihood estimation and inference in dynamic models with time-varying covariances", *Econometric Reviews*, 11(2), pp. 143-172.

Bonner, J. (1997). "Summary of Jeremy Bentham", in Frank Ackerman; David Kiron; Neva R. Goodwin; Jonathan M. Harris and Kevin Gallagher (Eds.), *Human Well-being and Economic Goals* (pp.61-64). Washington: Island Press.

Booth, W. J. (1994). "On the Idea of the Moral Economy", *American Political Science Review*, 88(3), pp. 653-667.

Booth, W. J. (1994). "On the Idea of the Moral Economy", *The American Political Science Review*, 88(3), pp. 653-667.

Bortis, H. (2002). "Piero Sraffa and the revival of classical political economy", *Journal of Economic Studies*, 29(1), pp. 74-89.

Bortis, H. (2010). "Political Economy and Economic Science: The Work of Phyllis Deane", *The Journal of Economic Analysis*, 1(1), pp. 49-77.

Bowles, S. and Gintis, H. (1998). "The Revenge of Homo Economicus: Contested Exchange and the Revival of Political Economy", *Journal of Economic Perspectives*, 7 (1), pp. 83-102.

Brahimi, A. and Khurshid, A. (Eds.) (2009). *Encyclopaedia of Islamic Economics: Islamic Economic System* (Vol. 2). London: The Encyclopaedia of Islamic Economics.

- Brahimi, A., Ahmad, K., and Siddiqi, M. N. (2009). *Encyclopedia of Islamic economics*. Vol. 1 and 2: Principles, definitions and methodology. London: Encyclopedia of Islamic Economics.
- Brennan, G. and Buchanan, J. M. (1985). *The reason of rules: Constitutional political economy*. Cambridge: Cambridge University Press.
- Brennan, Geoffrey and Buchanan, James M. (2000). *The Reason of Rules: Constitutional Political Economy*. USA: The Liberty Fund.
- Brooks, C. and Brooks, C. (2009). *RATS handbook to accompany introductory econometrics for finance*. Cambridge: Cambridge University Press.
- Bryman, Alan (2004). *Social Research Methods*. Oxford: Oxford University Press.
- Buchanan, A. E. (1985). *Ethics, Efficiency, and the Market*. Totowa, N.J.: Rowman & Allanheld.
- Buchanan, J. M. (1959). "Positive Economics, Welfare Economics, and Political Economy", *Journal of Law and Economics*, 2, pp. 124-138.
- Buchanan, J. M. and Musgrave, R. A. (1999). *Public finance and public choice: Two contrasting visions of the state*. Cambridge, Mass: MIT Press.
- Buchanan, J. M. and Tollison, R. D. (1984). *The Theory of public choice--II*. Ann Arbor: University of Michigan Press.
- Buchanan, James M. (1954). "Social Choice, Democracy, and Free Markets", *Journal of Political Economy*, 62(2), pp. 114-123.
- Bukari, Muhammad bin Ismail bin Ibrahim (1999). *Sahih al Bukhari: Kitab al Munaqib*. Dar-ussalam, Saudia Arabic: Riyaz.
- Butterworth, Charles E. (2005). "Ethical and political philosophy" in P. Adamson (Ed.) and R. C. Taylor (Ed.) (2005)", *The Cambridge companion to Arabic philosophy* (pp.266-286). Cambridge: Cambridge University Press.
- Callinicos, A. (2009). *Imperialism and global political economy*. Cambridge, UK: Polity Press.
- Campion, M. A.; Medsker, G. J. and Higgs, A. C. (1993). "Relations Between Work Group Characteristics and Effectiveness: Implications for Designing Effective Work Groups", *Personnel Psychology*, 46(4), pp. 823-850.
- Caporaso, J. A. and Levine, D. P. (1992). *Theories of political economy*. Cambridge: Cambridge University Press.
- Cassirer, Ernst. (1979). *The Philosophy of the Enlightenment*. US: Princeton University Press.
- Castells, M. (2004). *The Network Society: A Cross-cultural Perspective*. Cheltenham, UK: Edward Elgar Publishing.
- Cattelan, V. (2013). *Islamic finance in Europe: towards a plural financial system*. UK: Edward Elgar.
- Chaghatai, M. Ikram (2006). *Muhammad Asad: Europe's Gift to Islam, Volume 2*. Pakistan: Sang-e-Meel Publications.
- Chaghatai, M. Ikram (2006). *Muhammad Asad: Europe's Gift to Islam, Volume 2*. Pakistan: Sang-e-Meel Publications.

- Chalam, K. S. (1999). *Readings in political economy*. London: Sangam Books.
- Chapra M. U. (2000). *The Future of Economics an Islamic Perspective*. Leicester: The Islamic Foundation.
- Chapra, M. U. (1979). *The Islamic Welfare State and Its Role in the Economy*. Leicester: The Islamic Foundation.
- Chapra, M. U. (1984). "The nature of riba in Islam", *Hamdard Islamicus*, 7(1), pp. 1984, p. 3-24.
- Chapra, M. U. (1992). *Islam and the Economic Challenge*. Leicester: The Islamic Foundation.
- Chapra, M. U. (1996). *What is Islamic economics?* Jeddah: Islamic Research and Training Institute, Islamic Development Bank.
- Chapra, M. Umar. (1992). *Islam and the Economics Challenge*. UK: The Islamic Foundation.
- Chapra, M.Umer. (2008b). *The Global Financial Crisis: Can Islamic Finance Help?* Ibn Khaldun Lecture Series. As delivered at 10 November 2008 in Institute of Islamic Banking and Insurance, London, United Kingdom.
- Chapra, U. (2008a). *The Islamic Vision of Development in the Light of the MaqasidAl-Shariah*. Jeddah: Islamic Development Bank.
- Charmaz, K. (2006). *Constructing grounded theory: A practical guide through qualitative analysis*. London: Sage Publications.
- Chavagneux, C. (2001). "Economics and politics: some bad reasons for a divorce", *Review of International Political Economy*, 8(4), pp. 608-632.
- Chisti, S. and Khalaf, B. (2000) Earnings, Education, Experience and Gender: Kuwait Evidence, in Wassim, S. and Dibeh, G. (eds), *Earnings Inequality, Unemployment, and Poverty in the Middle East and North Africa*. Westport: Greenwood Press.
- Choi, I. (2001). "Unit root tests for panel data", *Journal of International Money and Finance* (20) pp. 249–272.
- Choudary M. A. and Hoque M. Z. (2007). "Islamic Political Economy: Contrasting Paradigms Between Democracy and Political Participation in Islam", *Review of Islamic Economics*, Vol. 11, No. 1.
- Choudary, M. A. (2003). "Islamic Political Economy", *Review of Islamic Economics*, 13, pp. 49-71.
- Choudhury, M. A. (1980). *An Islamic Social Welfare Function*. Indiana: American Trust Publications.
- Choudhury, M. A. (1986). *Contributions to Islamic Economic Theory: A Study in Social Economics*. New York: St. Martin's Press.
- Choudhury, M. A. (1991). "Social Choice in an Islamic Economic Framework", *The American Journal of Islamic Social Sciences*, 8(2), pp. 259-287.
- Choudhury, M. A. (1992a). *The principles of Islamic political economy: A methodological enquiry*. New York, N.Y: St. Martin's Press.
- Choudhury, M. A. (2009). "Islamic Critique and Alternative to Financial Engineering Issues", *JKAU: Islamic Economics*, 22(2), pp. 205-244.

- Choudhury, M. A. and Malik, U. A. (1992b). *The foundations of Islamic political economy*. New York: St. Martin's Press.
- Choudhury, M. Alam (1998). *Studies in Islamic Science and Polity*. London: Antony Rowe Ltd.
- Choudhury, Malik (1992). *The Foundations of Islamic Political Economy*. London and St. Martin Press, New York: Macmillan.
- Choudhury, Malik (1993). *The Unicity Precept and the Socio-Economic Order*. Lanham: University Press of America.
- Choudhury, Malik (1994). *A Theory of Ethico-Economics*. Hull: Barmarick Publications.
- Choudhury, Malik (1998). *Reforming the Muslim World*. London: Kegan Paul International
- Choudhury, Malik (1999). "The Structure of Islamic Economics: A Comparative Perspective on Markets, Ethics and Economics". *Consumption, Markets and Culture*, 3(1), 1-97.
- Choudhury, Malik (2002) "Economic Regulations in the Islamic Political Economy", *Journal of King Abdulaziz University: Islamic Economics*, 12(1).
- Christansen, G. B. (1988). "James Buchanan and the Revival of Classical Political Economy", *Challenge*, 31(2), pp. 11-15.
- Cizacka, Murat (2004). *Ottoman Cash Waqf Revisited: The Case of Bursa 1555 – 1823*. Manchester: Foundation for Science Technology and Civilization.
- Cizacka, Murat (2007). "Democracy, Economic Development and Maqasid al- Shari'ah", *Review of Islamic Economics*, 11(1), pp. 101-18.
- Clark, B. S. (1998). *Political economy: A comparative approach*. Westport, Conn: Praeger.
- Clarke, G. R., Xu, L. C. and Zou, H. F. (2006). "Finance and income inequality: what do the data tell us?", *Southern economic journal*, pp. 578-596.
- Coase, R. (1999). "Interview with Ronald Coase", *Newsletter of the International Society for New Institutional Economics*, 2(1).
- Coburn, D. (2000). "Income Inequality, Social Cohesion And The Health Status Of Populations: The Role Of Neo-Liberalism", *Social Science & Medicine*, 51(1), pp. 135-146.
- Colander, D. (2000). "The Death of Neoclassical Economics", *Journal of the History of economic Thought*, 22(2), pp. 127-43.
- Colander, D. and Landreth, H. (2008). "Pluralism, Formalism and American Economics", in Fullbrook, E. (Ed.), *Pluralist Economics*. London: Zed Books.
- Colander, D., Holt, R. P. F. and Rosser, B. Jr. (2004). *The Changing Face of Mainstream Economics*. *Review of Political Economy*, 16, pp. 489-499.
- Creswell, John W. and Vicki, L. Plano Clark (2007). *Designing and Conducting Mixed Methods Research*. Sage Publications, Inc.: California.
- Cummins, Matthew and Ortiz, Isabel. (2011). "Global Inequality: Beyond the Bottom Billion", *UNICEF: Social and Economic Policy Working Paper*, pp. 1-65.

- Dar, H. (2002). "Islamic House Financing in the United Kingdom: Problems, Challenges and Prospects", *Review of Islamic Economics*, (12), pp. 47-72.
- Dar, H., et al. (2000). Lack of Profit Loss Sharing in Islamic Banking : Management and Control Imbalances. Available at: <http://www.lboro.ac.uk/departments/ec/papers/00-24/erp00-24.PDF>, Access Date: 14th May, 2014.
- Dar, Humayon A. (2004). "On Making Human Development More Human", *International Journal of Social Economics*, 31(11 & 12), pp. 1071-1088.
- David, D. (2008). "Neoclassical, mainstream, orthodox, and heterodox economics". *Journal of Post Keynesian Economics*, 30, (2), pp. 279-302.
- Davis, J. B. (1999). "Postmodernism and Identity Conditions for Discourses", in Garnett Jr, R. F. (Ed.), *What do Economists Know?*. London: Routledge.
- Davis, J. B. (2008). "The Change in and State of Recent Economics", *A Journal of Informed Opinion*, 7 (1), pp. 7-13.
- Davis, J. B. (2008). "The turn in recent economics and return of orthodoxy", *Cambridge Journal of Economics*, 32(3), pp. 349-366.
- Deane, P. (1978). *The evolution of economic ideas*. Cambridge: Cambridge University Press.
- Deane, P. (1989). *The state and the economic system: An introduction to the history of political economy*. Oxford: Oxford University Press.
- Deaton, A. (1997). *The Analysis of Household Surveys: A Microeconometric Approach to Development Policy*. World Bank, Baltimore: The Johns Hopkins University Press.
- Dimand, R. W. and Koehn, R. H. (2008). "Galbraith's heterodox teacher: Leo Rogin's historical approach to the meaning and validity of economic theory", *Journal of Economic Issues*, 42(2), pp. 561-568.
- Donald, A. Hay (1989). "Christianity and Economics: Biblical Foundations", in Paul Oslington (Ed.), *Economics and Religion Volume II*. (pp. 89-179). Edward Elgar Publishing Limited.
- Dow, S. C. (2000). "Prospects for the Progress in Heterodox Economics", *Journal of the History of Economic Thought*, 22(2), pp. 157-170.
- Dow, S. C. (2007). "Heterodox Economics: A Common Challenge to Mainstream Economics?" In Money, Distribution and Economic Policy: Alternatives to Orthodox Macroeconomics, pp. 31-46. (Ed.) E. Hein and A. Truger. Cheltenham: Edward Elgar.
- Dow, S. C. (2011). "Heterodox Economics: History and Prospects", *Cambridge Journal of Economics*, 35 (6), pp. 1151-1165.
- Dryzek, J. S. (1992). "How Far is It from Virginia and Rochester to Frankfurt? Public Choice as Critical Theory", *British Journal of Political Science*, 22(4), pp. 397-417.
- Dunn, B. (2008). *Global political economy: A Marxist critique*. London: Pluto.
- Dusuki, Asyraf Wajdi. (2007). "The Ideal of Islamic Banking: A Survey of Stakeholders' Perceptions", *Review of Islamic Economics*, 11, Special Issue, 2952.
- Ekelund, Jr.; Robert B. and Hebert, Robert F. (1990). *A History of Economics Theory And Methods. (Third Edition)*. US: McGRAW-HILL Publishing Company.

- Ekinci, Y. (1991). *Ahilik (Ahi System)*, 3rd edition, Ankara: Sistem Ofset.
- El-Ashker, A. A.-F. & Wilson, R. (2006). *Islamic economics: A short history*. Leiden: Brill.
- El-Gamal, M. A. (2000). *A basic guide to contemporary Islamic banking and finance*. Houston, TX: Rice University.
- El-Gamal, M. A. (2005). "Limits and Dangers of Shari`a Arbitrage". In S. N. Ali (Ed.), *Islamic Finance: Current Legal and Regulatory Issues*. Cambridge, Mass.: Islamic Finance Project, Islamic Studies Program, Harvard Law School.
- El-Ghazali, A. H. (1994). *Man is the Basis of Islamic Strategy for Economic Development*. Jeddah: IRTI.
- El-Karanshawy H. A.; Omar, A.; Khan , T.; Syed Ali, S.; Izhar, H.; Tariq, W. Ginena, K. and Al Quradaghi, B, (2015). *Islamic Economics: Theory, Policy and Social Justice*. Qatar: Boomsbury Qatar Foundation Journals.
- El-Mesawi, M. E. (2003). Human Nature and the Universality of Shari`ah: *Fitrah* and *Maqasid al-Shariah* in the works of Shah WaliAllah and Ibn Ashur. Paper presented in a seminar on Shah Wali Allah of Delhi organized by International Islamic University Malaysia, February 25.
- El-Sheikh, S. (2008). "The Moral Economy of Classical Islam: A Fiqhi Economic Model", *The Muslim World*, 98, pp. 116-144.
- El-Sheikh, S. (2011). *Islamic economics and finance, then and now; a fiqhi-conomic perspective on its doctrines and debates*. Department of economics. St. Francis Xavier University. Antigonish. NS. Canada. B2G 2W5.
- Elliott, A. (2014). *Concepts of the self*. Cambridge: Polity Press.
- Elsner, W. (2015). "Financial capitalism trapped in an 'impossible' profit rate: the infeasibility of a 'usual' profit rate, considering fictitious capital, and its redistributive, ecological and political implications", in Sebastiano Fadda and Pasquale Tridico (Eds), *The Economic Crisis in Social and Institutional Context*. Routledge.
- Eriksson, P. and Kovalainen, A. (2008). *Qualitative methods in business research*. London: SAGE Publications Ltd.
- ESI (European Security Initiative) (2005). *Islamic Calvinists: Change and Conservatism in Central Anatolia*. Berlin and Istanbul: ESI.
- Etzioni, A. (1988). *The Moral Dimension: Toward a New Economics*. London: Collier Macmillan.
- Fakhry, M. (1991). *Ethical Theories in Islam*. Leiden, NY, Copenhagen and Koln: E. J. Brill.
- Feldman, A. (1980). *Welfare economics and social choice theory*. Boston: Martinus Nijhoff Pub.
- Feldman, A. and Serrano, R. (2006). *Welfare Economics and Social Choice Theory*. New York, NY: Springer.

- Ferguson, D. L. (2009). *Measuring Business Value and Sustainability Performance*. Available at: <http://www.som.cranfield.ac.uk/som/dinamic-content/media/EABIS%20paper%20final.doc.pdf>, Access Date: 16th May, 2014.
- Forrest, B. (2000). "Methodological Naturalism and Philosophical Naturalism: Clarifying the Connection", *PHILO*, 3(2 Fall-Winter 2000), pp. 7-29.
- Foster, Benjamin R. (1970). "Agoranomos and Muhtasib", *Journal of the Economic and Social History of the Orient*, 13(2), pp. 128-144.
- Frey, B. S. (2001). *Inspiring economics: Human motivation in political economy*. Cheltenham: Edward Elgar.
- Friberg, K. (2015). "Accounts along the aid chain: administering a moral economy", *Journal of Global Ethics*, 11(2), pp. 246-256.
- Friberg, K. and Götz, N. (2015). "Introduction to the thematic issue 'Moral Economy: New Perspectives'", *Journal of Global Ethics*, 11(2), pp. 143–146,
- Friedman, Hershey H. (2001). "The Impact of Jewish Values on Marketing and Business", *Journal of Macromaking*. 21(June), pp. 74-81.
- Friedman, Milton (2002). *Capitalism and Freedom* (Fortieth Anniversary Edition). Chicago & London: University of Chicago Press.
- Fukuyama, F. (1995). *Trust : the social virtues and the creation of prosperity*. London: Hamish Hamilton.
- Fukuyama, Francis (1992). *The End of History and the Last Man Standing*. New York: Free Press.
- Fullbrook, E. (2009). *Ontology and Economics: Tony Lawson and his critics*. New York: Routledge.
- Fullbrook, E. (Ed.) (2008). *Pluralist Economics*. London: Zed Books.
- Gallie, W. B. (1956). "Essentially Contested Concepts", *Proceedings of the Aristotelian Society*, 56(1955 - 1956), pp. 167-198.
- Garnet Jr, R. F. (2008). "Paradigm and Pluralism" in Fullbrook, E. (Ed.), *Pluralist Economics*. London: Zed Books.
- Gaus, Gerald F. (2003). "Green, Bosanquet and the Philosophy of Coherence", in C. L. Ten (Ed.), *The Nineteenth Century* (pp. 408-436). London: Routledge.
- Ghazanfar S. M. (2000). "The Economic Thought of Abu Hamid Al-Ghazali and St. Thomas Aquinas: Some Comparative Parallels and Links", *History of Political Economy*, 32(4), pp. 857-888.
- Ghosh, B. N. (1995). "The Ontology of Islamic Political Economy: A Metatheoretic Analysis", *Humanomics*, 11(3), pp. 13-33.
- Gibbs H.A.R.; B. Lewis, Ch. Pellat, and C. E. Bosworth *et al.* (eds.) (1960-2002). *Encyclopaedia of Islam*. Second Edition, 11 vols. Leiden: E.J. Brill.
- Gill, R. and Leeworthy, D. (2015). "Moral minefields: Save the Children Fund and the moral economies of nursery schooling in the South Wales coalfield in the 1930s", *Journal of Global Ethics*, 11(2), pp. 218–232.

- Gorz, A. (1989). *Critique of economic reason*. London: Verso.
- Granovetter, M. and Richard, S. (eds.) (2001). *The Sociology of Economic Life*. Colorado: Oxford, Westview Press.
- Grice-Hutchinson, Marjorie (1978). *Early Economics Thought in Spain 1177-1740*. UK: George Allen & Unwin.
- Gulati, R., and Gargiulo, M. (1999). "Where do interorganizational networks come from?", *American Journal of Sociology*, 104, pp.1439-1493.
- Hagg, Claes. (1983). "Just Price and Equal Opportunity", *Journal of Business Ethics*, 2(4), pp. 269-272.
- Hallaq, S. (1994). "A Note on The Existence of An Islamic Social Welfare Function", *Humanomics*, 10(2), pp.50-57.
- Hallaq, S. (1997). "Beyond Rationalism: The Role of Values and Emotions in an Islamic Economy", *Humanomics*, 13(1), pp. 20-39
- Hallaq, Said (2002). "Individual, Society, and Social Choice in Islamic Thought", in Habib Ahmed (Ed.), *Theoretical Foundations of Islamic Economics* (pp.103-124). Jeddah: IRTI-Islamic Development Bank.
- Hameed, S. (2006). "The Importance of Hadith in Islam". Available at: www.islamonline.net/servlet/Satellite?c=Article_C&pagename=Zone-English-Living_Shariah/LSELayout&cid=1158658489489, Access Date: 26th May, 2014.
- Hands, D. W. (2010). "Economics, Psychology and the History of Consumer Choice Theory", *Cambridge Journal of Economics*, (34), pp. 633-648.
- Haneef, M. A. (2005). "Can there be an economics based on religion? The case of Islamic economics", *Post-autistic Economic Review*, 34.
- Haneef, M. A. and Hafas, F. (2011). "Methodology of Islamic Economics: Overview of Present State and Future Direction", *International Journal of Economics, Management and Accounting*, 19(1), pp. 1-29.
- Haniffa, Roszaini and Mohammad Hudaib. (2007). "Exploring the Ethical Identity of Islamic Banks via Communication in Annual Reports", *Journal of Business Ethics*, 76, pp. 97-116.
- Harcourt, G. C.; Sardoni, C., and Harcourt, G. C. (2003). *On political economists and modern political economy: Selected essays of G C Harcourt*. London: Routledge.
- Harris, Edward M. (2003). "Law and Economy in Classical Athens: [Demosthenes] Against Dionysodorus" ,in Adriaan Lanni (Ed.), C.W. Blackwell (Ed.), A. Mahoney (Ed.) and R. Scaife (Ed.). *Athenian Law in its Democratic Context: Demos Classical Athenian Democracy: A consortium for electronic publication in the humanities*. Available at: <URL:http://www.stoa.org/projects/demos/article_law_economy?page=3&greekEncoding=> Access Date: 11th June, 2014.
- Harsanyi, John C. (1955). "Cardinal Welfare, Individualistic Ethics, and Interpersonal Comparisons of Utility", *Journal of Political Economy*, 63(4), pp. 309-321.
- Harte, J. (2007). "Human Population As A Dynamic Factor In Environmental Degradation", *Population and Environment*, 28(4-5), pp. 223-236.
- Harvey, J. T. and Garnett, R. F. (2008). *Future Directions for Heterodox Economics*. Ann

Arbor: University of Michigan Press.

Harvey, M.; Ramlogan, R. and Randles, S. (2007). *Karl Polanyi: New Perspectives on the place of Economy in Society*. Manchester: Manchester University Press.

Hashim, S. H. (1998). *Income Inequality and Poverty In Malaysia*. Oxford: Rowman & Littlefield Publishers.

Hayek, Friedrich A. (2007 [1944]). *Road to Serfdom*. New York & London: Routledge Classic.

Heimann, Eduard (1947). *History of Economic Doctrines*. UK: Oxford University Press.

Hejeebu, Santhi and McCloskey, Deirdre (1999). "The Reproving of Karl Polanyi". *Critical Review*, Vol. 13 No. 3-4, pp. 285-314.

Helleiner, Eric (1995). "Great Transformations: A Polanyian Perspective on the Contemporary Global Financial Order". *Studies in Political Economy*, Vol. 48, (Autumn), pp. 149-164.

Hezser, C. (1993). *Form, Function, and Historical Significance of the Rabbinic Story in Yerushalmi Neziqin (Texte und Studien zum antiken Judentum)*. Germany: Mohr Siebeck.

Hirschmann, A. O. (1976) "Political Economy: Some Uses of The Exit- Voice Approach: Discussion", *American Economic Review*, 66(2), pp. 386-89.

Horsanyi, J. C. (1976). *Essays on Ethics, Social Behaviour, and Scientific Explanation*. Dorchet-Holland: D Reidel Publishing Company.

Howard, M. C. and King, J. E. (1975). *The political economy of Marx*. Harlow [Eng.: Longman.

Hunt, E. K. (1981). *Property and Prophets: The evolution of economic institutions and ideologies*. New York: Harper & Row.

Hunt, E. K. (1986). "Philosophy and Economics in the Writings of Karl Marx", in Suzanne W. Helburn and David F. Bramhall (Eds.), *Marx, Schumpeter & Keynes: A Centenary of Dissent* (pp.95-120). Armonk, NY: M.E. Sharpe.

Ibn Khaldun, A. a. R. (1969). *The Muqaddimah, an Introduction to History* (F. Rosenthal, Trans.). In N. J. Dawood (Ed.), (1st ed.). Princeton, New Jersey: Princeton University Press.

Ibn Manzur, (1955). *Lisan al-'Arab*. Beirut: Dar Sadir.

Ibn Taymiyyah, A. (1988). *Al-Siyasah al-Shariyya fi Islah al-Rai wa al-Raiyyah*. Beirut: Dar Al Kutub Al Ilmiyyah.

Ibrahim, W. (2000). *Islamic Finance in the Global Economy*. Edinburgh University Press.

Idris, J. S. (1990). "Is Man the Vicegerent of God?", *Journal of Islamic Studies*, 1(1), pp. 99-110.

Iqbal, M. and Mahmood, K. T. (2001). *Poetry of Allama Iqbal: 'Allāmah Iqbāl kī shā'irī Iqbālā kī śāyarī* : with original Urdu text, Roman and Hindi transliteration and poetical translation into English. New Delhi: Star Publications.

Iqbal, Zamir and Abbas Mirakhor (2004). "Stakeholders Model of Governance in Islamic Economic System", *Islamic Economic Studies*, 11 (2), pp. 43-63.

- Islahi, A. A. (1988). *Economic Concepts of Ibn Taimiyah*. Leicester, UK: Islamic Foundation.
- Islahi, A. A. (2014). *History of Islamic Economic Thought*. Cheltenham: Edward Elgar Publishing Limited.
- Islam, Sardar M. N. and Clarke, Matthew (2001). *The Relationship between Well-being, Utility and Capacities: A New Approach to Social Welfare Measurement based on Maslow's Hierarchy of Needs*. Available at: <URL: <http://ged.u-bordeaux4.fr/SAMATTHEW.pdf>> Access Date: 7th July, 2014.
- Islamic Glossary Home. (n.d.). University of Southern California. Available at: www.usc.edu/schools/college/crcc/engagement/resources/texts/muslim/reference/glossary/term.SUNNAH.html, Access Date: 26th May, 2014.
- Itami, H. (1987). *Mobilizing invisible assets*. Cambridge: Harvard University Press.
- Ivarsson, C. H. (2015). "Moral economy reconfigured: philanthropic engagement in post-tsunami Sri Lanka", *Journal of Global Ethics*, 11(2), pp. 233–245.
- Jalilian, H. and Kirkpatrick, C. (2002). "Financial Development And Poverty Reduction In Developing Countries", *International Journal of Finance & Economics*, 7(2), pp. 97-108.
- James, E. A. (2000). "An introduction to economics as a moral science", *International Journal of Social Economics*, 27(12), pp. 1231-1252.
- Jo, T-H. (2011). "Social provisioning process and socio-economic modeling", *American Journal of Economics and Sociology*, 70(5), pp. 1094-1116.
- Kahf, M. (1989). "Islamic Economics and Its Methodology," in A. Ghazali and S. Omar (eds.), *Readings in the Concept and Methodology of Islamic Economics*. Selangor Darul Ehsan: Pelanduk Publications.
- Kahf, M. (1989). *Islamic Economics and Its Methodology*. In G. Aidit & S. Omar (Eds.), *Readings in the Concept and Methodology of Islamic Economics*. Petaling Jaya, Selangor Darul Ehsan, Malaysia: Pelanduk Publications.
- Kahf, M. (2004). *Shari'ah and Historical Aspects of Zakah and Awqaf*. Jeddah: Islamic Development Bank.
- Kamali, M. H. (1989). "Siyasah Shar'uiyah or the Policies of Islamic Governmentú", *The American Journal of Islamic Social Sciences*, 6, 59.
- Kamali, M. H. (2002). *Freedom, Equality, and Justice in Islam*. Cambridge: Islamic Texts Society.
- Kamali, M. H. (2008). *Maqasid al-Shariah Made Simple*. London: International Institute of Islamic Thought.
- Kamali, M. H. (2010). *Right to Education, Work and Welfare in Islam*. Cambridge [U.K.]: Islamic Texts Society.
- Kamali, Mohammad Hashim (2003). "The Right to Personal Safety (Haqq al-Amn) and the Principle of Legality in Islamic Shari'a", in Muhammad Abdul Haleem et al. (eds.), *Criminal Justice in Islam: Judicial Procedure in the Shari'a*. London, New York: IB TAURIS.
- Karim, A. and Shafiel, A. (2010). *The Islamic moral economy; a study of Islamic money and financial instruments*. Brown Walker Press.:BocaRaton, Florid. USA.

- Karni, E. (1996). "Social Welfare Functions and Fairness", *Social Choice and Welfare*, 13(4), pp. 487-496.
- Keat, R. (2000). *Cultural Goods and the Limits of the Market*. Basingstoke: Macmillan.
- Kemp, Murray C. and Ng, Yew-Kwang (1976). "On the Existence of Social Welfare Functions, Social Orderings and Social Decision Functions", *Economica*, New Series, 43(169), pp. 59-66.
- Kern, W. S. (July 01, 1997). "The Heterodox Economics of "The Most Orthodox of Orthodox Economists", *American Journal of Economics and Sociology*, 56(3), pp. 319-330.
- Keynes, J. M. (1973). *Collected Writings of John Maynard Keynes*. (vols. 7) London and Cambridge: Macmillan and Cambridge University Press.
- Keynes, J. M. (2006). *The general theory of employment, interest and money*. Atlantic Publishers & Distributors.
- Khan, M. A. (1989). *Economic Teaching of Prophet Muhammad*. Islamabad: IIIIE and IPS.
- Khan, M. A. (1989). Methodology of Islamic Economics. In G. Aidit & S. Omar (Eds.), *Readings in the Concept and Methodology of Islamic Economics*. Petaling Jaya, Selangor Darul Ehsan, Malaysia: Pelanduk Publications.
- Khan, M. A. (1991). *The Future of Islamic Economics, Futures Futures*, 23(3), pp. 248-261.
- Khan, M. A. (2013). *What is Wrong with Islamic Economics? : Analysing the Present State and Future Agenda*. Northampton, MA: Edward Elgar Publishing Limited.
- Khan, M. F. (1992). "Theory of Consumer Behaviour an Islamic Perspective" in Tahir, S; Ghazali, A. and Agil, S. O. S (Eds.), *Reading in Microeconomics: An Islamic Perspective*. Malaysia: Longman.
- Khan, M. F. (2013). "An Alternative Approach to Analysis of Consumer Behaviour: Need for Distinctive "Islamic" Theory", *Journal of Islamic Business and Management*, 3(2), pp. 1-35.
- Khan, M. F. (2013). "Theorizing Islamic Economics: Search for a Framework for Islamic Economic Analysis", *Journal of King Abdulaziz University: Islamic Economics*, 26(1).
- Khan, M. S., et al. (1987). *Theoretical Studies in Islamic Banking and Finance*. Houston, Tex.: Institute for Research and Islamic Studies.
- Khan, M. S., et al. (1990). "Islamic Banking: Experiences in the Islamic Republic of Iran and in Pakistan", *Economic Development and Cultural Change*, 38(2), pp. 353-375.
- King, J. E. (2005). "Three Arguments for Pluralism in Economics", *Journal of Austrian Political Economy*, 30(2) pp. 82-88.
- Knoedler, J. and Underwood, D. (2003). "Teaching the Principles of Economics: A Proposal for a Multiparadigmatic Approach", *Journal of Economic Issues*, 37(3), pp. 697-725.
- Kreps, D. M. (1990). *A Course in Microeconomic Theory*. New York: Harvester Wheatsheaf.
- Kress, G. (1989). *Linguistic Processes in Sociocultural Practice*. (2nd ed.). Oxford: Oxford University Press.
- Kuran, T. (1995). "Islamic Economics and the Islamic Subeconomy", *The Journal of Economic Perspectives*, 9(4), pp. 155-173.

- Kuran, T. (1996). "The discontents of Islamic economic morality", *AEA Papers and Proceedings*, 86(2), pp. 438-442.
- Kuran, T. (2004). "Why the Middle East Is Economically Underdeveloped: Historical Mechanisms of Institutional Stagnation", *Journal of Economic Perspectives*, 18(3), pp. 71-90.
- Kuran, T. (2011). *The Long Divergence : How Islamic Law Held Back the Middle East*. Princeton; Oxford: Princeton University Press.
- Kuran, Timur (2000). "Islamic Influences in Ottoman Guilds", in Kamal Cicek et al. (eds.), *The Great Ottoman Turkish Civilisation*. (Vol. 2: Economy and Society). Ankara: Yene Turkiye.
- Kurt, I. (2014). "Social Life and Values Education from the View of AKHI Association", *Mevlana International Journal of Moral and Values Education*, 1(1), pp. 39-45.
- Lacher, H. (2007). *The slight transformation; Contesting the Legacy of Karl Polanyi*, in Bugra. A. and Agartan. K. (Ed.) *Reading Karl Polanyi for the twenty-first century*. New York. Palgrave Macmillan, pp. 49-61.
- Lannaccone, L. R. (1998). "Introduction to the Economics of Religion". *Journal of Economic Literature*, XXXVI (September), pp. 1465-1496.
- Lannaccone, L. R. (1998). "Introduction to the Economics of Religion". *Journal of Economic Literature*, XXXVI (September), pp. 1465-1496.
- Lapidus, I. M. (1996). "State and Religion in Islamic Societies", *Present and Past*. 151(1), pp. 3-27.
- Lavoic, M. (2006). "Do Heterodox Theories Have Anything in Common? A Post-Keynesian Point of View", *European Journal of Economics and Economic Policies: Intervention*, 3(1), pp. 87–112.
- Lawson, T. (2003). *Reorienting Economics*. London: Routledge.
- Lawson, T. (2006). 'The nature of heterodox economics', *Cambridge Journal of Economics*, 30(4), pp. 483-505.
- Lazzarato, Maurizio (2011). *The Making of the Indebted Man*. South Pasadena, CA: Semiotext(e).
- Lazzarato, Maurizio (2013). *Governing by Debt*. South Pasadena, CA: Semiotext(e).
- Leclaire, J. J., Jo, T.-H., & Knodell, J. E. (2011). *Heterodox analysis of financial crisis and reform: History, politics and economics*. Cheltenham: Edward Elgar.
- Lee, F. S. (2008). "Heterodox Economics", *A Journal of Informed Opinion*, 7(1), pp. 23-30.
- Lee, F. S. (2008a). "A Note on the Pluralism Debate in Heterodox Economics", Paper presented at *EAEPE Conference*. Rome, Italy.
- Leijonhufvud, A. (1981). *Information and coordination: Essays in macroeconomic theory*. New York: Oxford University Press.
- Lewis, B. (1937). "The Islamic Guilds", *The Economic History Review*, 8(1), pp. 20-37.
- Lewis, P. (2004). *Transforming Economics*. London: Routledge.
- Lloyd, T. (1972). "Africa and Hobson's Imperialism", *Past and Present*, 55, pp. 130-153.

- Lucas, R. E. B. and Verry, D. W. (1996) "Growth and Income Distribution in Malaysia", *International Labour Review*, 135(5).
- Lyon, F. and Porter, G. (2007). "Market institutions, trust and norms: exploring moral economies in Nigerian food systems", *Cambridge Journal of Economics*, pp. 1-18.
- MacNutt, P. A. (1999). *The economics of public choice*. Cheltenham [u.a.]: Elgar.
- Mahbub ul-Haq Human Development Centre (1999). *Human Development in South Asia 1999: the Crisis of Governance*. Oxford: Oxford University Press.
- Malawski, M. and Zhou, L. (1994). "A Note on Social Choice Theory without the Pareto Principle Social Choice and Welfare". *Social Choice and Welfare*, 11(2), pp. 103-107.
- Mandel, R. and Humphrey, C. (Eds), (2002). *Markets and Moralities: Ethnographies of Postsocialism*. Oxford: Berg.
- Mander, W. J. (2005). "Life and Finite Individuality: The Bosanquet/Pringle-Pattison Debate", *British Journal for the History of Philosophy*, 13(1), pp. 111-130.
- Mandler, M. (2006). "Cardinality versus Ordinality: A Suggested Compromise", *The American Economic Review*, 96(4), pp. 1114-1136.
- Mannan, Muhammad A. (1982). *Scarcity, Choice and Opportunity Cost: Their Dimensions in Islamic Economics*. Jeddah: King Abdulaziz University Press.
- Marazzi, Christian (2010). *The Violence of Financial Capitalism*. South Pasadena, CA: Semiotext(e).
- Marjanen, J. (2015). "Moral economy and civil society in eighteenth- century Europe: the case of economic societies and the business of improvement", *Journal of Global Ethics*, 11(2), pp. 205–217.
- Marx, K. (2004). *The Role of Social Context for Strategy Making*. Wiesbaden: Deutscher Universitäts-Verlag.
- Maslow, A. H. (1943). "A Theory of Human Motivation", *Psychological Review*, 50(4), pp. 370-396.
- Maududi, S. A. A. (1946). *Towards understanding Islam*. (3d ed. ed.) Darul Islam, Pathankot, Punjab, India: Tarjumanul Quran.
- Maududi, S. A. A. (1960a). *First principles of the Islamic state*. (2nd ed rev ed.) Lahore: Islamic Publications.
- Maududi, S. A. A. (1960b). *The Islamic law and constitution*. Lahore: Islamic Publications.
- Maududi, S. A. A. (1970). *The economic problem of man and its Islamic solution*. (2nd ed.) Lahore: Islamic Publications.
- Mawdudi, Abul A"la (1982). "Political Theory of Islam," in John J. Donahue and John L. Esposito (eds.), *Islam in Transition: Muslim Perspective*. New York: Oxford University Press.
- McCloskey, D. N. (1998). *The rhetoric of economics*. Madison, Wis: University of Wisconsin Press.
- McFarland , S. L. (1985). "Anatomy of an Iranian Political Crowd: The Tehran Bread Riot of December 1942", *International Journal of Middle East Studies*, 17(1), pp. 51-65.

- McGraw, B. A. (2012). Moral Economy in Global perspective: Protestant, Christianity, Confucianism, Islam and Hinduism, 5(2), September 2012-February 2013.
- McLean, I. (1987). *Public choice: An introduction*. Oxford: Basil Blackwell.
- Mearman, A. (2010) "Pluralism, heterodoxy and the rhetoric of distinction", *Review of Radical Political Economics*, 43(4), pp. 552-561.
- Mearman, A. (April 01, 2011). "Who Do Heterodox Economists Think They Are?", *American Journal of Economics and Sociology*, 70(2), pp. 480-510.
- Mehmet, O. (1990). *Islamic Identity and Development : Studies of the Islamic Periphery*. London; New York: Routledge.
- Mehmet, O. (2002). *Westernizing the Third World: The Eurocentricity of Economic Development Theories* (2nd ed.). London: Routledge.
- Mehmet, Ozay (1995). *Westernizing the Third World: The Euro-centricity of Economic Development Theories*. London & New York: Routledge.
- Milonakis, D. and Fine, B. (2009). *From political economy to economics: Method, the social and the historical in the evolution of economic theory*. London: Routledge.
- Mitchell, W. C. (2002). "The old and new public choice: Chicago versus Virginia", *Sage Public Administration Abstracts*, 29(2), pp. 157-304.
- Mohammad-Karim, M. S. (2010). Profit-Sharing Deposit Accounts in Islamic Banking: Analysing the Perceptions and Attitudes of the Malaysian Depositors. Durham University, Durham.
- Moldau, Juan H. (1992). "On the Lexical Ordering of Social States According To Rawls' Principles of Justice", *Economics and Philosophy*, 8(1), pp. 141-148.
- Moten, M. and Evans, D. (2011). *Economic Development and network Science*. NY: Military Academy Network Science Centre.
- Mueller, D. C. (1997). *Perspectives on public choice: A handbook*. Cambridge, U.K: Cambridge University Press.
- Mueller, Dennis C. (1989). *Public Choice II: A Revised Edition of Public Choice*. Cambridge: Cambridge University Press.
- Mueller, Dennis C. (1989). *Public Choice II: A Revised Edition of Public Choice*. Cambridge: Cambridge University Press.
- Munby, D. L. (1956). *Christianity and Economic Problems*. London, UK: Macmillan & Co Ltd.
- Muqtedar Khan, M Mohammad (1996). "The Philosophical Foundation of Islamic Political Economy", *The American Journal of Islamic Social Science*, 13-3 pp. 389-400.
- Murakami, Y. (1968). *Logic and Social Choice*. London: Routledge & Kegan Paul PLC.
- Murray, Louis and Lawrence, Brenda (2000). *Practitioner-Based Enquiry: Principles for Postgraduate Research*. London: Falmer Press.
- Musgrave, R. A. (1996). "The role of the state in fiscal theory", *International Tax and Public Finance*, 3(3), pp. 247-258.

- Myrdal, G. and Streeten, P. (1953). *The Political element in the development of economic theory*, by Gunnar Myrdal. Translated from the German by Paul Streeten. London: Routledge and Kegan Paul.
- Nagaoka, S. (2007). "Beyond the Theoretical Dichotomy in Islamic Finance: Analytical Reflections on Murabahah Contracts and Islamic Debt Securities", *Kyoto Bulletin of Islamic Area Studies*, 1.
- Nahapiet, J. and Ghoshal, S. (1998). "Social capital, intellectual capital, and the organizational advantage", *Academy of Management Review*, 23, pp. 242-266.
- Naqvi, S. N. H. (2003). *Perspectives on morality and human well-being. A contribution to Islamic economics*. Leicester: The Islamic Foundation.
- Naqvi, Syed N. H. (1981). *Ethics and Economics: An Islamic Synthesis*. Leicester: The Islamic Foundation.
- Naqvi, Syed N. H. (1983). *Individual Freedom, Social Welfare, and Islamic Economic Order*. Islamabad: Pakistan Institute of Development Economics.
- Naqvi, Syed N. H. (1994). *Islam, Economics, and Society*. London: Kegan Paul International.
- Naqvi, Syed N. H. (2002). *Development Economics: Nature and Significance*. London: Sage Publications.
- Naqvi, Syed N. H. (2003). *Perspectives on Morality and Human Well-being*. Leicester: The Islamic Foundation.
- Nasr, S. H. (2002). *Islam, Religion, History and Civilisation*. NY: Harper San Francisco.
- Nasr, Seyyed Hosen (1995). "Democracy and Islamic Revivalism", *Political Science Quarterly*, 110(2), 261-85.
- Naveh, Z. (2005). "Epilogue: Toward A Transdisciplinary Science Of Ecological And Cultural Landscape Restoration", *Restoration Ecology*, 13(1), pp. 228-234.
- Neuser, J. and Sonn, T. (1999). *Comparing Religion Through Law: Judaism and Islam*. London: Routledge.
- Ng, Yew-Kwang and Kemp, Murray (2001). *On the existence of social welfare functions, social orderings and social decision functions*. Edward Elgar.
- Niblock Tim and Wilson Rodney (1999). *The Political Economy of The Middle East Volume 3 Islamic Economics*. UK and USA: Edward Elgar Publishing Ltd/ Inc.
- Nienhaus, V. (1989). "Epistemology, Methodology and Economic Policy: Some Thoughts on Mainstream, Austrian and Islamic Economics", *Humanomics*, 5(1), pp. 91-112.
- Nienhaus, V. (2000). *Islamic Economics: Dogma or Science* (M. A. Kenny, Trans.). In K. Hafez (Ed.), *The Islamic World and the West: An Introduction to Political Cultures and International Relations*. Leiden: Brill.
- Nizam al-Mulk (2002). *The Book of Government and Or Rules of Kings: The Siyar al-Mulk or Siyasat-nama of Nizam al-Mulk*. (Translated by Hubert Darke). New York: Routledge.
- Nohria, N. and Eccles, R.G. 1992. *Networks and Organizations: Structure, form and action*. Boston, MA: Harvard Business School Press.
- Nor and Sigit Pramono. (2004). *Alternative Disclosure & Performance Measures for Islamic Banks*.

Kuala Lumpur: International Islamic University Malaysia.

Novarese, M. and Pozzali, A. (2010). "Heterodox Economics and the Scientist's Role in Society", *The American Journal of Economics and Sociology*, 69(5), pp. 1614-1635.

Nozick, R. (1974). *Anarchy, State and Utopia*. Oxford: Basil Blackwell.

Nu'mānī, F. and Rāhnemā, A. (1994). *Islamic economic systems*. London: Zed Books.

Numbers, R. L. "Science without God: Natural Laws and Christian Beliefs", in David C. Lindberg and Ronald L. Numbers (Ed.), *When Science and Christianity Meet* (pp.265-287). US: The University of Chicago Press.

Numbers, R. L. (2003). "Science without God: Natural Laws and Christian Beliefs", in David C. Lindberg and Ronald L. Numbers (Ed.), *When Science and Christianity Meet* (pp.265-287). US: The University of Chicago Press.

Nurmi, H. (2006). *Models of political economy*. London, Routledge.

Nyazee, I. A. K. (1995). *The Concept of Riba and Islamic Banking*. Islamabad: Niazi Pub. House.

O'Hara, P. A. and Curtin University of Technology (2002). *The revival of political economy and its main protagonists: 1960's to the present*. Perth: School of Economics and Finance, Curtin University of Technology.

O'Brien, D. P. (1993). "Classical Economics", in Warren J. Samuels, Jeff E. Biddle and John B. Davis (Eds.), *A Companion to: The History of Economic Thought*. (pp.114-129). Blackwell Publishing Ltd.

Oliver de Sardan, J. P. (1999). "A moral economy of corruption in Africa?", *The Journal of Modern African Studies*, 37(1), pp. 25–52.

Orchard, L. and Stretton H. (1997). "Public Choice", *Cambridge Journal of Economics*, 21(1), pp. 409-430.

Ostrom, E. (2005). *Understanding Institutional Diversity*. Princeton: Princeton University Press.

Pareto, V. (1971). *Manual of Political Economy* (A. S. Schwier, Trans.). In A. S. Schwier & A. N. Page (Eds.). New York: A.M. Kelley.

Peacock, A. T. (1992). *Public choice analysis in historical perspective*. Cambridge u.a: Cambridge Univ. Press.

Peacock, M. and Lewis, P. (2008). "Transforming economics into what? Heterodox economics and critical realism", *Cambridge Journal of Economics*, 32(2), pp. 219-233.

Pearl of Wisdom II. Available at: <URL:<http://www.lutonmuslims.co.uk/Pearls2.htm#P25>> Access Date: 20th May, 2014.

Peteraf, M. (1993). "The cornerstones of competitive advantage: A resource-based view", *Strategic Management Journal*, 14, pp. 179-191.

Piketty, T. (2014). *Capital in the Twenty-first Century*. Cambridge, MA & London: The Belknap Press of Harvard University Press.

Polanyi-Levitt, K. (2004). "Transformation of the World System: Some Insights from the

- Work of Karl Polanyi". *Development and Regionalism; Karl Polanyi's ideas and the contemporary world system transformation*, International Conference, Budapest, Hungary, November 5-6, 2004.
- Polanyi-Levitt, Kari (2006). "Keynes and Polanyi: The 1920s and the 1990s". *Review of International Political Economy*, Vol. 13, No. 1, pp. 152–177.
- Polanyi, K. (1944). *The Great Transformation: The Political and Economic Origins of Our Time*. 2nd ed., Boston: Beacon Press.
- Polanyi, K. (1947). "Our Obsolete Market Mentality", *Commentary*, Vol. 3, pp. 109- 117, in Gerorge Daltom (ed.) (1968). *Primitive, Archaic and Modern Economies*. New York: Anchor Books.
- Polanyi, K. (1957, originally 1944). *The Great Transformation; The Political and Economic Origins of Our Time*. Boston: Bacon Press, Boston.
- Polanyi, K. (1957). *The Great Transformation*. Boston: Beacon.
- Polanyi, K. (1966). *Dahomey and the Slave Trade; An Analysis of an Archaic Economy*. Seattle and London: University of Washington Press.
- Polanyi, K. (1977) *The Livelihood of Man*. Edited by Harry W. Pearson, New York, Academic Press, Inc.
- Pollak, R. A. (1976). *Bergson-Samuelson social welfare functions and the theory of social choice*. Philadelphia. PA: Wharton School, University of Pennsylvania, Dept. of Economics.
- Pollak, R. A. (1979). "Bergson-Samuelson Social Welfare Functions and the Theory of Social Choice", *The Quarterly Journal of Economics*, 93(1), pp. 73-90.
- Pope Francis (2015). *Laudato Si' (On Care for Our Common Home)*. London: Catholic Truth Society.
- Powell, W.W. and Smith-Doerr, L. (1994). "Networks and economic life", in N. Smelser, and R. Swedberg (eds.), *The handbook of economic sociology*: 368-402. Princeton, NJ: Princeton University Press.
- Pramanaik, Ataul H. (1993). *Development and Distribution in Islam*. Petaling Jaya: Pelanduk Publications.
- Putnam, Robert D. (2002). *Democracies in Flux: The Evolution of Social Capital in Contemporary Society*. Oxford: Oxford University Press.
- Qutb, S. (1976). "Islamic Approach to Social Justice", in Khurshid Ahmad (Ed.), *Islam: Its Meaning and Message* (pp.117-130). Leicester: The Islamic Foundation.
- Rafiq, Abdul-Karim (1991). "Craft Organisation, Work Ethics, and the Strains of Change in Ottoman Syria", *Journal of American Oriental Society*, 111(03), pp. 495-511.
- Rawls, J. (1972). *A Theory of Justice*. Oxford: Clarendon Press.
- Rawls, J. (1985). "Justice as Fairness: Political not Metaphysical", *Philosophy & Public Affairs*, 14(3), pp. 223-251.
- Rawls, J. (1999). *A theory of justice*. Harvard university press.

- Razmi, M. J.; Abbasian, E. and Mohammadi, S. (2012). "Investigating the Effect of Government Health Expenditure on HDI in Iran", *Journal of Knowledge Management, Economics and Information Technology*, Available at: http://www.scientificpapers.org/wp-content/files/1317_Razmi_Investigating_the_effect_of_government_health_expenditure_on_HDI_in_Iran.pdf, Access Date: 13th February, 2016.
- Reilly, B. J. and Zangeneh, H. (1990). "The Value-based Islamic Economic System and Other Optimal Economic Systems: A Critical Comparative Analysis", *International Journal of Social Economics*, 17(11) pp. 21-35.
- Reinhart, M. and Rogoff, Kenneth (2011). *This Time Is Different: Eight Centuries of Financial Folly*. New York: Princeton University Press.
- Resnicoff, S. H. (2005). "Contemporary Issues in Halakhah", in N. De Lange and M. Freud-Kandel (Ed.), *Modern Judaism*, (pp. 363-374). UK: Oxford University Press.
- Robbins, L. (1981). "Economics and Political Economy", *The American Economic Review*, 71(2), pp. 1-10.
- Robinson, A. H. R. (2016). *Heterodox Economics: Beyond Neoclassical Economics*.
- Rodríguez, G.-B. A., Turmo, J., & Vara, O. (2014). *Financial crisis and the failure of economic theory*.
- Rosly, S. A. and Bakar, M. A. A. (2003) "Performance of Islamic And Mainstream Banks In Malaysia", *International Journal of Social Economics*, 30(12), pp. 1249 – 1265.
- Rothbard, M. N. (1977). *Toward a reconstruction of utility and welfare economics*. New York, Center for Libertarian Studies.
- Rowley, Charles K. and Peacock, Alan T. (1975). *Welfare Economics: A Liberal Restatement*. London: Martin Robertson.
- Runzo, Joseph (2001). *A short Introduction: Global Philosophy of Religion*. Newyork: One World Publication.
- Ryan, P. M. Allis. (2003). *The History of the Market System*. Available at URL: <<http://www.zeromillion.com/econ/history-of-the-market-system.html>> Access Date: 23rd December, 2015.
- Salvatore, Armando (2007). *The Public Sphere: Liberal Modernity, Catholicism, Islam*. England: Palgrave Macmillan.
- Salvatore, Armando (2007). *The Public Sphere: Liberal Modernity, Catholicism, Islam*. England: Palgrave Macmillan.
- Sandberg, J. (2015). "Moral economy and normative ethics", *Journal of Global Ethics*, 11(2), pp. 176–187.
- Sardar, Ziauddin (1985). *Islamic Futures: The Shape of Ideas to Come*. London: Mansell.
- Sardar, Ziauddin (1989). *Explorations in Islamic Science*. London: Mansell.
- Sardar, Ziauddin (1997). "Beyond Development: an Islamic Perspective," in Vincent Tucker (ed.), *Cultural Perspectives on Development*. London: Frank Cass Publications.
- Sardar, Ziauddin (1997). "Development and the Locations of eurocentrism," in Ronaldo

- Munck and Denis O'Hearn (eds.), *Critical Development Theory: Contributions to a New Paradigm*. London: Zed Publications.
- Sardar, Ziauddin (2003). "Asian Cultures: Between Programmed and Desired Futures", in Inayatullah, Sohail and Boxwell, Gail (2003). *Islam, Postmodernism and Other Futures: A Ziauddin Sardar Reader*. London: Pluto Press.
- Sayer, A. (2000). "Moral Economy and Political Economy", *Studies in Political Economy*, 61, pp. 79-103.
- Sayer, A. (2003a). ("De-)Commodification, consumer culture and moral economy", *Environment and Planning D: Society and Space* 21, pp. 341–57.
- Sayer, A. (2003b). *Restoring the Moral Dimension: Acknowledging Lay Normativity*. Conference paper, published by the Department of Sociology, Lancaster University, Lancaster. Available at: LA1 4YL, UK at <http://www.comp.lancs.ac.uk/sociology/papers/sayer-restoring-moraldimension.pdf>, Access Date: 21st December 2015.
- Sayer, A. (2005a). 'Agendas for Moral Economy', paper presented at Perspectives on Moral Economy: An International Conference, Lancaster, UK, 25–27 August, Available at: <http://www.lancs.ac.uk/fss/sociology/events/moralecon/moraleconagendas.htm>, Access Date: 12th November, 2015.
- Sayer, A. (2005b). *The Moral Significance of Class*. Cambridge: Cambridge University Press.
- Sayer, A. (2007). "Moral Economy as Critique", *New Political Economy*, 12(2), pp. 261-270.
- Scott, J. (1985). *Weapons of the Weak: Everyday Forms of Peasant Resistance*. New Haven: Yale University Press.
- Scott, James C. (1976). *The Moral Economy of the Peasant: Rebellion and Subsistence in Southeast Asia*. New Haven: Yale University Press.
- Sen, Amartya K. (1970). *Collective Choice and Social Welfare*. San Francisco: Holden-Day Inc.
- Sen, Amartya K. (1982). *Choice, Welfare and Measurement*. Oxford: Basil Blackwell.
- Sen, Amartya K. (1999). *Development as Freedom*. Oxford: Oxford University Press.
- Sen, Amartya K. (2009). "Arrow and the Impossibility Theorem", in Eric Maskin and Amartya Sen (Eds.), *The Arrow Impossibility Theorem* (pp.29-42). Available at: <URL: <http://issuu.com/columbiaup/docs/maskin-arrow-excerpt?e=8118850/8460659#search>> Access Date: 27th May, 2014.
- Shah, A. and World Bank (2005). *Public Services Delivery*. Washington, D.C: World Bank.
- Shepard, Jonathan. (2000). "Byzantium in Equilibrium", in T. Reuter (Ed.), *The New Cambridge Medieval History III: C.900-C.1024* (pp. 553-566). Cambridge University Press.
- Siddiqi, M. N. (1981). *Muslim Economic Thinking: A Survey of Contemporary Literature*. Leicester: The Islamic Foundation.
- Siddiqi, M. N. (2004). What Went Wrong? Keynote Address at the Roundtable on Islamic Economics: Current State of Knowledge and Development of Discipline, held at Jeddah, Saudi Arabia on 26-27 May 2004 under joint auspices of the Islamic Research and Training Institute, Jeddah; and the Arab Planning Institute, Kuwait. Available at: <http://www.siddiqi.com/mns/Keynote_May2004_Jeddah.html>, Access Date: 13th December 2016.

- Siddiqi, M. N. (2007). *Economics of Tawarruq: How its Mafasid overwhelm the Masalih*. Available at: <URL: http://www.siddiqi.com/mns/Economics_of_Tawarruq.pdf> Access Date: 03rd August, 2014.
- Siddiqui, S. A. (2011). "Defining Economics and Islamic Economics", *Review of Islamic Economics*, 15(2) pp. 113-142.
- Siddiqi, M. N. (Ed.) (2009). *Encyclopaedia of Islamic Economics: Principles, Definitions and Metodology* (Vol. 1). London: The Encyclopadia of Islamic Economics.
- Sinha, D. (1998). "Government Expenditure and Economic Growth in Malaysia", *Journal of Economic Development*, 23(2).
- Sirageldin, I. (1995). "Islam, Society, and Economic Policy", *The Pakistan Development Review*, 34(4), pp. 457-480.
- Sirageldin, I. (2002). "The Elimination of Poverty: Challenges and Islamic Strategies," in M. Iqbal (Ed.), *Islamic Economic Institutions and the Elimination of Poverty*. Leicester: Islamic Foundation.
- Sirdeshmukh, D.; Singh, J. and Sabol, B. (2002). "Consumer Trust, Value, And Loyalty In Relational Exchanges", *Journal of Marketing*, 66(1), pp. 15-37.
- Smith, A. (1776). *The Wealth of Nations*. London: Penguin.
- Smith, A. (1976). *The Theory of Moral Sentiments*. Oxford: Clarendon Press.
- Smith, W. C. (1979). *Faith and Belief*. New Jersey: Princeton University Press.
- Sowell, Thomas. (1996). *From Marxism to the Market*. Available at: <URL:<http://www.issues-views.com/index.php/sect/2003/article/2046>> Access Date: 14th January, 2016.
- Spash, L. C. (2012). "Towards the integration of social, economic and ecological knowledge", in Gerber, J. F. and Steppcher, R. (Eds.), *Towards an Integrated Paradigm in Heterodox Economics*. Palgrave.
- Stabel, Peter. (2004). "Guilds in Late Medieval Flanders: Myths and Realities of Guild Life in an Export-Oriented Environment", *Journal of Medieval History*, 30(2004), pp. 187-212.
- Staniland, M. and Harvard University (1985). *What is political economy?: A study of social theory and underdevelopment*. New Haven: Yale University Press.
- Steiner, P. (2008). "Foucault, Weber and the history of the economic subject", *The European Journal of the History of Economic Thought*, 15(3), pp. 503-527.
- Stiegler, B. (2010). *For a new critique of political economy*. Cambridge: Polity.
- Stiglitz, John (1998). *Towards a New Paradigm for Development: Strategies, Policies and Processes*. 9 Raul Prebisch Lecture given at United Nations Conference on Trade and Development (UNCTAD) on 19 October 1998, New York: USA.
- Strauss, A. L. and Corbin, J. M. (1990). *Basics of qualitative research: Grounded theory procedures and techniques*. Newbury Park, Calif: Sage Publications.
- Sugden, R. (1981). *The Political Economy of Public Choice*. Oxford: Robertson.
- Sugden, R. (1993). "Welfare, Resources, and Capabilities: A Review of Inequality Reexamined by Amartya Sen", *Journal of Economic Literature*, 31(4), pp. 1947-1962.

- Sugden, R. and Weale, A. (1979). "A Contractual Reformulation of Certain Aspects of Welfare Economics". *Economica*, New Series, 46(182), pp. 111-123.
- Sunkel, O. (1972). "Big Business and "Dependencia" *Foreign Affairs* (50), pp. 517-531.
- Sunkel, O. (1990). Reflections on Latin American Development. In J. L. Dietz & D. D. James (Eds.), *Progress Toward Development in Latin America: From Prebisch to Technological Autonomy* (pp. 133-158). Boulder: Lynne Rienner Publishers.
- Sustainability Report. (2013). <http://www.sustainability.baxter.com/environment-health-safety/>
- Svensson, L. G. (1989). "Fairness, the Veil of Ignorance and Social Choice", *Social Choice and Welfare*, 6(1), pp. 1-17.
- Tabb, W. K. (1999). *Reconstructing political economy: The great divide in economic thought*. London: Routledge.
- Taleqani, Ayatullah Mahmud (1986). "Jihad and Shahadat", in Mehdi Abedi and Gary Legenhausen (Eds.), *Jihad and Shahadat: Struggle and Martyrdom in Islam*. North Haledon & New Jersey: Islamic Publications International.
- Tawney, R. H. (1926). *Religion and the Rise of Capitalism: A Historical Study*. Gloucester: Peter Smith.
- Taylor, Charles (1999). "Two Theories of Modernity", *Public Culture*, 11(1), pp. 153– 174.
- Teece, D.; Pisano, G. and Shuen, A. (1997). "Dynamic capabilities and strategic management", *Strategic Management Journal*, 18, pp. 509-533.
- Thomas, W. H., et al. (1999). "Methodological Controversies in Economics and Political Economy", *International Journal of Social Economics*, 26(10-11), pp. 10-11.
- Thompson, E. P. (1971). "The Moral Economy of the English Crowd in the Eighteenth Century", *Past and Present*, 50(1), pp. 76-136.
- Thompson, L. J. (2004). "Moral leadership in a postmodern world", *Journal of Leadership & Organizational Studies*, 11(27).
- Tibi, Bassam (1995). "Culture and Knowledge, The Politics of Islamization of Knowledge as a Postmodern Project?, The Fundamental Claim to De- Westernisation". *Theory Culture Society*, 12(1), 1-24.
- Tomer, J. F. (2001). "Economic man vs. heterodox men: the concepts of human nature in schools of economic thought", *The Journal of Socio-Economics*, 30(4), pp. 281-293.
- Torlak, O. and Ozmen, M. (2009). "A Comparison between East and West in terms of Marketing ethics code", *CHARM*, pp. 83-86.
- Tripp, C. (2006). *Islam and Moral Economy: The challenges of Capitalism*. Cambridge: Cambridge University Press.
- Tsoufidis, L. (2010). *Competing schools of economic thought*. Berlin: Springer.
- Turner, A. (2012). *Economics After the Crisis : Objectives and Means*. Cambridge, Mass.: MIT Press.
- Turner, B. S. (1978). "Orientalism, Islam and Capitalism", *Social Compass*, 25(3-4), pp.

371-394.

Turner, B. S. (1984). *Capitalism and Class in the Middle East : Theories of Social Change and Economic Development*. London: Heinemann Educational.

Ubeda, L. (2004). "Neutrality in Arrow and Other Impossibility Theorems", *Economic Theory*, 23(1), pp. 195-204.

Udehn, L. (1996). *The limits of public choice: A sociological critique of the economic theory of politics*. London [u.a.]: Routledge.

Ul-Haq, I. (1996). *Economic Doctrines of Islam: A study in the doctrines of Islam and their implications for poverty, employment, and economic growth*. Herndon, Virginia: IIIT.

Unluhisarcikli, O. (2005). *Vocational Training through the Apprenticeship System in Turkey*. Paper presented at The Future of Lifelong Learning and Work, OISE, University of Toronto on 20–22 June 2000. Available at <<http://lifelong.oise.utoronto.ca/papers/rOzlemPaper.pdf>> Access Date: 25th December, 2015.

Usmani, M. T. (2007). *An Approach To The Quranic Sciences: Uloom-ul-Quran*. Pakistan: Darul-Ishaat.

Uzzi, B. (1997). "Social structure and competition in interfirm networks: The paradox of embeddedness", *Administrative Science Quarterly*, 42, pp. 35-67.

Varian, H. R. (1975). "Distributive Justice, Welfare Economics, and the Theory of Fairness", *Philosophy & Public Affairs*, 4(3), pp. 223-247

Varian, H. R. (1999). *Intermediate microeconomics: A modern approach*. New York: W.W. Norton & Co.

Varian, H. R. (2010). *Intermediate Microeconomics a Modern Approach (8th Edition)*. New York, London: W.W. Norton and Company.

Vass, T. (2012). "The Principle of Consumer Sovereignty and the Foundations of Welfare Economics", Available at: https://www.academia.edu/5583524/Principle_of_Consumer_Sovereignty, Access Date: 12th January, 2016.

Visser, H. (2009). *Islamic Finance Principles and Practice*. Cheltenham, UK; Northampton, Massachusetts: Edward Elgar Publishing Limited.

Vogel, F. E., et al. (1998). *Islamic Law and Finance: Religion, Risk, and Return*. Boston, Mass.: Kluwer Law International.

Von Der Luft, Eric (1984). "Sources of Nietzsche's "God is dead!" and its Meaning for Heidegger", *Journal of the History of Ideas*, 45(2), pp. 263-76.

Von, M. L. (2010). *Treatise on economics: Human action*. Place of publication not identified: Ludwig Von Mises Inst.

Wade, H. W. R. (1949). "Quasi-Judicial' and Its Background", *The Cambridge Law Journal*, 10(2), pp. 216-240.

Wade, H. W. R. (1949). "Quasi-Judicial and its Background". *The Cambridge Law Journal*, 10(2), pp. 216-240.

- Wade, L. L. (1983). *Political economy*. Boston: Kluwer-Nijhoff.
- Wæver, O. (2007). *World Conflict over Religion : Secularism as Flawed Solution*.
- Wagner, R. E. and Gwartney, J. (2004). "The Public Choice Revolution", in Jac C. Heckelman (Eds.), *Readings in Public Choice Economics* (pp.3-18). USA: The University of Michigan Press.
- Wali Ullah, S. (1995). *Hujjat Ullah il-Balighah*. Beirut: Dar al Fikr.
- Wali-Allah, Shah (1996). *The Conclusive Argument from God: Shah Wali Allah of Delhi's Hujjat Allah al-Baligha*. Translated from Arabic by Marcia K. Hermansen. Netherlands: E. J. Brill, Leiden.
- Wallace R. (2015) *An Ecosystem Approach to Economic Stabilisation: Escaping the neoliberal wilderness*. Routledge.
- Walras, L. (1874). *Elements of Pure Economics: Or, the Theory of Social Wealth* (W. Jaffe, Trans.): Harvard University Press.
- Warfield, John. (n.d.). Paper: "Shortcomings of Economics," January 2009. (Manuscript: typescript, 18 pgs).
- Waterman, A. M. C. (2004). *Political economy and Christian theology since the Enlightenment: Essays in intellectual history*. Houndmills, Basingstoke, Hampshire: Palgrave Macmillan.
- Weber, Max (2003 [1930]). *The Protestant Ethic and the Spirit of Capitalism*. New York: Dover.
- Welngast, Barry R. (1995). "The Economic Role of Political Institutions: Market-Preserving Federalism and Economic Development", *Journal of Law, Economics & Organisation*, 11(1), pp. 1-31.
- White, B. H. (1980). "A heteroskedasticity - consistent covariance matrix estimator and a direct test for heteroskedasticity", *Econometrica*, 48(4), pp. 817-837.
- Wieser, F. V. (1927). *Social Economics* (A. F. Hinrichs, Trans.). New York: Adelphi Company. Williams, B. (2005). A Critique of Utilitarianism. In N. Warburton (Ed.), *Philosophy Basic Readings* (pp. 156- 169). London; New York: Routledge.
- Wilkinson, R. G. and Pickett, K. (2009) *The Spirit Level: Why More Equal Societies Almost Always Do Better*. London: Allen Lane.
- Williams, Judith B. (1945). Reviewed work: "The Great Transformation" by Karl Polanyi (1944, Beacon Press), *The Journal of Economic History* (Cambridge University Press), Vol. 5, No. 1, pp. 124-25.
- Williams, M. and Reuten, G. (1994). "The political economy of welfare and economic policy", *European Journal of Political Economy*, 10(2).
- Wilson, R. B. (1972). "Social Choice Theory without the Pareto Principle", *Journal of Economic Theory*, 5(3), pp. 478-486.
- Wolff, Jonathan (2006). *An Introduction to Political Philosophy*. Oxford, UK: The Oxford University Press.
- Worsley, P. (2002). *Marx and Marxism*. London: Routledge.
- Wrenn, M. V. (2006). "Agency and Mental Models in Heterodox Economics", *Journal of*

Economic Issues, 40, pp. 483-492.

Wrenn, M. V. (2009). "Response to the Comment: What is Heterodox Economics? Conversations with Historians of Economic Thought", *Forum for Social Economics*, 38(1), pp. 75-78.

Yandle, B. (1990). "The Decline and Rise of Political Economy", *European Journal of Political Economy*, 6(2), pp. 165-179.

Yazgan, Turan (1986). "Ahilik", in Social Policy. Unpublished Manuscript. Istanbul University, Faculty of Economics, Department of Public Finance.

Yousef, T. M. (2004). The Murabaha Syndrome in Islamic Finance: Laws, Institutions and Politics. In C. M. Henry and R. Wilson (eds.), *The Politics of Islamic Finance*. Edinburgh: Edinburgh University Press.

Zaman, A. (2013). *Logical Positivism and Islamic Economics*. Paper presented at the 2nd International Conference on Islamic Economics & Economies of the OIC Countries ICIE2013. ICIE2013 will be held on 29 - 30 January, 2013 at Prince Hotel and Residence, Kuala Lumpur, Malaysia.

Zarqa, A. (1989). An Approach to Human Welfare. In A. Ghazali and S. Omar (eds.), *Readings in the Concept and Methodology of Islamic Economics*. Petaling Jaya, Selangor Darul Ehsan, Malaysia: Pelanduk

Zarqa, Anas (1980). "Islamic Economics: An Approach to Human Welfare", in Khurshid Ahmad (ed.), *Studies in Islamic Economics* (pp.3-18). Leicester: The Islamic Foundation.

Zarqa, Muhammad Anas (1988), "Islamic Distributive Schemes", in Munawar Iqbal (ed.), *Distributive Justice and Need Fulfillment in an Islamic Economy*. Leicester: The Islamic Foundation.

Zeera, (Al), Zahra (2001). "Transformative Inquiry and Production of Islamic Knowledge", *American Journal of Islamic Social Sciences*, 18, pp. 1-32.

Zekavat, S. M. (2007). *Political Economy of Islam: A Blend of Traditional Islamic laws and Modern Political Economy*. Dartford: Xlibris.

Zekavat, Seid M. (2007). *Political Economy of Islam*. Dartford: Xlibris.

Zweynert, J. (2007). "How can the History of Economic Thought Contribute to an Understanding of Institutional Change?", *Journal of the History of Economic Thought*, 29(2), pp. 189-211.