

Ethics in Islamic economics: microfoundations for an ethical endogeneity

Ethics in
Islamic
economics

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Abstract

Purpose – This paper aims to explore ethics in Islamic economics by establishing the micro-foundations of Islamic economics. This is done by conceptualizing the behavioural assumptions of the individual in an Islamic framework. It also argues that ethical positions that attached endogenously in individual behaviour would have implications in the macro-socio realm influencing society, institution and organization in an Islamic economic system.

Design/methodology/approach – The study is qualitative-based research. It explores the literature on ethics in Islamic economics to understand and analyse the concept of individual behaviour in the Islamic perspective that will be the micro-foundations of Islamic economic analysis.

Findings – It is found that the ethical commitment of individuals (as envisaged in the micro-foundations of Islamic economics) would bring socio-macro implications in the practical realm. The micro-foundations of Islamic economics would function as the basis of the economic explanation of the aggregate relationship of individual, state and society. It also serves as the basis in explaining socio-macro dynamics influencing individuals, society, as well as organizations and institutions.

Research limitations/implications – The paper limits its analysis of developing the concept of ethical endogeneity in Islamic man behaviour to be the micro-foundations of Islamic economics and its macro-implications.

Originality/value – This study attempts to show that ethics should not only be inseparable in an economic framework but also an endogenous dimension in individual behaviour. The micro-foundations of Islamic economics are developed based on Islamic values on the characteristics and behaviour of an individual that would not only describe the true nature of man but also support his well-being.

Keywords Ethics, Micro-foundations, Islamic economics, Ethical endogeneity, Behaviour, Macroimplications

Paper type Research paper

1. Introduction

Economics and ethics in Islamic perspective are inseparable. As a system of thought, Islamic economics is inherently infused with values found in or derived from, Islamic worldview, doctrine and principles which are translated and incorporated into the subject



matter and theory of Islamic economics. The ethical consideration in Islamic economics could obviously be seen in the conception of individual behaviour which functions as the micro-foundations of Islamic economic analysis.

The micro-foundations of Islamic economics essentially reflect the perceived nature of the economic agents in Islamic framework with a set of values that leads to “expected” behaviour in practice. Those ethical positions that are attached endogenously in individual behaviour would have implication in macro-socio realm influencing society, institution, organization and policy. Islamic ethics in this regard is an endogenous variable in economic agent’s calculation and hence distinguish Islamic economic analysis.

The paper attempts to derive the nature of endogenous ethics from the Qur’an and Sunnah as the primary sources of Islamic ethics to establish the social choice in Islamic framework under which individuals, institutions and organizations make their ethico-economic decisions. The focus of the paper is in elaborating the micro-foundations of Islamic economics or the basis for explanation of individuals’ behaviour in an Islamic economic framework with ethical endogeneity in his socio-economic choice and examining its macro-socio implications.

2. Ethics and Islamic economics

Economics, as a system of thought, is certainly not value-free. They are built on certain normative values or philosophical foundation that constitutes the core of a system of thought. The values are derived from, a certain worldview or ontological perspective which are translated and incorporated into the subject matter and body of knowledge of economics. Different worldviews might create not only philosophical and conceptual differences of economic thought but also practical behavioural and policy differences appraised there on. This will lead to different meanings of values, hence possibly different set of ethical codes.

Therefore, ends, which are taken as given in economics, are actually themselves historically constructed and value laden. The claim of a positive and objective science of economics – and hence neutral from value-bias, irrational-elements or personal judgments through the scientification process of economics – might not be correct. Instead, that process is actually screening *values* into a *particular value* framework that is in line with a particular worldview and justifies that value framework to achieve certain visions or goals. The claimed neutralization process of ethics in economics is actually not a process of extricating “all” ethical values from economics, but a process of “selecting” preferable ethical positions based on certain worldview of realities of materialism and secularism and inserting them into economic theories. In this regards as observed by [Mayhall \(2003, p. 112\)](#), there is a shift from the paradigm of “metaphysics-based ethics” in the old-traditional scientific world conception to a “physics-based ethics” as propagated in natural sciences of modern scientific world conception.

Economics then emulates the process from the natural science methods to remove metaphysics and ethics from its theory and body of knowledge ([Backhouse, 2002, p. 67](#)). In other word, the concept of the nature and behaviour of human being as well as the notion of justice, freedom, happiness, well-being and others found in economics, are derived from certain ontological conceptions which are free from metaphysics or religious dogma or values but should be based on human interpretation or natural law to be objective. The extremum principle, for example, that characterizes propensity of human nature that prefer more than less is developed based on the economic force of gravity to individual as in natural law of gravity ([Myers, 1983, p. 4](#)) [1].

From the Islamic point of view, economic ethics as propagated in mainstream (Neo-Classical) economics, is problematic at least in two senses; in the nature and scope of application. Ethics in the secular tradition is purely defined in the secular and material dimension. As has been explained, there is a systematic effort in the Western experience to

separate ethics from religion and replace “divine ethics” (i.e. a religious based ethics whose point of reference is in a transcendent Creator) by “human arrangement ethics” (which is rooted in human narratives and experiences). This is done by:

- delegitimizing the role of religion in establishing values and its standard; and
- autonomization of ethics whereby values can be established by human himself through his reasoning and experience (Hunt, 2002, p. 15; Pollack and Pickel, 2008, p. 3).

Apart from secularization of ethics, ethical formulation in economics has also been marked by the scientism spirit that reduces ethics to the observable and measurable. While secularization requires that ethics be purely profane and mundane, scientism/scientification dilutes it further by requiring that ethics be sensible, observable and measurable. The two processes would in the end divorce science (economics) from (proper) ethics.

This leads to the reduction of moral and/or spiritual component of social and/or natural reality to its material realm and effect. The scientific is equated with the reliably measurable, and hence excluding a vast realm of human concern of moral, spiritual and transcendental values which are mostly discounted as subjective and metaphysical and might be unverifiable or un-measurable, and therefore regarded as meaningless. In economics, the concepts of perfect competition, rationality, invisible hand, free market, market efficiency, self-interest and utility maximization that constitute individual rationality are enshrined by those spirits/values. Those concepts are explained in the perspective of separation/isolation between the mundane and divine, sacred and profane, material and spiritual, observable and non-observable values which are not in line with Islamic scientific conception of ontological and epistemological unity and integration.

In Islamic scientific conception, according to al-Attas (1993), God-negation metaphysics would limit reality to a purely secularist and materialist view and hence is incapable of explaining the whole truth (lack of realism). Only a half-part of reality is captured. Many other aspects such as the nature of human self, or in a bigger picture of explaining the character, origin or destiny of human life, are not satisfactorily explained [2]. Likewise, a proper ethics to describe human being might be not attained since those concepts have by-passed the actual man with a fuller perspective of behaviour, potentials and motives (Sen, 1977, 1990; Davis, 2003).

Therefore, the law of nature argument to describe the motive of self-interest for individual as the centre in the law of gravity in this regard is unacceptable for various reasons. First, due to inadequacy to properly describe the actual practices (lack of ontological fit in describing realities) and their inability to properly guide human to achieve the ultimate goal of life. In addition, it is also a naturalistic fallacy argument that posited ethical judgment and law of nature in an opposite direction. This is because the other dimension, which is the social being that also care, love and ready to sacrifice for other human being which are also embedded in human instinct, is not considered in his nature due to it is conceived as contrary to the law of nature (Naqvi, 1994, p. 20).

Therefore, the mainstream neoclassical conception of micro-foundations of economics as well as macroeconomic goals has been challenged and some changes have been proposed in economics discourse. Islamic economics also addresses those concerns and attempts to develop its own conceptions and offers some new perspectives in understanding economic phenomena, economic goals as well as the behaviour of representative economic agent from its epistemological sources.

3. Ethics in the assumptions of individual behaviour

Ethical position is very much prevalent in the assumptions established by economists to describe the behaviour of economic man (*homo economicus*). Those assumptions are essentially constructed from certain “visions” derived by economists based on a certain

worldview that will guide theoretical development in economics [3]. Therefore, the notion of the nature of man is actually not a value free concept, independent of *any* values or moral convictions of the scientists who are presenting them. The economic agent is essentially an “ideological construction” and is expected to have an “ideological consciousness” or an “ideological commitment” to apply those normative principles attached to him in real life [4]. Likewise, at the practical term, the actual behaviour of the individuals is actually affected by the individual’s considerations as he never acts in a “value-vacuum”. Therefore, influencing human conduct is a central aspect of ethics and behavioural economics.

Mainstream neoclassical economics in this regard portrays the economic agent, *homo economicus* or economic man, as having self-interested behaviour with the motive of maximization individual utility (Stiglitz, 2010, p. 249). It is claimed that the principle of individual pursuit of self-interest is “natural and universal” as it is derived from the law of nature, whereby, individual’s self-interest is similar to the natural force of gravity (Myers, 1983, p. 4). The individual in this perspective is considered as an autonomous/atomistic being that measures value at the level of personal impulses, desires and preferences for all his activities (Ryan, 2003, p. 249). This principle, is believed, could perfectly describe the nature of man “as he is” and predict the actual behaviour of economic man.

Nevertheless, there are many critics to such conception of human nature even in modern western economics discourse. There is a changing trend of ethical consciousness in economics whereby the narrowly defined self-interest motive is criticized as being unable to properly portray human nature and behaviour in practice. Individuals are said to act contrary to the economists’ prescribed behaviour by pursuing values such as self-sacrifice, altruism and benevolence. Narrow self-interested behaviour is viewed as not an exclusive individual motive, and hence, should not be the central concept in our explanation of human behaviour. Instead, it should be structured in correspondence to and integrated with “other’s interests”, future generation interest, and environmental care.

There is a consciousness that normative analysis with an explicit value orientation should not be shunned from the formal body of economics as this has adversely affected the discipline, made it an “impoverished science” that has been unable to capture the all dimensions of reality and the complex aspects of economic behaviour (Sen, 1990, p. 7).

The same critics can also be found in Islamic economics perspective. In the Islamic perspective, the conception of economic agent is not only done in exploring the *actual* description of man but also the qualities that Islamic teaching envisaged that would *guide* him in a proper behavioural framework and preserve his nature in a real sense (or *fiṭrah* in Islamic term).

In the literature of Islamic economics, we can see two approaches in this endeavour of ethical endogeneity in developing assumptions in individual behaviour. The *substantive approach* tries to find the natural and universal characteristics of individuals from Islamic sources without ascribing them to a specific economic agent such as “Islamic” man. On the other hand, the *formal approach* sees nothing wrong in using the specific term “Islamic man” with certain values attached to him.

The first approach attempts to construct a universal description of *man in Islamic economics*. It is an attempt at describing man in general, using general ethical terms, but from an Islamic perspective. The interest is to look at the ideal characteristics of man without ascribing to them an “Islamic” title or any terminologies from Islamic tradition. Kahf (2003), one of the proponents of this approach argues that such an “Islamic” prefix might indicate the restrictiveness and exclusiveness of Islam as it reduces the scope of analysis within the framework of the value-loaded Islamic postulates and within certain *type* of behaviour instead of *types* of behaviour. This might also connote exclusivity to that

religion and the people who are submitting to that religion and hence give the impression that the economic teachings of Islam are not universal and generic to all human beings and human societies hence might hinder Islamic economic penetration to a universal audience.

In addition, the unfortunate present situation of Muslims societies being underdeveloped, unorganized and chaotic in certain societies, and showing little progress at all levels of development is afraid could be made as justification the irrelevance of Islamic values in today's life. Therefore, such an exclusive treatment might be not necessary, especially in the early stage of propagating a new perspective of economics. The proponents of this approach also argue to explain the nature of man using universal terminologies (without Islamic terms) although the values and principles are coming from Islamic sources.

The second approach is actually having similar purpose, i.e. to try to develop the ideal characteristics of an individual agent in Islamic economics, but with an "explicit" reference to *homo Islamicus* ("Islamic" man) or with an explicit ascription to Islamic terminological values. Such approach is taken as those values are only best reflected in an individual who is *conscious* of those values and would manifest them in practice. In addition, an explicit description of "Islamic" man aims to show an identification of a field of study based on the assumption of existence of Islamic values in human behaviour hence the differentiation in behavioural analysis can be made. Nienhaus (1989) recognizes this approach and says that such a prefix is essentially aimed to show that Islamic economics is argued from an Islamic theological and epistemological basis, i.e. from the Qur'an and Sunnah and shows a clear scientific position based on that framework, the criteria that are used to rationalize and evaluate it. Furthermore, it also would clarify the analytical framework and avoid apologetic positions in scientific exercise. In the early stage of developing an Islamic economics discipline, such an approach not only has a positive value in clarifying the scientific basis and framework but also has potential of generating a strong response and general agreement among the scientific community who are committed to those values (Chapra, 2000, p. 50).

While the two approaches could be seen in Islamic economic writings, the second approach seems to be widely adopted in the literature. This is natural, as attempts to find characteristics of man in Islamic economics will *eventually* lead people to identify that individual, if not directly naming him "Islamic man", a more "neutral phrase" like "man in Islamic economics" may be used. In the history of economic thought, although Adam Smith did not call his individual agent "economic man", later writings attach those characteristics to a specific individual agent called formally *homo economicus* or economic man. Similarly, critics to economic man also name their alternative agent with specific names such as *homo sociologicus* (concerned with the group interests); *homo socio-economicus* (other-centered, communal, dependent, alike and culture bound- O'Boyle, 2005, p. 489), *homo institutional economicus* (strongly influenced by institutions and learns from his social and technical experience), *homo humanistic economicus* (strong tendency to develop and continually moving from the lower self, reflecting the material needs toward higher self or toward self-actualization) (Tomer, 2001, pp. 287-288), and Zafirovski (2003) suggests *homo complexicus* (incorporates and tries to integrate all these "hominess").

4. Islamic conception of ethical endogeneity

For Islamic man, ethics acts endogenously in his behaviour which brings socioeconomic implications. In this interactive system of individual behaviour, ethics are seen to play the role of cause and effect in generating extensive circular interrelationships between polity and the socioeconomic system at macro level.

The Islamic conception of ethical endogeneity is developed based on an Islamic value system and derived from Islamic epistemological sources. The approach is much more challenging than simply adding Islamic prefix to existing conventional concepts as has been done in Islamization of economics approach. The expectation is to be able to derive the concept from the sources (Qur'an and Sunnah) and to come up with the characteristics of man that are natural (can truly reflect his nature or *fiṭrah* in Islamic sense), universal (could be applied to *any* human being/societies) and actual (i.e., not just in a utopia).

4.1 Micro-foundations: individual ethical endogeneity

The analysis of economic man behaviour is done on the basis of certain assumptions in the micro-foundations of economics as a discipline. The individual agent in the system is equipped by a set of values, put by the economic philosophers, that leads to “expected” behaviour in practice. For economics, those behavioural assumptions form the basis of expected human behaviour and will be the object of study in the science of economics (Arif, 1985, p. 82).

Economics as a social science studies human behaviour in making decisions and solving economic problems of *what* to produce, *how* to produce and *who* should get the production outputs in the best and efficient ways. In doing this, as Kirzner (2000, p. 14) contends “economics depends for the derivation of its theoretical propositions, upon its understanding of human nature” [5]. Robbins (1945) further argues that in economics “all of those things would depend on the actions and decisions of human beings”. So, to get started, economists make some assumptions about the nature of human beings, how human beings act and how human beings make decisions in answering economic problems. Economics as a science studies those assumptions and uses them in technical analysis to examine the effects that might take place in economic realities as a result of human actions and decisions.

The conception of the nature of man, in Islamic approach, comes from the ontological reflection of human being as revealed in the Qur'an and Sunnah. This source provides the framework and all relevant envisioning conceptions of human nature, and therefore, has the ability to explicate the nature of human being in a comprehensive manner that could be the source to specify rules of behaviour applicable to human beings in general. The Qur'an rationally explains the values that are appropriate for human nature for real development and progress. Those messages provide guidance as well as principles of ethics that will be the basis of our behavioural framework in the conception of Islamic man.

The Qur'an discusses human nature by the following approaches:

- explaining the *process* of human creation; of how he has been created and what dimensions and elements endowed to him to support his existence;
- describing the ‘nature’ of his *self* which has positive as well as negative characteristics and the ‘qualities’ that he *should* strive for to attain a higher self-realization and be a better and, if possible, perfect man (*al-insan al-kamil*);
- explaining the ‘*raison d’être*’ of his creation as an ‘*abd* (God’s servant) and *khalīfah* (God’s vicegerent on earth), his duties and responsibilities and the ultimate guidelines he should follow so that his life would be considered a success; and
- describing his natural relationship with his Creator (Allah swt) and other creations (fellow mankind and nature).

The human being is described in the Qur'an as a “unique creation”. Unlike other creations, man has been created with the combination of two different elements, the “material” (Qur'an, *al-An'ām*: 2, *al-Raḥmān*: 14, *al-Hijr*: 26, *al-Mu'minūn*: 12, *al-Isrā'*: 61, *al-Insān*: 2) and the

'immaterial' (in the Qur'anic word: *al-rūḥ* (the soul); Qur'an, *al-Hijr*: 29; *al-Sajdah*: 9, *Sād*: 72). Human beings therefore have a dual dimension of body and soul, matter and spirit, and have identities of an individual as well as a social identity which implicates that he is a complex being, having complex potentials and tendencies, obligations, rights and responsibilities [6]. The ethical teachings of the Qur'an keep balance in those dimensions of the human being and aim at developing human personality in a comprehensive manner and to establish a social order on that basis.

Human actions are therefore necessarily complex and dynamic as the human self is complex and dynamic. He is not an individual being or social being *per se*. In addition, he does not act with only a temporal vision of the mundane life in this world, but also for a longer-term vision of the life hereafter. For that reason, in developing a framework of economic analysis in Islamic economics we should recognize the multi-dimensional levels of human actions and not reduce them into a "mono-dimension" behaviour motivated by narrow material self-interest as in mainstream neoclassical economics.

In the Qur'anic description, human actions at the practical dimension in relation to values can be categorized into four levels as follows:

- (1) The selfish behaviour whereby an individual acts on the basis of his own self-interest/selfish interest irrespective of others' interests and is motivated solely by the narrow materialistic objectives of self-satisfaction.
- (2) Individual acts at the minimum level on the basis of his self-interest, without hurting others or encroaching into others' interests.
- (3) Enlightened individual whereby his actions is done on the basis of self-interest in a way that sees others' interest as important. This is because he is not only benefiting if society is benefitted but also he cannot survive without society.
- (4) Individual acts on the basis of benevolence or self-sacrifice to others whereby individuals' act is motivated by an orientation to gain self-realization of God's acceptance.

Here, the individual's motivation is not merely to increase his own well-being, valued by material progress alone, but also others' well-being and valued beyond material reward. His behaviour is consciously targeted to reach the higher level of self (*nafs al-muṭmainnah*) and happiness in this world and the world hereafter. In the framework of ethical endogeneity, ethics is the core essence of the social order. This principle allows for infinite possibilities for ethical perfection in loops of feedback between the ethical policy variables and the consumption state variables (Choudhury, 1995).

Therefore, in studying human behaviour, Islamic economics is not interested only in describing the "what is" of prevailing behavioural facts but also prescribing the "what ought to be" of proper behaviour and analysing the prevailing facts with the ideal norms/values. Thus, as Kamal Hassan (1996, p. 42) argues:

[. . .] while Islam is realistic in the sense that it takes full cognizance of the weak points in human nature and makes the necessary concessions in this regard, it also urges man to strive towards lofty ideals to which end man has continuously to rise above the realities of his self.

This unity and comprehensive in perspective, according to Choudhury (2019, p. 10) comes from the perspective of tawhid as the foundations for scientific inquiry and activities in Islamic epistemological tradition with moral-material embedded integration.

In other word, Islamic economics discusses the behaviour of man in the framework of both the factual and the ideals/values. It is a prevailing fact that individuals are not identical in their commitment to the ideals/values as prescribed by Islam. Islamic economics should

therefore realistically study the behaviour of man while showing “proper behaviour” as outlined in Islamic ethics framework with the purpose of achieving the objectives of social justice, ecological balance, as well as human well-being [7].

This would render economic activity as having “moral qualities” that will orientate its direction and application. Therefore, for Islamic economics, elaboration of the ideal behavioural rules and norms is not only legitimate but necessary. This is because those behavioural assumptions once clearly, rigorously, and analytically articulated in a way intelligible to economists, would yield empirically testable propositions which, in turn, could lead to policy analysis and recommendation on solutions to the problem of modern societies and contribute to knowledge accumulation and scientific progress (Choudhury, 1986a).

Furqani (2017), in this regard, has attempted to develop the behavioural framework of consumption in Islamic economics based on the classification of human tendency in fulfilling his wants in the Qur’an into various types of behaviour, namely, overconsumption (consumption above the upper limit), just-consumption (between the two extremes of upper and lower limit) and under-consumption (consumption below the lower limit).

Islam prefers a wise consumer who is able to balance and moderate by having a just and balance consumption (al-Qur’ān, *al-Furqan*: 67; 79: 37-41). A God-conscious consumer (*taqwa*) would ensure his consumption in the middle way of moderation and just consumption between excessiveness and stinginess, having prioritization to the need of one’s self and one’s family before others. His consumption would be in the right cause and for the good purposes or in the way of Allah, and his consumption would also be in accordance with the hierarchy of needs of essentials (*darūriyyāt*), complementary (*hājjiyyāt*) and embellishments (*taḥsīniyyāt*).

Islam discourages consumers to go to the extreme (to the upper limit) in the form of excessive consumption (*isrāf*) by consuming permissible things beyond the sufficient level of what is needed (al-Qur’an, *al-An’am*: 141; *al-A’raf*: 31) and wasteful consumption (*tabdhūr*) by consuming what is not needed/unnecessary or consuming prohibited things or things which are undesired by *Sharī’ah* is also prohibited (al-Qur’an, *al-Isra’*: 26-27). Likewise, to go the lower limit is not favorable as well. It is miserliness consumption by preventing consumption of what is needed for an individual or his family, preventing from sharing consumption with others, or preventing spending in the right cause and for the good purposes or in the way of Allah (al-Qur’an, *ali-Imran*: 180; *al-Nisa’*: 36–37; *al-Isra’*: 29, 100).

Ethics therefore becomes part and parcel of economic studies in Islam. The Islamic ethical principles will become the guideline for human beings in their economic activities, limiting them to those that avoid the *fasād* or corrupt acts such as unfair dealing, arrogance, abusiveness, stinginess, greed, exclusivism, individualism and exploitation of others that would disturb the smooth allocation of resources and fair distribution (Qur’an, *al-Baqarah*: 195, *al-A’raf*: 31, *Hūd*: 85, *al-Qaṣaṣ*: 77, *al-Mā’un*: 1–3); at the same time, these ethical guidelines direct human’s creativity to goodness, truth and honesty (Qur’an, *al-Nisā’*: 58, *al-Mā’idah*: 119, *al-Naḥl*: 90, *al-Zumār*: 33), responsibility (Qur’an, *al-Tūr*: 21), trust (Qur’an, *al-Nisā’*: 58, *Ghāfir*: 32), generosity (Qur’an, *al-Wāqī’ah*: 77, *al-Dukhān*: 17, 26), justice (Qur’an, *al-Baqarah*: 278-9), friendship and cooperation (Qur’an, *al-Hujurat*: 10, 13) [8].

In *tawhīdī* perspective, according to Choudhury (2019, p. 8), the nature of scientific inquiry would most centrally address the well-being of creation in its moral-material complementary perspective. The formalism of well-being is thereby constructed upon total well-being comprising the unified nature of entities within total reality of the good things of life for the sustainability of creation, while avoiding the false ones.

Nevertheless, in practice, these avoiding of *fasād* and promotion of good deeds cannot be realized without individuals’ moral and spiritual consciousness that would put them in practice.

The enforcement mechanism is embodied in the social duties of Muslims. Therefore, mechanisms for ensuring education, training and development of all individuals to be familiar with the rules of just conduct prescribed by Islam and to cultivate moral consciousness is necessary (Iqbal and Mirakhor, 2007, p. 3). However, as actual reality demonstrates that human beings, left to themselves and to market forces alone, would most likely not reach the desired goals and objectives spelled out above as weaknesses in the individual are also a reality (Qur'an, 96: 6). Some other mechanisms through state involvement by setting up the regulations, educations, laws and policies, as well as through social institutions and constraints of norms, values and culture adopted in society are equally important.

For this reason, in Islamic economics, the state is also recognized as a legitimate and important institution. Together with the individual and society, it plays a complementary role in a dynamic setting of an Islamic economic system. Many economic functions, such as redistribution of resources/wealth are done through market, society and state transactions, such as *zakāt*, *ṣadaqah*, *infāq*, waqf and *hibah* that emerge from individual/society's moral consciousness as well as through the state mechanisms.

A purely market system might ensure technical efficiency, but as demonstrated in many countries today, this can co-exist with increasing inequalities in income and wealth, injustice and exploitation of man by man [9]. Likewise, the provision of public goods can be possible through voluntary efforts of individuals and institutions, more often than not require state intervention. Therefore, creative insights based on the spirit of Islam can be put into practice by the state allocating certain "shares" to the economically underprivileged as a form of corporate social responsibility or the state holding such shares on behalf of the poor in the *bayt al-mal* as in Islamic history [10].

In addition, the state would mainly play a role in putting the legal system and its enforcement wing in place to uphold and maintain law and order in society without which economic activities could not properly flourish (Shah, 2008, pp. 101–102) [11]. This also suggests that such selfish behaviour of individuals can be "regulated" through law and principles enforced by the state. As the government should act as the protector of society, an Islamic government should be entrusted with such a responsibility in the economic domain.

In short, equipped with a new worldview in understanding reality, Islamic set of ethics is developed based on religion that would recognize both the external constraints (in the form of social norms, regulations, institutions and government regulations) as well as internal constraints (moral consciousness as a reflection of *taqwa* or spiritual consciousness) in shaping behaviour, structural features and outcome. Those constraints would assist in generating general harmony of the individual, state and society. However, the role of the state and how external constraints will function requires greater study that is beyond the scope of this study.

Therefore, in Islamic economics, while individual self-interest is acknowledged, it will not be a dominant concept over society's interest as in capitalism. Likewise, the essential role of society and state, at the same time, does not allow individuals to be suppressed (subordinated) as in Socialism. One entity cannot gain at the expense of the other. Individuals do not have to suffer loss of individuality and personality, nor does society or state lose its polity and authority. Instead, they should work together in the earthly life to develop the world, to promote justice and equity, to ensure the balance of nature and to realize true well-being.

In general, there will be a mix and dynamic relationship of those entities in an Islamic economy according to Islamic norms and values. Nevertheless, it is the society as a whole that will decide to what extent, for example, individuals have freedom or the state intervenes in the economic decision making in light of Islamic principles. The laws, rules and

regulations are developed from the general framework of the Islamic ethical system to regulate individuals, state and society and to ensure those economic entities are in harmony, supporting and perfecting each other. This allows flexibility and dynamism in the Islamic economic system as Islamic societies are not identical and could differ in accordance to time and space [12].

4.2 Macro-socio implications

The above micro-foundations would have macro-socio implications in practical life. The connection, at conceptual level, can also be understood as an attempt to base theorizing about aggregate relationships (macro-dimensions) on the behaviour of individual agents. The individual economic agent is the basis of the bigger structure of institutions, society and state. As society is the composite of individuals, how individuals behave would reflect the general picture of society (Janssen, 1998, p. 308). The individuals' actions at the micro-level might create regularities at the macro-level as a natural result of joint outcome of individuals' interactions. Likewise, to achieve a certain macroeconomic vision, one has to influence the behaviour of individuals to have consistency of values at both micro (lower) and macro (higher) levels, as the ethical macroeconomic system depends upon aggregations at the microeconomic level (Choudhury, 1986b, p. 231).

Nevertheless, the connection between individuals and those aggregate levels is dynamic and complex and therefore to explain large-scale economic phenomena it is necessary to view the economy as a society of interactive heterogenous agents and not a static of total individuals at the aggregate (Salahnejad, 2007, p. 239). Therefore, the focus on the individual does not mean making him a "separate/unique entity", thus making community invisible. It is not also the case that we are trying to aggregate our understanding of the parts (individual units) into a comprehensive whole. Instead, with the view of a strong connection between the individual and society, we attempt to develop ethical foundations that would provide a behavioural framework that would connect the individual and society, and vice versa, and hence we could have a dynamic explanation of the relationship between individuals, state and society. As Chapra (1996, p. 49) argues:

Islamic economics has thus to establish the relationship between its macroeconomic goals and the behavior of different economic agents through the development of a more realistic microeconomics [...] Islamic economics needs to establish the micro-foundations of its macroeconomic goals

These ethical foundations would guide and direct individual behaviour in his dealing with society and would explain how the agent defines his choice, makes decisions and acts, and how individuals interact with other entities in the economy.

Choudhury (2019, p. 42) in this regards argues that this is possible as Islamic economics is based on the *tawhidi* methodology which approaches realities in comprehensive and unity perspective and argues for human solidarity instead of human prejudice as in methodological individualism, and the projection of the law of natural liberty into social cohesion instead of biological and social Darwinism as in now-*tawhidi* perspective which is a human-concocted false perception of being and becoming.

For that reason, the meaning of establishing the micro-foundations of Islamic economics is not similar to 'micro-reduction "as implied in methodological reductionism" (in the case of neoclassical economics): that has reduced the "part-whole" relations into mere parts or individuals' affairs; the "body-soul" relations into mere physical reaction; and "individual-society" relations into individualism. This makes the micro-foundations of economics *really* micro and hence cannot truly explain the bigger structure of economic processes and

phenomena. The micro-foundations discussion in Islamic economics, therefore, will not only refer to the individual *per se*, but must also form the basis of aggregated behaviour that explains how the economy as a whole works in solving economic problems.

In the case of Islamic economics, the actual presence of a representative agent who will apply Islamic principles in economics is necessary for the successful operation of the Islamic socio-economic system and the development of Islamic economics as a scientific discipline.

The actualization (objectification) of ethics by economic man (or Islamic man in the case of Islamic economics) in his economic pursuit will form the basis in our objective evaluation of the reliability of an economic theory and policy. Choudhury (1995) in this regards argues that with that micro-foundations, further advances in ethical perfection of individual behaviour is possible and hence ethical policies and targets are also possible at the macro level.

For example, with the principle of conscious consumption, unnecessary spending on things that would harm individual's life such as alcohol, narcotics and others or on things that are not supportive for individual well-being will be avoided. Likewise, wastage in production could be minimized by proper allocation of resources to the most beneficial products to the well-being of society. At macro level, this would also implicate to distributive justice since more funds could be allocated into programmes of caring, low cost housing or other program of social goods consumption.

In Islamic economics, an Islamic man (*homo islamicus*) is expected to fully commit to values as prescribed in Islam which serve as guidance in his action. This will be manifested in an Islamic society as a good society who abide with the rule of law and ethics in their action.

In other word, in solving economic problem, Islamic economics is guided by Islamic normative principles as well as positive analysis so that resources appropriation are being done on the basis of Islamic values: *cooperation, participation* and *justice* (Khan, 1984). With the ethics prevalent in managing economic problems, Islamic economics will be able to restrict endeavors from curbing individual freedom, creating continued macroeconomic and ecological imbalances, or weakening family and solidarity of the moral fiber of the society (Chapra, 2000, p. 125).

For further improvement, the evaluation, however, should be done continuously in line with human progress and economic development. The evaluation will be appraised in the "what is" and "what ought to be" framework on the basis of micro-foundations and macroimplications. This what Choudhury (2016, p. 13) said on unity of knowledge in the learning process (*tawhid*) the unity of divine law and the knowledge and its representation in the constructed world-systems. In Islamic economics, this process is derived from the *tawhidi* epistemological foundations of belief, constructed in knowledge and manifested in application. In this process, all human reason centred around the quest for the *tawhidi* roots of knowledge must at best be a gradual evolution from lesser to higher degrees of certainty in the understanding and application of the *tawhidi* premise of knowledge.

Economics in Islam which is based on Qur'anic normative principles attempts to analytically work out the economic consequences by following principles/assumptions derived from the epistemological sources of the Qur'an, Sunnah, human reasoning and practical experiences. The feedbacks from the practical application would provide intellectual input and have a meaningful application in an Islamic economic system. Islamic economics, as a science is going to link the *ethical considerations* developed in Islamic framework with *theoretical analytical thought* and *practical economy and policies*. The challenge therefore is in producing a set of workable normative-ideals and policies that would create a better individual and society in reality.

5. Conclusion

The ethical commitment of individuals brings macro-socio implications in practical realm. In economics, the conception of economic man behaviour is explained in the micro-foundations of discipline. It serves as the basis of economic explanation of aggregate relationship of individual, state and society. It also serves as the basis in explaining macro-socio dynamics influencing individual, society, as well as organisation and institution.

In Islamic economics, the conception of micro-foundations and individual ethical endogeneity is derived from the ethical principles in the Qur'an and Sunnah (the Prophetic traditions). The paper has attempted to show some insights on conception of the behavioural assumptions of man in Islamic framework. It is very clear that with a wider perspective of characteristics of man, Islamic economics does not only able to convey the true picture of man practical realm but also his characteristics that are conducive to promote well-being in a wider sense and meaning and to regain the true nature of the human being, both at the individual and community levels.

Notes

1. In this light, we could also say that ethical conception to certain extent is *static* as well as *unique* to that particular system of thought. Positive elements of empirical evidence are essentially conducted to support those values (which turn to be a belief/doctrine) to always exist rather than to alter them. Therefore, the question now is not whether economics is value free or not. A more relevant question is what *values* that exist in that system of thought and whether those values better than other values. Hasan (2002), in this regard, notes that as no economic discipline is value neutral, the difference lies in how each discipline treats the "right" values and selects them. Buchanan (1994, p. 1) also adds that as ethics or moral is essentially a constraint on human behavior and hence exerts economic effects in realities which could then be measured objectively of its positive or negative impacts, then we could say that some sets of ethical precepts or principles could be "better" than others.
2. Hamid (2004, p. 6) in this regards describes scientific worldview as "a powerful searchlight in the long winter night, lighting up a small area in its beam but unable to shed light beyond its border".
3. Zeidan and Fonseca (2007, p. 175) for example observes that since economics system are agent-based, economic agent model lent its conception and transposition in regular complex adaptive systems of biological agent model that are easily transposed into economics complex adaptive system.
4. In the words of Ariff (1982), the economic agent is not belonging to the world of "is" as the economist tends to believe, but to the world of "ought", as in the final analysis, he is nothing but a *hypothetical figure* who is designed to behave as the economist would like him to. In this regard, any economic system has its own unique conception of human nature that is constructed from its particular ideology (worldview).
5. In fact, human nature has long been the subject matter of axiological studies that has attracted considerable attention by ethics philosophers. The conundrum of human nature, as observed by Harré (2000, p. 267) in his *One Thousand Years of Philosophy* is "the deepest source of the urge to philosophical reflection." In the study of value (axiology), ethical queries begin with understanding of who human being is that would include his nature, motives, desires, attitudes, potentials, tendencies, characters and decisions; of his self-substance, mental and mind; of his purpose and destiny; and of his relations to other realities of humans, nature and God.
6. With those dimensions of self, human being is described in the Qur'an as capable of wickedness (*fujūr*), which is the urge of lower self, or the impelling self (Qur'an, *Yūsuf*: 53, *al-Shams*: 7-8), and also of virtue (*taqwā*), which is the urge of the higher self, named as reproaching self (Qur'an, *Al-Qiyāmah*: 2).

Therefore, the Qur'an also uses duality of values to denote right and wrong, good and bad, such as *ṣāliḥāt* and *sayyi'āt* (Qur'an, *al-Naml*: 91-92; *al-Fāthiyah*: 21), *khayr* and *sharr* (Qur'an, *al-Zalzalah*: 7-8), *birr* and *ithm* (Qur'an, *al-Mā'idah*: 3), *ma'rūf* and *munkar* (Qur'an, *Alī-'Imrān*: 106), *halal* and *haram* (Qur'an, *Yānus*: 59), *ṭayyib* and *khābiṭh* (Qur'an, *al-Baqarah*: 367).

7. The Qur'an describes the typical human behavior on the basis of moral and spiritual commitment into those who have the lower self (*al-naḥs al-lawwāmah*) and the higher self (*al-naḥs al-muḥmainnah*).
8. Those Qur'anic ethical guidelines according to Abdul-Rauf (1991, p. 89) "can provide not only the ethical guidelines needed for effective control of economic behavior but also compelling motivation for international cooperation in the efforts towards the salvation of humanity."
9. For example, Bradley (2009, p. 18) observes this anomaly whereby the free-market capitalism which is premised on private property and voluntary exchange, and one in which businesses compete without special treatment from government, has evolved into something quite different in practice. The failure of Adam Smith's "man" to "do the right thing" resulted in the reform pendulum swinging from the private sector to the regulators.
10. This framework also suggests another approach in discussing economic agent behaviour in Islamic framework. That is instead of expecting individuals to change their selfish ways and to develop foundations that are too idealistic and unrealistic, we could develop a more realistic/pragmatic approach whereby such selfish behaviour is recognized *but* regulated through regulation enforced by the state.
11. Here, economics is very much part of politics and government in Islam that 'imposes' *Shari'ah* values in the organization of society. Thus, the role of government is to ensure that the working of the economy is in accordance with Islamic principles. This however will not happen if the government itself does not commit to the values, principles and goals of Islam.
12. We could say that if in capitalism the emphasis is in market supremacy, and in socialism the emphasis is in state/government supremacy, in Islamic economics, neither market nor state has such supremacy as all are submitted to the Islamic values/principles/laws. Therefore, the statement that Islamic economics prefer market mechanism if anything following *Shari'ah* (as claimed by Islamic capitalism) is *not better* than the statement Islamic economics prefers government intervention if market fails (as claimed by Islamic socialism).

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