

Ethics_in_Islamic_Economics_- _Submitted.pdf

by

Submission date: 03-Apr-2020 10:25PM (UTC+0700)

Submission ID: 1288730511

File name: Ethics_in_Islamic_Economics_-_Submitted.pdf (263.01K)

Word count: 7141

Character count: 50227



ETHICS IN ISLAMIC ECONOMICS: MICROFOUNDATIONS FOR AN ETHICAL ENDOGENEITY

Journal:	<i>International Journal of Ethics and Systems</i>
Manuscript ID	Draft
Manuscript Type:	Research Paper
Keywords:	Ethics, Islamic economics, Ethical endogeneity, Micro-foundations, Macro-implications

SCHOLARONE™
Manuscripts

ETHICS IN ISLAMIC ECONOMICS: MICRO-FOUNDATIONS FOR AN ETHICAL ENDOGENEITY

Abstract

Purpose – This paper aims to observe the conception of ethics in Islamic economics by elaborating on the micro-foundations of Islamic economics in the behavioral assumptions of man in the Islamic framework. It argues that ethical positions that attached endogenously in individual behavior 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 attempts to analyze the concept of individual behavior in the Islamic perspective that will be the micro-foundations of Islamic economic analysis to understand ethical endogeneity in Islamic economics.

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 behavior to be the micro-foundations of Islamic economics and its macro-implications.

Originality/value – This study attempts to show that ethics should not be only inseparable in an economic framework, but also it is an endogenous dimension in individual behavior. The micro foundation of Islamic economics is developed based on Islamic values on the characteristics and behavior of a man that would not only describe the true nature of man but also support his wellbeing.

Paper type Research paper

Keywords: Islamic economics, ethical endogeneity, behavior, micro-foundations, macro-implications

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 behavior 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' behavior in practice. Those ethical positions that are attached endogenously in individual behavior would have implication in macro-socio realm influencing society, institution, organization and policy (Choudhury and Ziaul Hoque, 2004)

The paper attempts to derive the nature of endogenous ethics in an individual behavior from the Qur'an and Sunnah as the primary sources of Islamic ethics in order 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' behavior 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 behavior al 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: 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: 67). In other word, the concept of the nature and behavior 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, 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 (1) delegitimizing the role of religion in establishing values and its standard; and (2) autonomization of ethics whereby values can be established by human himself through his reasoning and experience (Hunt, 2002: 15; Pollack, 2008: 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 behavior, potentials and motives (Sen, 1977, 1990; Davis, 2003).

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 since no economic discipline is value neutral, the difference lies in how each discipline treats the "right" values and selects them. Buchanan (1994: 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: 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."

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 regards is unacceptable for various reasons. Firstly 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: 20).

Therefore, the mainstream neoclassical conception of micro-foundations of economics as well as macroeconomic goals and the micro-foundation of macroeconomics in conventional perspective 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 behavior of representative economic agent from its epistemological sources.

3. ETHICS IN THE ASSUMPTIONS OF INDIVIDUAL BEHAVIOR

Ethical position is actually very much prevalent in the assumptions established by economists to describe the behavior 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 behavior 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 behavior al economics.

Mainstream neoclassical economics in this regard portrays the economic agent, *homo economicus* or economic man, as having self-interested behavior with the motive of maximization individual utility (Stiglitz, 2010: 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: 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: 249). This principle, is believed, could perfectly describe the nature of man 'as he is' and predict the actual behavior of economic man.

However, those perspective in understanding human nature according to Choudhury and Ziul Hoque (2004) creates a missing link in economic theory in the connection of

³ Zeidan and Fonseca (2007: 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", since 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).

micro-foundations of macro-economics. This is because such perspective allows the methodological disintegration of ethical and moral values through preference mapping of an individual. This missing methodology disables the study of institutions, policy formulation and normative statements of structural transformation in a unity perspective.

Therefore, 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 behavior in practice. Individuals are said to act contrary to the economists' prescribed behavior by pursuing values such as self-sacrifice, altruism and benevolence. Narrow self-interested behavior is viewed as not an exclusive individual motive, and hence, should not be the central concept in our explanation of human behavior. 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 behavior (Sen, 1990: 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 behavior al 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 endeavor of ethical endogeneity in developing assumptions in individual behavior. 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. Monzer 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 behavior instead of *types* of behavior. 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 since 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 behavior hence the differentiation in behavior al 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: 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, since 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: 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: 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 behavior which brings socioeconomic implications. In this interactive system of individual behavior, 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 behavior 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' behavior in practice. For economics, those behavior al assumptions form the basis of expected human behavior and will be the object of study in the science of economics (Arif, 1985: 82).

Economics as a social science studies human behavior 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: 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, in order 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 behavior 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 behavior al framework in the conception of Islamic man.

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

- 1) Explaining the *process* of human creation; of how he has been created and what dimensions and elements endowed to him to support his existence;
- 2) 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*);
- 3) 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
- 4) Describing his natural relationship with his Creator (Allah swt) and other creations (fellow mankind and nature).

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: 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.

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, *Ṣād*: 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' behavior 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 behavior 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 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; and
- 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 wellbeing, valued by material progress alone, but also others' wellbeing and valued beyond material reward. His behavior 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 behavior, Islamic economics is not interested only in describing the "what is" of prevailing behavior al facts but also prescribing the "what ought to be" of proper behavior and analyzing the prevailing facts with the ideal norms/values. Thus, as Kamal Hassan (1996: 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."

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 employs duality of values to denote right and wrong, good and bad, such as *ṣāliḥāt* and *ṣayyi'āt* (Qur'an, *al-Naml*: 91-92; *al-Jāthiyah*: 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, *Al-Imrān*: 106), *halal* and *haram* (Qur'an, *Yūnus*: 59), *ṭayyib* and *khābith* (Qur'an, *al-Baqarah*: 367).

This unity and comprehensive in perspective, according to Choudhury (2019: 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 behavior 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 behavior of man while showing 'proper behavior' as outlined in Islamic ethics framework with the purpose of achieving the objectives of social justice, ecological balance, as well as human wellbeing.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 behavior al rules and norms is not only legitimate but necessary. This is because those behavior al 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 behavior al 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 behavior, 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'an, *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 (*ḍarūriyyāt*), complementary (*ḥājjiyyāt*) and embellishments (*taḥṣīniyyāt*).

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 (*tabdhīr*) 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

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-nafs al-lawwāmah*) and the higher self (*al-nafs al-muṭmainnah*).

dealing, arrogance, abusiveness, stinginess, greed, exclusivism, individualism and exploitation of others that would disturb the smooth allocation of resources and fair distribution (al-Qur'an, *al-Baqarah*: 195, *al-A'raf*: 31, *Hud*: 85, *al-Qasas*: 77, *al-Ma'un*: 1-3); at the same time these ethical guidelines direct human's creativity to goodness, truth and honesty (al-Qur'an, *al-Nisa'*: 58, *al-Ma'idah*: 119, *al-Nahl*: 90, *al-Zumār*: 33), responsibility (al-Qur'an, *al-Tūr*: 21), trust (al-Qur'an, *al-Nisa'*: 58, *Ghāfir*: 32), generosity (al-Qur'an, *al-Wāq'ah*: 77, *al-Dukhān*: 17, 26), justice (al-Qur'an, *al-Baqarah*: 278-9), friendship and cooperation (al-Qur'an, *al-Hujurat*: 10, 13).⁸

In tawhidi perspective, according to Choudhury (2019: 8) the nature of scientific inquiry would most centrally address the wellbeing of creation in its moral-material complementary perspective. The formalism of wellbeing is thereby constructed upon total wellbeing 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: 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 (al-Qur'an, *al-'Alaq*: 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

⁸ Those Qur'anic ethical guidelines according to Abdul-Rauf (1991: 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: 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.

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: 101-102).¹¹ This also suggests that such selfish behavior of individuals can be 'regulated' through law and principles enforced by the state. Since 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 behavior, 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 wellbeing.

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 behavior 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: 308).

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).

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 behavior of individuals to have consistency of values at both micro (lower) and macro (higher) levels since the ethical macroeconomic system depends upon aggregations at the microeconomic level (Choudhury, 1986b: 231).¹³

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: 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 behavioral 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: 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 behavior 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: 42) in this regards argues that this is possible since 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 behavior 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 behavior is possible and hence ethical policies and targets are also possible at the macro level. In addition, Choudhury and Ziaul Hoque (2004) also argues that with that approach, economic theory is then seen to undergo a reconstruction with dynamic preference changes within an institutionally driven process methodology of ethical sensitivity emanating from institutions and the deontological consequences of unity of knowledge within and across systems of state and policy variables.

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 wellbeing will be avoided. Likewise, wastage in production could be minimized by proper allocation of resources to the most beneficial products to the wellbeing 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.

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 macro-implications. This is what Choudhury (2016: 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 centered on 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 behavior 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 behavior al 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 wellbeing in a wider sense and meaning and to regain the true nature of the human being, both at the individual and community levels.

REFERENCES

- Abdul-Rauf, Muhammad. (1991). *Ummah and the Muslim nation*. Kuala Lumpur: Dewan Bahasa dan Pustaka.
- Al-Attas, Syed Muhammad Naquib. (1993). *Islam and secularism*. Kuala Lumpur: ISTAC.
- Ariff, Mohamed. (1982). Ethics and economics in Islam. In Lutpi Ibrahim, et. al (eds), *Islamika II* (pp. 97-113). Kuala Lumpur: Sarjana Enterprise.
- Arif, Muhammad. (1985). Towards the Shari'ah Paradigm of Islamic Economics: the Beginning of Scientific Revolution. *AJISS*, 2 (1), 79 – 98.
- Backhouse, Roger E. (2002). *The penguin history of economics*. England: Penguin Books.
- Bradley, Robert L. (2009). *Capitalism at work: Business, government and energy*. Canada: M & M scrivener Press.
- Buchanan, James, M. (1994). *Ethics and economic progress*. USA: University of Oklahoma Press.
- Chapra, M. Umer. (1996). *What is Islamic economics*. Jeddah: IRTI – IDB.
- Chapra, M. Umer. (2000). *The future of economics: An Islamic perspective*. Leicester: The Islamic Foundation.
- Choudhury, Masudul Alam. (1986a). *Contributions to Islamic economic theory: A study in social economics*. New York: St. Martin's Press.
- Choudhury, Masudul Alam. (1986b). The Micro-Economics Foundations of Islamic Economics: A Study in Social Economics. *AJISS* 3 (2), 231-245.
- Choudhury, Masudul Alam. (1995). 'A mathematical formalization of the principle of ethical endogeneity', *Kybernetes*, 24 (5), 11 – 30.
- Choudhury, Masudul Alam and Ziaul Hoque, Mohammad. (2004). Ethics and Economic Theory, *International Journal of Social Economics*, 31 (8), 790-807.
- Choudhury, Masudul Alam. (2016). *Absolute Reality in the Qur'an*. New York: Palgrave Macmillan

- Choudhury, Masudul Alam. (2019). *Meta-Science of Tawhid: A Theory of Oneness*. New York: Palgrave Macmillan
- Davis, John B. (2003). *The theory of the individual in economics: Identity and value*. London: Routledge.
- Furqani, Hafas. (2017). Consumption and Morality: Principles and Behavioral Framework in Islamic Economics. *JKAU: Islamic Economics*, 30 (special Issu), 89-102.
- Hamid, Abdul Wahid. (2004). *Islam: The natural way*. UK: MELS.
- Harré, Rom. (2000). *One thousand years of philosophy*. USA: Blackwell Publishing.
- Hasan, Zubair. (2002). Maximization postulates and their efficacy for Islamic economics. *American Journal of Islamic Social Sciences* 19 (1): 95-118.
- Hassan, M. Kamal. (1996). *Towards actualizing Islamic ethical and educational principles in Malaysian society: Some critical observations*. Selangor, Malaysia: Muslim Youth Movement of Malaysia.
- Iqbal, Zamir and Mirakhor, Abbas. (2007). *An introduction to Islamic finance: Theory and practice*. Singapore: John Wiley & Sons (Asia) Pte Ltd.
- Hunt, S. J. (2002). *Religion in Western society*. Cambridge: Cambridge University Press.
- Kahf, Monzer. (2003). Islamic economics: Notes on definition and methodology. *Review of Islamic Economics*, 13, 23-47.
- Kirzner, Israel M. (2000). Human nature and the character of economic science: the historical background of the Misesian perspective. *The Harvard Review of Philosophy*, 8, 14 – 23.
- Mayhall, C. Wayne. (2003). *On logical positivism*. USA: Thomson Wadsworth.
- Myers, Milton L. (1983). *The soul of modern economic man: Ideas of self-interest, Thomas Hobbes to Adam Smith*. Chicago: University of Chicago Press.
- Naqvi, S. N. H. (1994). *Islam, economics and society*. London: Kegan Paul International.
- Nienhaus, Volker. (1989). Epistemology, methodology and economic policy: Some thought on mainstream, Austrian and Islamic economics. *Humanomics*, 5 (1), 91-111.
- O'Boyle, Edward J. (2005). Homo socio-economicus: Foundational to social economics and the social economy. *Review of Social Economy*, 63 (3), 483-507.
- Pollack, Detlef and Pickel, Gert. (2008). Religious individualization or secularization: An attempt to evaluate the thesis of religious individualization in Eastern and Western Germany. In Detlef Pollack and Daniel V.A. Olson (eds.), *The role of religion in modern societies* (pp. 191-220). New York: Routledge.
- Robbins, Lionel. (1945). *An essay on the nature and significance of economic science*. (2nd ed.). London: Macmillan.

- Ryan, Frank X. (2003). Values as consequences of transaction: Commentary on 'Reconciling *homo economicus* and John Dewey's ethics'. *Journal of Economic Methodology* 10 (2), 245–257.
- Salahnejad, Reza. (2007). *Rationality, bounded rationality and micro-foundations: Foundations of theoretical economics*. New York: Palgrave, Macmillan.
- Sen, Amartya. (1977). Rational fools: A critique of the behavioral foundations of economic theory. *Philosophy and Public Affairs*, 6 (4), 317 - 344.
- Sen, Amartya. (1990). *On ethics and economics*. Oxford, UK; Basil Blackwell.
- Shah, Mohd. Hazim. (2008). Ethics, politics and economics: Philosophical reflections on economic development. *Akademika*, 73, 97 – 108.
- Stiglitz, Joseph E. (2010). *Freefall: America, free markets, and the sinking of the world economy*. USA: W. W. Norton & Company Ltd.
- Tomer, John F. (2001). Economic man vs. heterodox men: The concepts of human nature in schools of economic thought. *Journal of Socio-Economics*, 30, 281-293.
- Zafirovski, Milan. (2003). Human rational behavior and economic rationality. *Electronic Journal of Sociology*.
- Zeidan, Rodrigo and Fonseca, Maria. (2007). Metaphors and method: Epistemological considerations on complexity science. In Carlos Gershenson, Diederik Aerts and Bruce Edmonds (eds.) *Worldviews, science and us: Philosophy and complexity* (pp. 173-180). Singapore: World Scientific Publication.

ORIGINALITY REPORT

18%

SIMILARITY INDEX

14%

INTERNET SOURCES

7%

PUBLICATIONS

4%

STUDENT PAPERS

PRIMARY SOURCES

1

www.journal.islamiconomic.or.id

Internet Source

5%

2

marz.kau.edu.sa

Internet Source

3%

3

www.emeraldinsight.com

Internet Source

2%

4

jurnal.ar-raniry.ac.id

Internet Source

2%

5

Submitted to International Centre for Education

Student Paper

1%

6

Mohamad Akram Laldin, Hafas Furqani. "Developing Islamic finance in the framework of", International Journal of Islamic and Middle Eastern Finance and Management, 2013

Publication

1%

7

www.marufvakfi.org

Internet Source

1%

8

Submitted to Cardiff University

Student Paper

<1%

9	www.irtipms.org Internet Source	<1 %
10	Furqani, Hafas. "Foundational challenges in the construction of an Islamic economics discipline", International Journal of Pluralism and Economics Education, 2015. Publication	<1 %
11	Masudul Alam Choudhury. "The "impossibility theorems" of Islamic economics", International Journal of Islamic and Middle Eastern Finance and Management, 2012 Publication	<1 %
12	Submitted to University of Durham Student Paper	<1 %
13	Submitted to International Islamic University Malaysia Student Paper	<1 %
14	Submitted to University of Melbourne Student Paper	<1 %
15	ikam.org.tr Internet Source	<1 %
16	www.doaei.com Internet Source	<1 %
17	www.masjid.or.id Internet Source	<1 %

18

irti.org
Internet Source

<1 %

19

JIMENA HURTADO. "JEREMY BENTHAM AND
GARY BECKER: UTILITARIANISM AND
ECONOMIC IMPERIALISM", Journal of the
History of Economic Thought, 09/2008

Publication

<1 %

20

Submitted to University of Rajshahi

Student Paper

<1 %

Exclude quotes On

Exclude matches Off

Exclude bibliography On

Ethics_in_Islamic_Economics_-_Submitted.pdf

GRADEMARK REPORT

FINAL GRADE

/0

GENERAL COMMENTS

Instructor

PAGE 1

PAGE 2

PAGE 3

PAGE 4

PAGE 5

PAGE 6

PAGE 7

PAGE 8

PAGE 9

PAGE 10

PAGE 11

PAGE 12

PAGE 13

PAGE 14

PAGE 15

PAGE 16

PAGE 17