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## The Realism of Islamic Economics: Abbas Mirakhor's Methodological Structure of Islamic Economics

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### Abstract

This study aims to explore and elaborate the structure of the Islamic economic methodology of Abbas Mirakhor. For this, the study applies an inter-textual approach to Abbas Mirakhor's works which are closely related to the methodology of Islamic economics. In addition, pairwise comparisons with texts that elaborate on the methodology of economics were also carried out, to see the genealogical structure of the methodology offered by Abbas Mirakhor. In essence, this study is able to identify the unique structure of the Islamic economic methodology introduced by Abbas Mirakhor which lies in two aspects. First is the intensification of the use of hermeneutics to produce substantive postulates of Islamic economics from sources of Islamic meta-framework (Quran, Hadith and *Turats*); while second, making substantive postulates as the foundation in verifying or falsifying economic experience. In conclusion, Abbas Mirakhor is considered as the bearer of Islamic economic realism.

*Keywords:* Islamic economic realism, meta-frameworks, archetype models, ultra-empiricism, moderate empiricism, extreme apriorism

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### 1. Introduction

Islamic economics thought offered by Islamic economics scholars, undoubtedly has a different epistemological building. This difference exists, not only as a product of pairwise comparison with conventional economics but also internally compared to Islamic economic thought. It is no exaggeration to believe that Islamic economic thought introduced by Muslim economists is also full of differences and differentiation. This is understandable, because every thinker inevitably has world view in a unique paradigm and ideology of knowledge. It is just that the paradigm behind economic epistemology introduced by thinkers will always be connected or associated with ideas outside of themselves (Macknight and Medvecky, 2020). It also applies to the contemporary Muslim economist—Abbas Mirakhor. Not only the form of thought, but practically his Islamic economic ideas showed that the building of the Islamic economic methodology behind the economic theory introduced by Abbas Mirakhor was a product of social interaction, his ideas and daily life as an economist. It is just that, not many scholars who tried, and studied Abbas Mirakhor as an economist and put his Islamic economic theory and thought on the continuum of economic epistemological transmission. Because it examines the building methodology as well as the genealogical methodology it offers, it is important to be studied. This effort becomes important not only to recognize, but also to trace the roots and methodological traditions such as what is the foundation of Abbas Mirakhor's thought.

Abbas Mirakhor is an expert corroboration and becomes the iconography of the New Institutional Approach (New Institutional Economics) in Islamic economics. Some studies show this by convincing this view (Al-Daghistani, 2017; Askari et al., 2015; Khori and Yusdani, 2015; Morrison, 2019). The grouping of

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Abbas Mirakhor as the bearer of the idea of New Institutional Economics (NIE) is based on a set of argumentation. Abbas Mirakhor states that Islamic economics must be strengthened with an institutional legal foundation, in outline that Islam can comprehensively be promoted in Islamic economics (Khorri and Yusdani, 2015). That is the basis of the argument why Abbas Mirakhor is categorized as a New Institutional Economist (Mirakhor and Krichene, 2014). The development of the Islamic finance industry, complete with the complexity of the products it offers, must stand on the foundation of Islam. Because that institutional legality is needed for the product, consequently the financial industry does not run solely based on market reason alone (Arafah, 2019).

The institutional aspects and the legality of Islam towards the development of Islamic economics made Abbas Mirakhor a consistent bearer of NIE and introduced it through in-depth studies and explained his support for the idea of NIE implementation in Islam. However, there is another dimension that also stands out besides the bearer of the idea of the NIE, namely in the realm of methodology. Abbas Mirakhor more often demonstrates philosophical work as a realist-economy. This is marked by the intensification using mathematics and statistics in explaining the reality of Islamic economics and these include issues in Islamic banking and finance.

The question then, why does Abbas Mirakhor precisely offer an approach to economic realism to develop Islamic economic theory as a scientific discipline? What is the kind of epistemology tradition considered as a foundation of Abbas Mirakhor's idea? These questions are the main purpose of this article, while emphasizes this article also focusses on examining Abbas Mirakhor as an Islamic economic thinker. This article critically examines two things, namely: the structure of the methodology of Islamic economics offered by Abbas Mirakhor; and the epistemological tradition behind his thinking in Islamic economics. These issues are elaborated in two sub-theme of article—1) The complexity of Abbas Mirakhor's methodology; 2) Abbas Mirakhor purifies the realism economics. These issues are elaborated and the answers are formulated in this study. Then the literature study was selected to find the methodological structure and epistemological tradition of Islamic economics as outlined by Abbas Mirakhor in his works. Furthermore, the inter-textuality analysis is also applied as an instrument to understand the text and context of Abbas Mirakhor's work related to Islamic economic methodology.

## 2. Methodological Problems: Abbas Mirakhor in the Inter-textuality Path

The economic thought of Abbas Mirakhor is connected, or related to other ideas that are involved; or ideas that have come into contact with a character. Because ontologically, an idea and thought set forth in a text is a product of intense interaction between thinkers, philosophers of situations; needs; other goals and texts (Bazerman, 2003; Choudhury, 2018). This also applies to the text of Abbas Mirakhor's thought. Therefore, the inter-textuality approach can be chosen to find the methodological structure and epistemological tradition behind the thought of Abbas Mirakhor as an Islamic economic thinker.

The approach of inter-textuality itself is intended to examine the relation of the existing statistics in the text. How ideas are used and how they are positioned in relation to other thought and ideas (Al-Daghistani, 2017; Bazerman, 2003). This approach is based on the foundation of the thesis that the relationship of a thought expressed in the work, with tradition, culture and text must be broadly interpreted as synchronous and open the way for the assumption of quasi-intertextuality, that each writer has his own historical awareness in a distinctive tradition (Zegin, 2016). This framework is an effort to examine the thoughts of Abbas Mirakhor carried out by stepping on the mechanism of inter-textuality. This means, the text of Abbas Mirakhor's thought is needed not as a single text instead as an autonomous idea. His thinking nevertheless is a product of epistemic relations which lived throughout his life as an economist. There is contiguity of ideas; social; and intellectuals that Abbas did with other intellectual traditions. Thus, the style of thought offered by Abbas Mirakhor can be seen as an effort of falsification and verification, then leading to the synthesis of the building of Islamic economics. In this *locus*, NIE; and Abbas Mirakhor's version of Islamic realism needs to be understood.

Abbas Mirakhor's thought in the field of Islamic economics seems feasible to be positioned in the rules of the intertextuality approach, namely: first, a text contains various facts; second, the study of inter-textuality means analyzing the intrinsic and extrinsic elements of the text; third, the study of inter-textuality provides an equal perspective between the intrinsic and extrinsic elements of the text which are adjusted to the function of the text in society; fourth, in terms of the author's creative process, the presence of a text is the result obtained

from other texts (Su'adah, 2019). Referring to this principle of inter-textuality, it is no exaggeration if the thought of Abbas Mirakhor is considered to have undergone a transformation (read: *not exactly evolution*) towards New Institutional Islamic Economics (NIE), which is mature and concrete. At least, there is a transformation that occurs in the thoughts of Abbas Mirakhor. This transformation is a product of the intimate contact and interaction of Abbas Mirakhor on economic ideas and ideas other than Islamic economics, for example the tradition of NIE as the foundation of resistance as well as the development of neo-classical economic traditions.

In understanding Abbas Mirakhor's contact with other traditions, it is necessary to identify Abbas Mirakhor's individual transformation as a genuine thinker of Islamic economics. First is the performativity phase. This period is the growth period of Abbas Mirakhor. He was a successful student getting a bachelor degree; master and doctorate in economics from the Kansas State University, USA. Abbas Mirakhor's campus is famous as one of the oldest universities in Kansas, USA. In addition, the university has tradition in applied-science, consistently. Second is the period of horizon melting. This happened when Abbas Mirakhor joined the International Monetary Fund (IMF) (1984-2008). It is well known that the IMF is a think tank of the economic neo-liberalism community (Harmen, 2011). Third, the abstraction phase of the concept of NIE. This period occurred when Abbas Mirakhor left the IMF and later joined INCEIF in 2010 as the first holder of INCEIF's Chair in Islamic Finance. These three phases that signify the transformation of Abbas Mirakhor's Islamic economic thought deserves to be interpreted as the *locus* of ideas and becomes a vehicle for thought that is formed from the inter-intellectual interaction carried out by Abbas Mirakhor. This can be identified from the style of work that was born, and the pattern of acceptance of intellectual authority which is used as a paradigmatic basis in his work and ideas.

Abbas Mirakhor is famous as an economist who is concerned with Islamic economics, since Abbas worked as an academia shortly after getting his Ph.D. Nevertheless, his intellectual career developed rapidly when he joined the IMF. There were twenty-one works by Abbas Mirakhor when he joined the IMF, in book form; journals and working papers. In this period, the most fundamental works of Abbas Mirakhor was the *Note on Islamic Economics* published by IRTI-IDB. It is considered fundamental, because in this work, Abbas Mirakhor introduces his initial views related to the Islamic economic paradigm. The paradigm of Islamic economics offers several propositions, namely: first, Islam has a view of how to organize political, social, and economic systems based on the building of ontology and epistemological propositions while considering their individual rights and collectivity. Second, defining an economic system as a collection of institutions (e.g. norms and rules of behavior) related to production, exchange, distribution, redistribution and defining institutions like the interpretation of Douglas C. North as rules and norms. Islam offers a different system in various aspects when compared with other schools of thought related to how an economy is organized. Third, the behavioral rules and norms of a conclusive Islamic economic system; strict; articulated analytics in a method intelligible with economists—empirically tested. It can also be a policy foundation or recommendation on the problems of modern society; fourth, currently the most important function of Islamic economics as a discipline is to build a precise language that brings to consensus among researchers by considering the meaning and function of terms, ideas, rules and norms (Mirakhor, 2007).

In his *Note on Islamic Economics*, Abbas Mirakhor shows a paradigmatic relationship with other Muslim economists. This is marked by some recognition of worldview; axiom; and Islamic economic theory put forward by scholars and other Muslim economists. For example, Abbas Mirakhor accepted the term proposed by Umar Chapra, the hibernation of Islamic economics due to the increasing attention of scholars of science and humanities in the Muslims world. This is marked by the achievement of linearly coupled, thinking interconnected offered by Muslim scholars regarding Islamic economics. Of course this helps to make critical reasoning about the economic system that is rooted in the European tradition (Mirakhor, 2007). In this context then, Abbas Mirakhor must be understood. The economic thought introduced, certainly did not spontaneously compound, but through a long process of interaction of ideas and philosophical foundations and co-existence with other economists' ideas, both from the conventional economist tradition, more specifically with Muslim economists themselves. Thus, the inter-textual approach is appropriate to be selected so that the link between the ideas of Abbas Mirakhor and other economists can be understood, and the final form is the identification of the epistemological structure of Abbas Mirakhor's economic thought, which can be formulated properly and accurately. Therefore, to understand the slices of tradition and the



structure of the Islamic economic methodology of Abbas Mirakhor, it seems important to parse the mainstream as a variant of the developing methodology in economics.

### 3. The Methodologies of Economics: Paradigm and its Variance

Currently the Islamic economy is experiencing hibernation—a slowdown in knowledge. The slowdown became an economic discipline, due to the massive replication of positivistic economic traditions in the study of Islamic economics. In this situation, consistent efforts are found; and reformulating the epistemology of Islamic economics is important. At least in responding to this circumstance, there are many scholars of Islamic economics who strive to offer various forms of epistemology of Islamic economics. This is understandable, because until now, there has been no consensus regarding the epistemological building of the Islamic economy itself. In this context, it seems important to understand what and how the concept of an epistemology and the structure that accompanies it. However, understanding the epistemological structure of economics also becomes an integral process in its relation when it comes to understanding the structure of the production process of science, referring to Ludwig von Mises, who believes that economics is part of a general theory of human behavior and actions (Mises, 2003). This interpretation emphasizes that economics exists as something empirical from human economic behavior and actions. As a science, Uskali Mäki describes that economics as a product of social processes (Mäki, 2005). Mäki even believes that economics is the queen of social science (Mäki, 2005). This is understandable because economics is a product of the social processes carried out by humans, especially in relation to efforts to meet the needs of human life. In this *locus*, to understand the epistemological structure of economics, it seems important to understand epistemology in the meaning built by Robert Audi as a theory of knowledge; and theory of justification (Huemer, 2002). In this realm then the structure of economics needs to be parsed, and elaborated.

Economics, in the *locus* of knowledge theory, has a very complex dimension. In this case, the history of the epistemology of economics tends to be attributed to John Stuart Mill, who, according to some of his beliefs, that: (i) the relationship of economics with empirical science such as physics, on the one hand, and other non-empiricist sciences such as geometry, is not easily and completely parsed; (ii) epistemology, whether empirical or non-empirical science in general is always controversial to rely on; (iii) economics is more complex and difficult in the sense of epistemology, when morals and normative also form the basis of economics (Sagal, 1977). Nevertheless, the theory of knowledge and the justification theory of economics can be stretched into three paradigms of long, deep discussion, namely: ultra-empiricism; moderate empiricism and *extreme apriorism*.

In the process of producing economic theory, economists will always be on the three paths of schools (e.g. *ultra empiricism; moderate empiricism; and extreme apriorism*). In the tradition of ultra-empiricism, every human action is necessarily based on rational considerations (Machlup, 2009). Then every conclusion of economics must be based on that philosophical dogma. In addition, the mechanism verifications of economics are aimed at maintaining *politico-intellectual obscurantism*, which determines the tests to be chosen in proving the economic theory. In praxis, ultra-empiricism requires testing prepositions using fundamental assumptions in a theoretical system (Machlup, 2009). Understanding the framework of the tradition of ultra-empiricism, it is necessary to explore T.W. Hutchison's philosophical views. This will lead to mechanistic information, how ultra-empiricism works in the production of economic theory.

Regarding how ultra-empiricism works, T.W. Hutchison poured the answer in his work, *The Significance and Basic Postulates of Economic Theory* (1938). According to him, economics should ideally start from pure theory; and the framework of pure theory is not in the mechanism of investigating the sources of preposition validity. Instead, it is precisely to clarify the relationship of the preposition with the assumptions or postulates from which it originates. It also includes clarifying the assumptions of *ceteris paribus*. The end of all, this is to clarify the assumption by analyzing the key concepts such as equilibrium; expectations; sensibilities; rational conduct; and utilities (Hutchison, 1938). Briefly, the tradition of ultra-empiricism driven by T.W. Hutchison seeks to position the work of economic theory within the framework of pure theory, not in its function to validate prepositions. However, it does clarify the relationship between economic prepositions and economic reality. Of course this is different from the tradition of moderate-empiricism supported by Milton Friedman.

Uskali Mäki calls Milton Friedman as an economist who popularized the ideology of science, where the ideology provides instructions on how to study economics and how to organize academic life in general

(Mäki, 2013). Based on this philosophical view, Milton Friedman then produced many works, and one of them was *the Methodology of Positive Economics*. In the production of economic theory, Milton Friedman introduced 'positive economics' and this later became a tradition of studying economics, accompanying the tradition of ultra-empiricism. The tradition of positive economics emphasizes the principle of independence from positions of ethical justification and particular norms (Mäki, 2009). In John Naville Keynes's terms, positive economics is closely related to the 'what is'; rather 'what ought to be' diction (Mäki, 2009). This philosophical framework provides a conclusion system that can be used to formulate correct predictions related to the consequences of various changes in economic reality (Mäki, 2009). This then aligns economics with physics and becomes an objective science.

For Milton Friedman economics, in fact, is related to human and researcher interruption as the subject of study (Mäki, 2005). This is certainly different from physics, between researchers and the subjects under study, as they are different and have no interrelation. Thus, physics is more objective. Nevertheless, Milton Friedman carefully and confidently offers a tradition of *moderate-empiricism*, and is supported by the paradigm of *positive-economics*. In this case, Milton Friedman asserted that the ultimate goal of *positive economics* is to build valid theories or hypotheses and meaningful predictions related to phenomena that have not been observed (Mäki, 2009). In this framework, the theory is valued as a substantive hypothesis, and it must be justified by the predictive power of various classes of phenomena to be explained (Mäki, 2009). Hence, the tradition of *moderate empiricism* is supported by the paradigm of positive economics that seeks to make economic theory a more substantive hypothesis, and can confirm the economic reality. As a rivalry, Ludwig von Mises and Lionel Robins introduce other methodological traditions, which are relatively different. They call it *extreme apriorism* and the philosophical view that underlies this tradition.

Another term from the aprioris methodology tradition is the *epistemological justification of the a priori element(s) of economic theory* and *epistemological justification of the a priori element of economic theory*. In this context, Scott Scheall laid the foundation of a priori economics (Scheall, 2017). Scheall began his methodology from a philosophical view that human action is a behavior that has a purpose (Scheall, 2017). Therefore, the procedure of economics is the application of the category of human action because it requires the deduction of praxeology to understand human behavior (Scheall, 2017). Scott Scheall convinced economic scientists to base their economic analysis on a general theory of choices and preferences.

The praxeological deduction offered by Ludwig von Mises is useful to solve the economic problems. In addition, it is also an alternative of the economic method in assessing a set of economic behavior and continues to be developed until present. However, the method of Ludwig von Mises has not been reviewed by Islamic economists whether it can be applied in Islamic economic studies as a method. This is understandable, because currently Islamic economics is actually being developed within the framework and style of the neo-classical economics. This is indicated by the adoption of positivism axioms in building economic modeling (Reuten, 1996). As a consequence, the development of an Islamic economic methodology is still trapped in accommodative efforts to conventional economic methods. However, it does not mean that the development of the Islamic economic methodology has stagnated. In fact, there are various efforts to show that the Islamic economic methodology is still being developed creatively and philosophically. In this context, then, an important question is formulated, namely: How is the latest development of Islamic economic methodology? Did the three traditions (ultra-empiricism; moderate empiricism; and extreme apriorism) grow in the epistemological structure of Islamic economics? Or rather, there is a transformation that differentiates Islamic economics from economics methodology. To understand these issues, it is necessary to put forward several methodological concepts that are currently developing in Islamic economic science. The following section discusses the variance of Islamic economic methodology.

#### 4. The Variance of Islamic Economic Methodology

Islamic economy, admittedly, is indeed a process towards a scientific discipline. In this regard, there is no standard epistemological consensus in relation to the theories in Islamic economics (Haneef and Furqani, 2011). Uniquely, the dynamics and contestation of Islamic economic methodology has actually strengthened and expanded in recent decades. This led to the birth of several variations of Islamic economic methodology. Based on the existing literature, Islamic economic methodology can be categorized into three typologies.

The first typology is the tradition of Islamization of economics based on the neo-classical paradigm. In this regard, neo-classical economics was positioned as a framework and foundation of Islamic economic



model. Therefore, it is easy to find a set of neo-classical assumption that systematically integrated into theories of Islamic economics. This stage is a result of the domination of neo-classical tradition (Arrow, 2016). Consequently, curriculum courses and economic education, research agendas, journals and massive publications are represented in the neo-classical economic tradition. It is essentially a part effort of Islamization economics. In connection with the Islamization of economics, the search for the influence of neo-classical traditions in Islamic economics can be traced to two methods, namely: (1) looking at intrinsic values in the narrative of economic theory — does the theory put forward by Islamic economics scholars contain values of neo classical intrinsic? This intrinsic value refers to the basic assumptions and axioms on which classical economic theory is built; (2) identify themes and assumptions associated with terms and assumptions that grow and develop in the neo-classical economic tradition (Arrow, 2016). In addition, another characteristic of the neo-classical economic tradition in relation to methodology is the very intense use of the Imre Lakatos<sup>1</sup> research methodology (Brahmachari, 2016). Referring to this indicator, the Islamization of economics carried out by Islamic economics scholars is also trapped in this neo-classical economic tradition.

Salman Ahmad Sheikh is a scholar who is concerned about integrating neo-classical economic traditions and Islamic economics. This is indicated by the application of intensification<sup>12</sup> abstraction of mathematical models in explaining economic reality. In addition, Sheikh's article titled *Examining Classical and Neo-Classical Theories of Development from Islamic Perspectives and Islamic Solutions to Contemporary Development Problems* (2013) serves as a sign that Sheikh is trying to critically integrate the neo-classical economic traditions and Islamic economics. It is just that this integration process is carried out very carefully due to its criticality (Shaikh, 2013).

The second typology of the study of Islamic economics is marked by efforts to qualify Islamic economics based on moral economics, but still provides a minimal portion of the neo-classical economic tradition. In relation to this, one of the scholars<sup>6</sup> Islamic economics who is concerned with this tradition is Mehmet Asutay. Through one of his articles, *Islamic Moral Economy as the Foundation of Islamic Finance* (2013), Mehmet Asutay laid down a system of Islamic moral economy<sup>16</sup> philosophy and became the foundation of Islamic finance. According to Asutay, *Islamic Moral Economy* (IME) is a response to the failure of economic development in Muslim countries—both by capitalists, socialist and nationalist. The solution to this failure according to him is, to return to the authentic sources of Islam in order to build an economic model, and that are Quran and Sunnah (Cattelan, 2013). Mehmet Asutay was not the only Islamic scholar who supports the idea of Islamic economics based on moral economics, others like (Chapra, 1996, 2000); (Siddiqi, 1981); (Al-<sup>15</sup>Mr, 1987); (Khan, 1994, 2013) and (Naqvi, 1981, 1994) were<sup>15</sup> also noted as laying the foundations of the Islamic moral economy in the modern era. They indeed tried to articulate the initial theoretical building for Islamic economic morals, which later became the basis of the ethical-religious foundation for Islamic banks and finance (Cattelan, 2013). This then encouraged Mehmet Asutay to formulate a methodology of Islamic moral economics which was relatively different from other methodologies adopted by Islamic economists who are partially attempt to construct Islamic economics as a science from empirical foundation.

Mehmet Asutay offers several methodological postulates of Islamic moral economics, namely: (1) as a form of resistance to the methodology of individualism in conventional analysis, the IME assumes that humans are as "altruistic persons" which are not only concerned with the individualism value system but also have social concern as the main prerequisite; (2) As the foundation of behavioral postulates, the IME assumes the existence of a God-conscious individual, where individuals: [a] try to meet their needs and self-interests while paying attention to social goodness, [b] carry out economic activities in a rational manner by always referring on Islamic boundaries based on the social environment and the end-day, and [c] effort to satisfy the utility, the individual will indirectly pay attention to maximizing social welfare well because it is an important part of gaining happiness in the afterlife; (3) in relation to institutional assumptions of IME in conventional analysis, especially in terms of accepting the doctrine that market mechanisms are an important component of the operation of IME, the market mechanism must work on a moral foundation to produce a

<sup>1</sup> Imre Lakatos is a Hungarian mathematician and philosopher. In the context of the philosophy of science, Lakatos is known as a philosopher who offers methodology for scientific<sup>3</sup> research by which he refers as the epistemological structure for research. Lakatos published his work entitled *Criticism and the Methodology of Scientific Research Programs* (1968).

friendly environment system. This is however avoided in the system of socialism; and welfare state with the aim of getting high economic incentives (Cattelan, 2013). It seems that the relationship between neo-classical economic traditions and IME can be established, especially in terms of accepting the market mechanism as the best economic instrument.

The third typology is the methodological tradition developed by Abbas Mirakhor. To understand the epistemological structure of Islamic economics offered by Abbas Mirakhor, a careful reading of his works and studies are needed. According to Abbas Mirakhor, Islamic economics is a discipline that is concerned with issues such as: first, the behavioral structures guided by Islam, especially related to the allocation of economic resources, production, exchange, distribution and redistribution; second, the economic implications of the operationalization of Islamic principles; third, the policy recommendations to achieve an order that adheres to Islamic values, which lead to the actual economic convergence to an ideal economic system encouraged by Islamic values (Mirakhor, 2009). In order to build a theory from this concept, it is necessary to base the analysis on a critical paradigm built from axioms, propositions, and assertions related to the relationship between important elements of the concept with economic reality (Mirakhor, 2009). From this concept, it seems no exaggeration to mention Abbas Mirakhor as a pioneer of Islamic economic realism. The current study therefore is certainly based on the philosophical views of Abbas Mirakhor as outlined in his intellectual works related to the Islamic economics. Therefore, it is necessary to uncover philosophical views, assumptions and propositions which form the foundation of the Islamic economic methodology offered by Abbas Mirakhor, carefully and deeply.

### 5. The Complexity of Abbas Mirakhor's Methodology

Methodology is a specific part of a philosophy of science, which is often referred to as epistemology. However, in epistemology, a set of intensively studied are knowledge theory, source of knowledge; application of knowledge and the scope of a science. Meanwhile, the methodology is more specifically related to how a theory is built and how to evaluate the theory (Haneef and Furqani, 2011). Referring to this concept, the elaboration of the methodology of Islamic economics offered by Abbas Mirakhor is concerned on the process of producing Islamic economic theory itself—a theory is built; the method consistently applied to produce Islamic economics theories.

Abbas Mirakhor radically elaborates on the Islamic paradigm, beginning his efforts by carrying out Islamic economic abstractions. According to him, Islam is a guidance system that functions as a method that can be used by humans; and the community to achieve material and non-material progress that consistently refers to effective rules and institutions (Askari et al., 2015). In this context, institutional framework of the Islamic economic system is built through the order of behavior defined from the Quran. Thus, the content and blueprint of Islamic economics is formulated through: 1) extraction of rules which describe the ideal Islamic economy and its economic implication from the Quran and Sunnah; 2) examining the institution in contemporary economics and determine the degree and level of deviation between institutional framework and the ideal Islamic economy; 3) offering policy recommendations that can bridge the gap between them (e.g. institutional framework and the ideal of Islamic economics). It can be understood that Abbas Mirakhor formulated in advance the ideal form of Islamic economics derived from the two main sources of Islam, namely the Quran and Sunnah (Askari et al., 2015), then encourages the existence of institutions that can discuss the ideal form of the economy. In this context, Abbas Mirakhor also interprets the importance of market in Islamic economy.

According to Abbas Mirakhor, the Islamic economic system is a market-based system, where the market must be seen as the most efficient and good mechanism for the allocation of economic resources such as production and consumption. Nonetheless, the efficiency of the market system should not be obscured by positioning the market as an ideology. To achieve market efficiency, the market itself does not deserve to be interpreted as the philosophy or foundation of the economic system, and is upheld as a supernatural in determining the efficiency of the economic system. Market efficiency can only be achieved if the market is run based on rules that are fully intended to protect economic actors (workers; producers; investors and consumers) and must be monitored by strict enforcement (Askari et al., 2015). These rules are built on the basis from the Quran and Sunnah. In this case, the Quran and Sunnah as categorized by Abbas Mirakhor, a meta-framework and archetype of economic rules. This further strengthens Abbas Mirakhor belief that the source of all Islamic paradigms originates from the Quran (Askari et al., 2015) as the Quran provides a



framework of Islamic economics. Likewise in relation to epistemology, the Quran and Sunnah are the main sources of Islamic economic theory as both are sources of the foundation and order of the economic reality of Islam. As such, the Quran and Sunnah are called the meta-frameworks abstract, and they do not change. It is interpreted as a source the archetype model essentially providing universal-specific rules of behavior and the institutional structure needed for organizing a human society based on the immutable rules of meta-framework (Askari et al., 2015). In relation to this, the important questions which are worth asking, what are the methodological concepts offered by Abbas Mirakhor when extracting axioms—the basic Islamic economic philosophy of the meta-framework (e.g., the Quran and Sunnah) and instruments are used for the process.

Abbas Mirakhor introduces the use of the hermeneutic approach in formulating postulates, or Islamic economic axioms derived from the meta-framework — the Quran and Sunnah. According to Abbas Mirakhor, hermeneutics is applied by classical scholars in understanding texts. In relation to Islamic economics, there are many illustrations of the application of Islamic economic hermeneutics by Muslim economists (Mirakhor, 2007). For example, Umar Chapra in his book *The Future of Economics*, according to Abbas Mirakhor is full of illustrations of the application of economic hermeneutics. Likewise, Tajuddin and Rofie (2014) when explaining the order of the Quranic system, applied analysis in an inter-generational framework and inter-temporal framework. Efforts to produce economic theories from an Islamic perspective such as building Islamic assumptions about rationality, self-interest and human behavior through hermeneutics are important (Mirakhor, 2007). Briefly, Abbas Mirakhor actually used the hermeneutic approach to capture the Islamic vision of the economy. Hermeneutics is not only addressed Islamic meta-framework, but can also be used in other Islamic texts in the form of *Turats*—classical literatures written by Islamic clerics or *mujtahid* (e.g. scholarly writing on *fiqh*, ethics, philosophy, history of Muslim society, and history of thought). In addition, hermeneutics helps Abbas Mirakhor to formulate economic postulates that refer comprehensively to Islamic meta-framework.

Understanding Abbas Mirakhor from the concepts related to the sources of Islamic economic science, as to what Abbas Mirakhor built the structural methodology of Islamic economics, and its relationship with hermeneutics, is rather difficult to define in the epistemological tradition. This is normal because Abbas Mirakhor is a complex figure (Khorri and Yusdani, 2015). Therefore, it is necessary to understand Abbas Mirakhor through his work entitled *Introductory Mathematics and Statistics for Islamic Finance* (2014). This work confirms its position as a Muslim economist who advocates the use of mathematics and statistics as tools in analyzing Islamic economics, especially in the study of Islamic finance. Mirakhor and Krichene (2014) state that to understand the ontology of Islamic finance, the scholars must have sufficient ability to operate mathematical and statistical calculations. This recommendation is understandable because Islamic finance activities like conventional finance are full of equations to calculate internal rates of return, replicating portfolios, structuring products, pricing assets, and calculating the cost or break-even points (Mirakhor and Krichene, 2014). Following this, it is natural to categorize Abbas Mirakhor as an advocate of Islamic economic realism since reading economic reality through numbers is a concrete form of realism. Explanation of the reality of Islamic economics through mathematical approaches, and statistics, may deliver Abbas Mirakhor as a Muslim-realist economist.

The complexity of Abbas Mirakhor as a Muslim economist is also seen when he parses and offers the ideal concept of Islamic economics. Abbas Mirakhor began his exploration by proposing the paradox of capitalism, to then offer the ideal concept of an economic system that refers deeply and revolutionarily to Islamic meta-framework —the Quran and Sunnah. Referring to the study put forward by Rima (2003) in which the author quoted “the paradigm of capitalism neo-liberalism cannot solve recurring economic crises, even the neo-liberalism reasoning is the part that triggers the crisis”. In this context, Abbas Mirakhor composed the epistemological system of Islamic economics, which was relatively different from other Islamic economics scholars. Philosophically, Abbas Mirakhor explains the process of externalizing the Islamic economy as follows:

*“The fountainhead of all Islamic paradigms is Quran. It provides the framework within which all relevant envisioned conceptions of reality find their source. This eternal source specifies the rules of behavior (institutions) applicable to all societies at all times. These rules are immutable temporally and spatially. The meta-framework specifies the immutable, abstract rules. The archetype model articulates the operational*

form of these rules and demonstrates how these rules are operationalized in a human community. The abstract became operational in the hands of the human being who was the one and only direct recipient of the source of the meta-framework, Quran. Through the words and actions of this perfect human, the meta-framework given by the Creator in Quran was interpreted, articulated, and applied to the immediate human community of his time. The meta-framework specifies general universal laws, rules of behavior. The archetype model provides universal-specific rules of behavior and the institutional structure needed for organizing a human society based on the immutable rules of the meta-framework” (Askari et al., 2015).

Evidently, the Quran and everything derived from it becomes law for reality—unchanging; permanent and universally valid as an archetype and institutional fold for economic behavior. Therefore Islamic meta-frameworks—the Quran and Sunnah, should ideally be able to be converted into abstract and rules immutable. At this level two methodological processes are applied, namely hermeneutics as an effort to interpret and capture the Islamic value order; and economic realism as an effort to fabricate law for reality. This process naturally leads to the formulation of an archetypal model that articulates the operational form of the law for reality and demonstrates on how the rules are operated in the human community (Askari et al., 2015). In terms of the epistemology of economics as social science, how the structure of the IEM is offered by Abbas Mirakhor? It seems necessary to consider the structure of the methodology in the philosophical narrative of the epistemology of economics. This is aimed at identifying which parts of the structure of Abbas Mirakhor's Islamic economic methodology differs from the structure of conventional economic methodologies.

#### 6. Abbas Mirakhor Purifies The Realism Economics

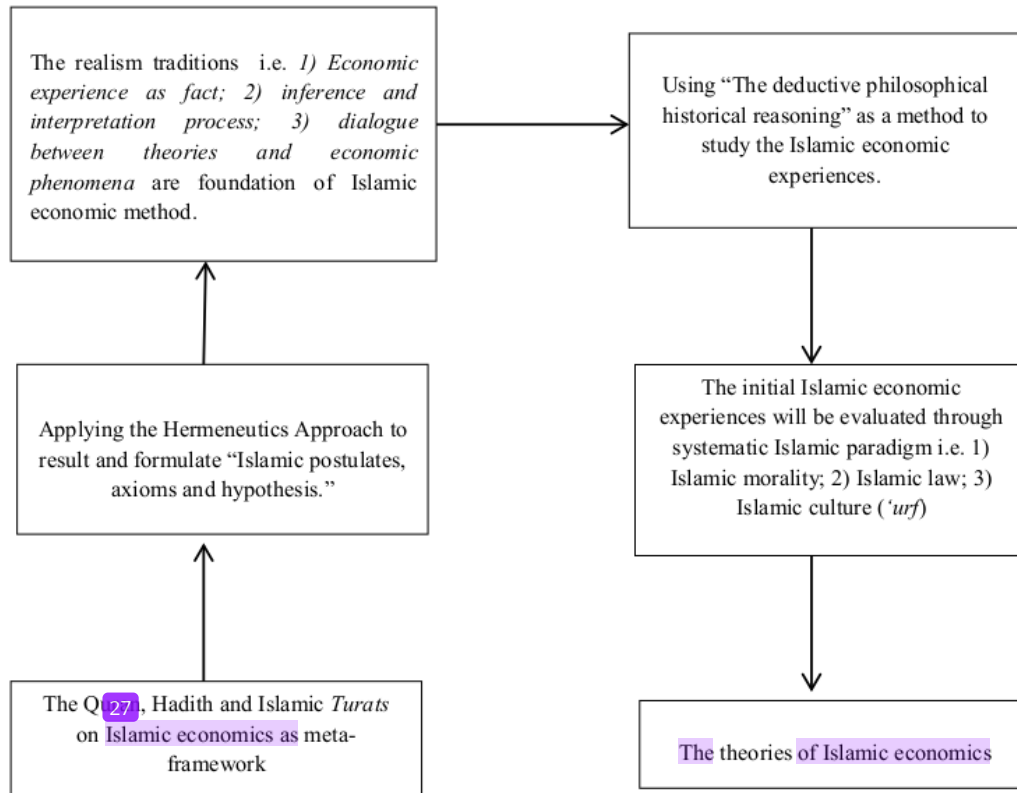
A main idea that can be offered when exploring economic thought and Islamic economic methodology offered by Abbas Mirakhor, specifically; Abbas Mirakhor is a Muslim economist who seeks to purify economic realism by incorporating a hermeneutic approach to the text of the Quran and Hadith especially in his efforts to formulate postulates, axioms and hypotheses related to Islamic economy. The current study explores the economic thought and Islamic economic methodology offered by Abbas Mirakhor and proposes that Abbas Mirakhor is a Muslim economist who seeks to purify economic realism by incorporating a hermeneutic approach to the text, especially in his efforts formulating postulates, axioms and hypotheses related to Islamic economy. The idea is illustrated as in Figure 1.

Abbas Mirakhor began his thinking through efforts to position the Islamic meta-framework—the Quran, Sunnah and classical literature of Islamic economics. The meta-framework is then understood and interpreted by the hermeneutic approach. The ultimate goal of applying this hermeneutic approach is to express Islamic values, and then becomes the foundation of Islamic economic postulates. Abbas Mirakhor illustrates this process through understanding the meaningful declaration of the Quran (2: 276), regarding the meaning of الصدقات *(Allah destroys usury and fertilizes alms. And Allah does not like anyone who remains in disbelief, and always sins)*. Muslim economists actually apply the hermeneutic approach to this verse, paying attention philosophically to the meaning of the words *يمحق* (*destroy*) and *يربي* (*grow*). This is an indicator that distinguishes the impact of usury and alms on the economy, especially for economic actors who involved in usury and alms. The meaning of this hermeneutic, the economist can create a Keynesian model to calculate marginal propensities for usury and alms itself (Mirakhor, 2007). From Abbas Mirakhor's explanation, it can be understood that hermeneutics serves as a catalyst for the postulates of Islamic economics from meta-framework sources. Then, the postulate is again empirically examined in the tradition of economic realism.

The tradition of economic realism itself is identified through a concept that refers to Tony Lawson, where a realist economist will see two methodological efforts, namely: interpreting and differentiating. These two will always be used as reasoning methodology for those who hold to the realm of economic realism (Lawson, 2003). Abbas Mirakhor ideas on the method of Islamic economics certainly can be categorized in the two reasoning. At the level of the use of hermeneutics against the sources of Islamic meta-framework, Abbas Mirakhor is actually doing an interpretation. When successfully building a postulate; and the Islamic economic model, Abbas Mirakhor is actually trying to give an emphasis that distinguishes Islamic economics from positivism economics. Abbas Mirakhor built it from Islamic meta-framework positioned differently (Khorri and Yusdani, 2015) despite it being in the Keynesian economic model framework. Abbas Mirakhor

makes the model built on his interpretation of Islamic texts as prima-postulate, and is not intended to be tested. Rather the model is positioned as the foundation of an evaluation of economic experience undertaken by economic actors. In this context, then Abbas Mirakhor can be categorized as an advocate of Islamic economic realism.

Figure 1: Abbas Mirakhor's Methodological Structure



Authors' formulation

In addition, by including a hermeneutic approach or an attempt to make a philosophical interpretation of the Islamic text, and then the results of that interpretation or exegesis is used to evaluate the economic experience. This can be interpreted that Abbas Mirakhor tried to purify the tradition of economic realism. Rather, Abbas Mirakhor is trying to convince the economic community, in understanding reality, it is not enough to state that economic reality is one-fold, and only recognize the reality of economic experience. However, there is a supra-normative reality, and it is sourced from Islamic meta-framework such as the Quran, Sunnah and *Turats* (e.g. intellectual works of Muslim scholars).

According to the tradition of economic realism, there are two aspects that concern to identify by the realism-economic society, namely: awareness; and the structure of social reality (Lawson, 2003). It is just that, in a different form, Abbas Mirakhor is also trying to find the intrinsic awareness (supra-consciousness) that is behind the Islamic text. To discover, and understand this, the hermeneutic approach was used by Abbas Mirakhor so that the postulate, and the economic model that comes from the meta-framework, can be the foundation of an evaluation of human economic experience. The substantive compounded model designation can be recognized as archetype models for Islamic economics and can be institutionalized as a solution to economic problems. Thus, the structure of Abbas Mirakhor's Islamic realism-economy differs from the tradition of ultra-empiricism; moderate empiricism; and extreme apriorism, which only recognizes empiricism as the foundation of Islamic economic methodology, in which the reality compounded by common sense is recognized as the main account of economic theory—in the meaning carried out by Abbas



Mirakhor of reality. The ultimate reality is actually, there are authoritative sources, or wealth legacy of Islam in the form of the Quran, Hadith and *Turats*. This ultimate reality determines the process of Islamic economics into a scientific discipline (Mirakhor, 2007). Abbas Mirakhor, by considering philosophical reasoning, and the historicity of Islam in developing economic postulates, he can be considered as an Islamic economic realist who appeared to purify economic realism.

## 7. Conclusion 11

Abbas Mirakhor in the spectrum of Islamic economic thought is grouped as the initiator of the New Institutional Islamic Economics—an idea based on a philosophical view in which to develop and encourage the realization of an ideal Islamic economy. Following this, an institution is needed, both in terms of the Islamic value system and archetype models that were formulated from Islamic meta-framework. This is the foundation of the argument of the current study that, NIE (New Institutional Economics) applied by Abbas Mirakhor is inseparable from his intellectual interaction with the NIE tradition in conventional economics. This also encourages Abbas Mirakhor to introduce the structure of the methodology of Islamic economics, which is more visible as “New Realism Islamic Economics”. This is indicated by the number of approaches used by Abbas Mirakhor in developing and producing Islamic economic theories.

In practice, Abbas Mirakhor produced Islamic economic theories through reading; hermeneutic interpretation of the source of Islamic meta-framework—the Quran; Sunnah and *Turats*. This hermeneutic approach serves as an instrument in building and formulating postulates of Islamic economic theory, which functions in research as a theoretical evaluation principle for economic experience that can be observed empirically. This kind of methodology certainly needs development and institutionalization. In order to construct Islamic economic methodology, it does not appear to be mere replication of positivism, and becomes a distinction that can distinguish processes, mechanism and procedure of Islamic economic research.

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