

ECONOMIC THOUGHT AT THE CROSSROADS:
DEVELOPMENT OF A FRAMEWORK OF ISLAMIC
ECONOMICS (IE) THROUGH INTEGRATION OF
KNOWLEDGE (IoK)

BY

JASMIN OMERCIC

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ABSTRACT

Economic thought has always been integral to human living. The recent few centuries have driven economic thought to ups and downs and set it at the crossroads whereby alternatives became more popular. The maturing consciousness of humanity has realized that mainstream neoclassical economics suffers from severe problems of philosophical foundations (ontology, epistemology, axiology and methodology) that even extant heterodox economics alternatives failed to address. Islamic Economics (IE) as a unique heterodox alternative questioned the foundations since inception and is appraised as such in this research. Thus, this research develops a framework of Islamic Economics (IE) development through Integration of Knowledge (IoK) based on Islamisation of Knowledge (IOK). A brief review of development of economics with relevant examples revealed that a physicalist ontology, rationalist epistemology, axiological futility and methodological deficiency persisted as foundational problems in mainstream and even present heterodox economics. However, parallel to IOK development, IE developed as a response to such western originated economic thought in early decades of the 20th century. The *işlāh* (reform) and *tajdīd* (renewal) movements of IOK and IE had hard time to actualise envisioned aspirations and lost the initial zeal by the end of the 20th century. Global popularity of knowledge integration led to a shift in IOK to IoK. This research appraises the IoK based on IOK. It analyses the trend of IOK and IE development to highlight the intention of integration within IOK foundational and some later writings and adopts IoK to develop IE. This research was conducted through literature survey, discourse and critical content analysis, simplified thematic meta-analysis and semi-structured interviews of relevant individuals to obtain their expertise and scholarly insights about the six-stages of the IoK framework for IE development based on IOK. The identified themes in systematic trend analyses of IOK and IE development facilitated construction of the framework and identification, extraction and operationalisation of IoK methodological principles as criteria for IE theory appraisal and validation within the framework. The trend analyses, interview findings and narrative smoothing discussion thoroughly validated the framework's acceptability and viability for IE development and most importantly the methodological principles' role in appraising and validating IE theories. Besides the highlight of the discussion of interview experts' corroboration of the IoK framework and methodological principles, it equally supported the findings of trend analyses themes based on which the framework was developed, and linked findings with extant literature and theories. This is followed by some examples on how the framework can be applied in Islamic banking and finance, welfare economics, waqf and Sustainable Development Goals. Some recommendations on future research are given to demonstrate how the framework has multidisciplinary implications and as such has the potential to resolve not only problems and issues within mainstream or existing heterodox economics but those of other disciplines integratively as well.

ملخص البحث

لطالما كان الفكر الاقتصادي جزءاً لا يتجزأ من الحياة البشرية، لكن في القرون الأخيرة كان هذا الفكر بين صعود وهبوط حتى غدى على مفترق الطرق في وقت أصبحت فيه البدائل الأخرى أكثر حضوراً. إن نضج الوعي البشري في السنوات الأخيرة دفع لإدراك أن الاقتصاد الكلاسيكي الحديث يعاني من مشاكل حادة في الأسس الفلسفية المؤسسة له كمنظريّة المعرفة ومنظريّة القيم وعلم الوجود والمنهجية التي يقوم عليها. هذه المشاكل التي لم تستطع حلها النظريات الاقتصادية الأخرى كذلك مثل الاقتصاد غير التقليدي (الهترودوكس). أما الاقتصاد الإسلامي كالاقتصاد الهترودوكس الخاص يعتبر بديلاً للنظريات الاقتصادية السائدة اليوم، فقد شكك في الأسس التي يقوم عليها الاقتصاد الكلاسيكي الحديث منذ بداية نشأته، وهو ما سوف نقيمه ونناقشه في هذا البحث. مع العلم إن هذا البحث يسعى لوضع أطر للتنمية الاقتصادية الإسلامية من خلال تكامل المعرفة (IoK) القائمة على إسلامية المعرفة (IOK). وباستعراض سريع لتطور الفكر الاقتصادي الكلاسيكي الحديث مع ضرب لبعض الأمثلة ذات الصلة يتبين لنا مقدار النقص والخلل بل العيوب المنهجية والمنطقية الكامنة في الفكر الاقتصادي السائد وغيره من النظريات الاقتصادية الأخرى مثل الهترودوكس الحاضر. في أوائل القرن العشرين وبالتوازي مع تطور نظرية إسلامية المعرفة فقد تطور الفكر الاقتصادي الإسلامي كرد فعل للفكر الاقتصادي الغربي، وكان من الصعب على حركات الإصلاح والتجديد الإسلامية المنادية بنظرية مستقلة للمعرفة الإسلامية وباقتصاد إسلامي أن تحقق أهدافها، بل أنها فقدت الحماسة بحلول نهاية القرن العشرين. وأدى شيوع وانتشار فكرة التكامل المعرفي عالمياً إلى تحول الاهتمام من إسلامية المعرفة إلى تكامل المعرفة. وعليه فإن هذا البحث يقيم نظرية التكامل المعرفي من خلال الأسس التي تقوم عليها نظرية إسلامية المعرفة. وكذلك فإن هذا البحث يحلل التطور الفكري لإسلامية المعرفة والاقتصاد الإسلامي مع البحث هل هناك نزعة تجاه التكامل المعرفي من خلال الكتابات المؤسسة لهذا الفكر وكذلك بعض الكتابات اللاحقة التي اعتمدت نظرية المعرفة كمدخل لتطوير علم خاص بالاقتصاد الإسلامي. تم إنجاز هذا البحث من خلال مسح شامل للدراسات السابقة واعتماد أسلوب تحليل المحتوى النقدي، وأسلوب التحليل الموضوعي الإبداعي، وأجريت كذلك مقابلات شبه منظمة مع أصحاب الشأن من العلماء والمفكرين لتحصيل خبراتهم وخلاصة أبحاثهم وفكرهم حول المراحل الستة للإطار المقترح للتكامل المعرفي لتطوير الاقتصاد الإسلامي. تم تحديد المواضيع والخطوط الرئيسية في تحليل نظرية إسلامية المعرفة ومراحل تطور الاقتصاد الإسلامي في بناء إطار للعمل مع تحديد واستخراج وتفعيل المبادئ المنهجية لنظرية التكامل المعرفي كمعايير في تقييم وتحديد صلاحية نظرية الاقتصاد الإسلامي ضمن الإطار المقترح. أسلوب تحليل المواضيع ونتائج المقابلات مع الانسيابية في مناقشة الأفكار ساعد في التحقق من مصداقية الإطار المقترح لتطوير الاقتصاد الإسلامي، والأهم من ذلك هو التحقق من دور المبادئ المنهجية في تقييم ومصادقية فرضيات الاقتصاد الإسلامي. وأظهر فصل مناقشة نتائج المقابلات، أن الخبراء الذين تم مقابلتهم أيدوا الإطار المقترح لنظرية إسلامية المعرفة والمبادئ المنهجية وكذلك دعموا نتائج تحليلات الاتجاهات التي ساعدتنا في وضع الإطار، ومن ثم ربطنا المناقشة بنتائج المؤلفات والنظريات السابقة. ضربنا بعض الأمثلة على تطبيق الإطار المقترح في المصرفية والتمويل الإسلامي، واقتصاديات الرفاهية والوقف، وأهداف التنمية المستدامة، مع تصور تأثيره المحتمل في كل مثال تطبيقي مذكور. وأظهر ذلك أن أصل المنهج الذي اتبعته هذه الدراسة في تطوير الاقتصاد الإسلامي له جذور تاريخية ومعاصرة في كتابات مثل كتابات IOK و IE. وهذا يبين الطريقة المستقبلية لتنمية الاقتصاد الإسلامي القائم على أسس متينة. وأشارت التوصيات المتعلقة بالبحوث المقبلة إلى أن إطار IoK لتطوير الاقتصاد الإسلامي يفيد العديد من التخصصات. وبسبب ذلك، يمكن أن تحل المشاكل والقضايا ليس فقط في الاقتصاد الكلاسيكي الجديد السائد أو غير ذلك، بل أيضاً في تخصصات أخرى بشكل تكاملي.

APPROVAL PAGE

The dissertation of Jasmin Omercic has been approved by the following:

Mohamed Aslam Mohamed Haneef
Supervisor

Mustafa Omar Mohammed
Co-Supervisor

Osman Bakar
Internal Examiner

Syed Abdul Hamid Al-Junid
External Examiner

Mohd Hazim Shah bin Abdul Murad
External Examiner

Mohd Feham Md Ghalib
Chairman

DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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It is not for Mum and Dad Only

because

I have one Big Brother

Semir Omerčić

who within himself always prayed for his younger bigger brother

despite being absent and occupied with own adventures.

I was part of those adventures despite being absent.

This is also for you Grosser Bruder because you were always there.

May Allah bless you Mum and Dad and Grosser Bruder and of course your Wife too

and

give you many special gifts.

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LIST OF ABBREVIATIONS

IE – Islamic Economics

IoK – Integration of Knowledge

IOK – Islamisation of Knowledge

IBF – Islamic Banking and Finance

IOHK – Islamisation/Islamicisation of Human Knowledge

KIRKHS – Kulliyah of Islamic Revealed Knowledge and Human Sciences

PBUH – Peace and Blessings Be Upon Him

RA – *Raḍiyallahu ‘Anhum* (God be Satisfied with Them)

SDGs – Sustainable Development Goals

SRP – Scientific Research Program

SWT – *Subḥanahu Wa Ta‘ala* (The Most Glorified, the Most High)

UN – United Nations

TRANSLITERATION TABLE

أ	`	خ	kh	ش	sh	غ	gh	ن	n
ب	b	د	d	ص	ṣ	ف	d	ه	h
ة	t	ذ	dh	ض	ḍ	ق	q	و	w
ث	th	ر	r	ط	ṭ	ك	k	ي	y
ج	j	ز	z	ظ	ẓ	ل	k		
ح	ḥ	س	s	ع	‘	م	m		

Short Vowels	
اَ	a
اِ	i
اُ	u

Long Vowels	
اَ+اَ	ā
اِ+اِ	ī
اُ+اُ	ū

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Economic thought has always come hand-in-hand with social development. A robust economy facilitated the prosperity and expansion of the Hellenic and Roman civilisations. It was present with the rise of Islām in the 7th century which heralded sustained economic integration and established clear rights and duties, while also driving industrial Europe and the contemporary period (Chapra, 2016; Koehler, 2014). Modern economic thought took concrete shape in the last 300 years although its roots are traceable to the legacies of earlier civilisations. Medieval Thomistic (named by Thomas Aquinas 1225-1274AC), feudalist, mercantilist and protestant economic thought challenged the Christian Paternalistic Ethic (CPE)¹ and dichotomised economic thought into normative and positive trends. The later became dominant with the rise of science and the positivistic shift² in economic thought that guided classical economics and continues to guide mainstream neoclassical economics today (Hunt, 2016; Blaug, 1997; Mahomedy, 2016, 2017).

Modern economics, like all other social sciences, are Western sciences, and rooted in foundations that reflect Western thought, worldview, and practice. Western civilisation and its worldview have asserted global influence since the 16th century (Hunt, 2016; Al-Attas, 1978; Ali, 2016). Western economic thought is an undertaking

¹ Christian Paternalistic Ethic represented the authoritative status of some set of rules, regulations and foremost authority of the Catholic Church that determined what was ethical and moral in a society based on some scriptural and own interpretation (Hunt, 2016).

² Positivistic shift refers to greater use of mathematics, statistics, and physics in economics during the middle of the 19th and early 20th century to prove it is pure science and not social science (Arif, 1985, 1987).

of many scholars who spent their lives contributing to the field, primarily focusing on issues of growth and development. People's welfare and wellbeing receive little attention and the outcome of all these three centuries of economic thought is massive inequality and concentration of market/economic power as a hallmark of Western economics. It has perpetuated global crises and failed to reduce socio-economic challenges in contemporary times (Stiglitz, 2019; Furqani, 2012). Many scholars have pointed out that its shortcoming is due to its materialist nature, the neglect of its foundations, ethical roots, and its spiritual/religious teachings. Such a materialist orientation of economics as a discipline may be the legacy of the Western civilisation but need not be the path taken by humanity at large (Mirakhor, 2020; Lee & Lavoie, 2013; Putnam & Walsch, 2012; Chapra, 2016).

For that reason, this study proposes the development of Islamic economics (IE) via the Integration of Knowledge (IoK) based on the Islamisation of Knowledge (IOK) as an alternative to mainstream economics. By mainstream economics, we refer to the dominant neoclassical economics and elements of other streams of economics like Keynesianism, post-Keynesianism, Monetarism, etc., that are partially and indirectly acceptable within neoclassical economics (see Lee & Lavoie, 2013 for more details).

Beginning with a brief review of the development of mainstream economics, this study identifies problems that have caused many contemporary theoretical and practical problems globally. The study then acknowledges the strengths of mainstream economics, its beneficial contributions and appraises the alternative IE via an IoK framework based on IOK.

Economics has proved to be neither value-free nor ideology-free (Canterbery, 1987; Hunt, 2016). Religions (Islām, Christianity, or others) have contributed to its

development. While the Islamic civilisation's contributions to economic thought are increasingly immanent in contemporary times, Western economists erroneously categorised it within the Schumpeterian gap³ (Pribram, 1983; Hunt, 2016; Islahi, 2005, 2014). The rise of IE and IOK in the 20th century proved that the Islamic civilisation contributed to the development of economic thought and other disciplines. With increased research, contemporary Western literature is being forced to acknowledge and revise the historical development of economic and other thought (Saliba, 2007).

When mainstream economics mechanised the *homo economicus* in attempts to replicate scientific rationality axioms, its empiricism, predictability, infallibility, utilitarianism, consistency, constant maximisation of value levelled human activity into cause-effect relationships. The Great Depression in the 1930s witnessed Keynesian economics challenge such an approach to economics and promoted socialist economics packaged in the US President Roosevelt's 'New Deal' economic recovery program, i.e. the greater role of government in markets and the rise of syndicate rights (Canterbery, 1987; Hunt, 2016). The classical and other economic thought variants constantly rivalled it but ultimately all fell into the 'positivistic shift' trap.

Modern economic thought proved to have questionable philosophical foundations that comprise its ontology, epistemology, axiology, and methodology.⁴

³ This period known as the 'Schumpeterian Gap' lasted for over more than 600 years (7th to 13th century) to which the least credit is acknowledged for the development of economics as a discipline or science besides other sciences (Hunt, 2016; Ali & Thompson, 1999). Today, it is gradually recognized and acknowledged.

⁴ Machlup (1978) perceived these foundations overlapping and expressed for instance the historical scholarly perception of methodology as separate and integral to epistemology. Similarly, IOK was and so the contemporary shift to IoK is epistemological generally and methodological particularly (Haneef, 2014; Malkawi, 2014). The repercussion of IOK development, however, was its lacking methodological compared to the epistemological contributions as we discussed in chapter three. Other philosophical foundations like ontology, axiology are interrelated to the former two and shape them in

The positivistic-scientific quest in economics resulted in repetitive crises, irrational exuberance for stability and prosperity, financialisation (Shiller, 2015), environmental destruction, market power centralisation and monopolisation (Stiglitz, 2019), and constant materialisation and desacralisation (Al-Attas, 1995). Hence, among the multiple assumptions, regressions, testing, modelling, and other economic methodologies, some are more and some less relevant today. The state of economics today suffers from a methodological deficiency resulting from marginalisation and narrow philosophical foundations, namely ontology (theory of being), epistemology (theory of knowledge and its sources) and axiology (the study of the nature of value or valuation) (Mahomed, 2016, 2017; Furqani, 2012; Stiglitz, 2019).⁵ Mainstream economics narrowed the nature, role, and position of human beings to that of *homo economicus* and a unidimensional or unidisciplinary positivistic development of economics. While alternative Western economic schools like post-Keynesian economics, institutional economics, Austrian/neo-Austrian economics, neo-Ricardian economics and other schools under ‘Post-Autistic Economics’ or more generally as ‘Heterodox Economics’ questioned the approach and aspects of mainstream economics (Boşca, 2015), no one seriously questioned or discussed its philosophical foundations (Mahomed, 2016; Furqani, 2012; Omercić et al, 2020).

While appreciating the beneficial contributions of mainstream economics, this study attempts to address this gap by highlighting Muslim responses to mainstream economics based on foundations that have the potential to overcome its identified foundational problems. Since the encounter with Western civilisation and economic thought, Muslims objected to its approach and imposition of its narrow and flawed

distinct fashion. It is this dynamism of philosophical foundations that modern economic thought lacks. See footnote 11 for more clarification of the views of ontology and epistemology and vice versa.

⁵ See also Haneef (2014), Furqani and Haneef (2012), Hunt (2016), and Canterbury (1987) for greater detail.

foundations and worldview. It is for those reasons that this study appraises IE via an IoK framework based on IOK while simultaneously overcoming their shortcomings raised since inception. Many studies increasingly proved that IE and IOK proved to have sound and comprehensive philosophical foundations. Such an approach is genuine and realistic in contrast to the abstract nature of mainstream Western economics (Haneef, 1997; Furqani, 2012). The increasing significance of knowledge integration in contemporary times and the shift from Islamisation (IOK) to Integration of Knowledge (IoK) makes the development of IE with the use of beneficial contributions of mainstream economics conducive and commendable. To justify that, a greater insight into the foundational problems of mainstream economics acquaints us with the deeper repercussions of those foundations and related problems and issues.

1.2 RATIONALE OF THE STUDY AND STATEMENT OF THE PROBLEM

This study appraises the development of Islamic Economics (IE) via the Integration of Knowledge (IoK) based on Islamisation of Knowledge (IOK) to overcome foundational problems and related issues of mainstream economics. It firstly presents the ontological, epistemological, axiological, and methodological foundational problems and related issues of mainstream economics. It then highlights Muslim responses in the form of *iṣlāḥ* and *tajdīd* movements of which IOK and IE are relevant in overcoming the problems of mainstream economics. Despite their shortcomings, both have sound foundations and decades of development have helped to identify the need and rising significance of IOK as the future framework approach of IE development that has the potential to overcome the problems of mainstream economics. Thus, addressing the mainstream foundational problems and adopting the IOK approach to developing IE is an alternative approach and has the potential to fill

the gaps by proposing a framework for IE methodological development based on robust foundations (Omercic et al, 2020).

1.2.1 PROBLEMS AND ISSUES WITH MAINSTREAM ECONOMICS

1.2.1.1 *Physicalist Ontology*⁶

Ontology is the branch of metaphysics that deals with the nature of being (Merriam-Webster, 2004). Mainstream economics adopted a ‘physicalist ontology’ as part of its philosophical foundations that perceives everything as physical because of the positivistic influence since the 16th-century that phased away the mercantilist phase of economic thought. The climax of physicalist ontology occurred in the middle of the 19th century when it became the norm in science and life.⁷ Heilbroner and Milberg (1995) and Hunt (2016) mentioned how the scientific or positivistic orientation of economics excluded normative contributions or insights into economic phenomena. Malkawi (2014) explained that the Western approach to knowledge perceived such contributions subjectively. Shah (2007, 2012) claimed that such practical orientation in science just tell part of the story while leaving much untold and unaddressed that creates socio-economic or other problems. This is a philosophical problem of

⁶ See the origin of the term in Mahomedy (2016, 2017).

⁷ It can be traced back to the 13th-century Thomistic phase of economic thought (*characterized by the philosophical thought and writings of Thomas Aquinas (1225-1274 AC) concerning Catholic Christian ethical and moral teachings*), rooted in Christian ethics, morality, and values aimed to end oppressive class relationships of those and earlier times with the help of Christian paternalistic ethic (CPE). The ethic was eventually abused by elites/lords of subsequent centuries feudalistic system that led to what was characterized as the 'first phase of distancing from CPE or also called the maturing phase'. Subsequent mercantilism phase of economic thought (*where the CPE in the hands of the church weakened and shifted to mercantilist capitalists.*) aggravated it and led to the 'second phase of distancing from CPE or the mature phase' that shaped ontological physicalism in the real sense, empowered the protestants' ethic to defeat the catholic church as the paternal authority and gradually nurtured the positivistic way of thinking (Hunt, 2016; Mahomedy, 2016, 2017). Systematized enlightenment writings reflected the shift from concerns about moral sentiments to positivistic thinking even more and so further fostered ontological physicalism.

For more detail see enlightenment economics writings of Adam Smith (1723-1790), David Hume (1711-1776), Robert Malthus (1766-1834), David Ricardo (1772-1823), Jeremy Bentham (1748-1832), his students James Mill (1773-1836), Joh Stuart Mill (1806-1873).

mainstream economics that caused many issues. This study addresses the issue through the alternative IoK methodological approach of IE development.

The physicalist ontology is recognised by its conceptualisation of human nature as material, materialistic, self-interested, greedy yet rational (Brue & Grant, 2013). Arif (1985, 1987) highlighted how Smith's theory of moral sentiments gradually shifted and gained features of such an ontology via stratification⁸ to systematise economic thinking in ways similar to the mathematics and physics of the day (Pribram, 1983; Mahomedy, 2016, 2017; Omercic et al, 2020). Such a shaped physicalist ontology that perceived only matter and tangible objects as a source of value led to intensified economic thinking with an imperialist and colonialist mindset that spread throughout the world in the 18th and 19th centuries with destructive and exploitative consequences (Said, 1979; Mirakhor, 2020; Jomo, 2020).

The problem of physicalist ontology became embedded in mainstream economics. Since the Great Depression, it has caused significant unemployment, inflation, unsustainable living, poverty, inequality, etc. (Stiglitz, 2016, 2019). Ten smaller recessions since World War II followed⁹ (Hunt, 2016; Froyen, 2001, 2009) due to such an ontology and the rationalist epistemology, axiological futility, and methodological deficiency of mainstream Western economics. Neither mainstream orthodox economics nor heterodox variants addressed this ontological problem of mainstream economics nor resolved the issues it created (Omercic et al, 2020).

⁸ Stratification starts with abstract thinking that usually involves values, norms, ethics, morality and as such help link it with more systematized products of thought that enable appreciation of it and presentation systematically. However, the promise for success is absent. That is apparent in the stratification attempt of economics as a science from moral sentiments. In return, it shows the need for a revision of present economics whose issues root back into the early years of development (Arif, 1985, 1987).

⁹ To name a few: 1948-1949 for eleven months, 1953-1954 for thirteen months, 1957-1958 and 1960-1961 for nine months, 1969-1971 for more than two years, 1974-1975, 1979-1980, 1981-1982, 1990-1991, etc. (see Hunt, 2016).