

The Significance of Moral Agency for Socioeconomic Justice and its Absence in Islamic Economics and Finance

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ABSTRACT. The paper attempts to build a case for the moral agency of individuals operating within organic social networks – in contrast to the impersonal nature of financial institutions – as a necessary medium for practicing Islamic economic principles, for the goal of achieving socioeconomic justice in society. Through comparative analysis, the paper argues that the modern institutional framework due to its impersonal nature, capitalist orientation, agency cost, and socially disintegrative nature is not a suitable medium for advancing the agenda of Islamic economics. A market environment where individuals exercise their moral agency to the fullest is perhaps necessary. To make this argument, the paper looks at the history of Muslim bazaars and the norms in Muslim business communities in the contemporary world to explore the significance of the personal agency of morally conscious and pious individuals. The individual traders or investors would operate within their organic social networks while exercising socioeconomic justice among their stakeholders. To achieve the desired socioeconomic goals sought through the implementation of Islamic economic principles, a culture of trust and mutual support needs to be cultivated (or preserved where it already exists) between individual traders and investors in any market. This is possible only when the traders or investors can fully exercise their moral agency, have concern for each other and voluntarily demonstrate trustworthiness. In absence of such a culture, the paper argues, it would be difficult to come close to the satisfactory implementation of the principles of Islamic economics in marketplaces, let alone the achievement of the desired socioeconomic goals.

KEYWORDS: Islamic socioeconomics, political economy, moral agency, moral hazard, institutionalism, history of bazaars, informal economy, community-based entrepreneurship

JEL CLASSIFICATION: B11, P51, Z13, D13, O17, E26

KAUJIE CLASSIFICATION: B5, D0, E0, F21, F22, F51, H48, J1, S0

1. Introduction

This paper argues that the Islamization movement missed its goals like economic justice, eradication of exploitation, equity and inclusion (Chande, 2023; M. N. Siddiqi, 2011; Zaman, 2017) because it ignored the socio-political and ideological contexts responsible for the socioeconomic ills which the movement intended to eradicate. These contexts come part and parcel with modern institutional framework which the movement embraces after shariah compliance (Javaid & Suri, 2019). One of the key contextual elements ignored by the movement is how and why the design of modern institutional framework (dis)engage moral agency of individuals and impose a rationalized form of social order (HuangChen, 2021; Ritzer, 2016).

Islam rather empowers the moral agency of each individual by first orienting it via *tazkīyah-e-nafs*. For a Muslim, every social, economic and political interaction (even interaction with animals, plants, or a material resource) is fundamentally moral in nature that will eventually have consequences on the Day of Judgement (Asutay & Yilmaz, 2021). When the moral agency of most individuals in a society is empowered and aligned with the direction set by Quran and Sunnah, an Islamic order is expected to emerge that will ensure socioeconomic justice (Hallaq, 2013). Modern institutions however constrain the moral agency of its employees, and makes it irrelevant what they hold sacred in their hearts. The social engagement thus shifts from moral to rational under the influence of modern institutions (Ritzer, 2016).

This design feature of modern institutions has its roots in the answers given by European philosophical thought to two fundamental questions, (a) who are we, (b) what is the ultimate source of knowledge. In 17th century Rene Descartes formalized the notion that we are rational beings who also happens to have a body, and our thinking minds are superior to our bodies and hearts (*qalb*) as well (Harari, 2015). This mind-body split, also referred to as Cartesian dualism (Dika, 2020), had epistemological implications, as our rational mind now became the ultimate criteria to differentiate truth from falsehood (Javaid & Suri, 2019). The rational, thus the mathematical, the objective, the quantitative, was given precedence over the qualitative, subjective, the irrational (sic)

part of human experience including the religious character.

The intuitive, moral and emotional nature of man, however was inseparable part of a person's existence, which also inspired the religiosity of the common man, thus posed a serious problem in the establishment of a rational order (Reisman, 1998). To solve this problem two inventions emerged in Europe, (a) social sciences, that would study the subjective nature of human behavior to find means to control it, and (b) the institutional order, which would apply the knowledge of social science to manipulate and control the irrational nature of man, for certain so-called rational objectives like capital accumulation, but at the cost of economic injustice and inequality (Manicas, 1987; Zaman, 2014).

The dominance of the rational, in all its manifestations in market and state institutions, also referred to as 'the formal', undermined the significance of the informal such as the organic family and community (Polanyi, 2001), where the human emotions and moral values determines the outcome of social interaction (Bubolz, 2001; Gomez-Mejia et al., 2011). The religion was also deemed as irrational, despite it allowed the emotional energy to operate under a moral framework, instead of discrediting it entirely (Jung, 2006). The informal was thus replaced with the formal. The modern institutional order gave birth to a rationalized form of social reality where individuals as institutional agents were required to submit their moral capacity to the rational rules (Kakavelakis & Edwards, 2022) enforced within the formally recognized entities like banks or corporations or otherwise they would risk unemployment (Hickel, 2020). Colonial powers enforced the same transformation in the Muslim world in the past two centuries as well while actively destroying the alternative arrangements to organize the economy, society and politics (Gilmartin, 2014). Today the same institutional order prevails in the Muslim world. This reengineered socioeconomic and political reality is not recognized as problematic – rather is accepted as a default – by most second-generation scholars of Islamic economics and finance through their ahistorical and decontextualizing gaze (Zaman, 2017).

It is therefore critical to recognize the necessary social and political realities which are incompatible and compatible with the letter and spirit of Islamic economics and finance to identify the right medium to achieve the desired results sought by the Islamization movement today. So, the paper will dwell over the questions: where Islamic economic principles were practiced, and who used to practice them during pre-modern times in Muslim history? How can we create the conditions required to allow moral agents to practice Islamic principles to deliver justice, given the institutional constraints created by modern society?

To answer this question looking into Islamic history becomes pertinent. But before that, the paper will discuss the social basis of economic exchange (Section 2) and how it has been affected by institutionalization in the west (Section 3). After looking at the social nature of the exchange process in bazaars in Islamic history and the contemporary world (Section 4) the paper will explore the question that why Islamization has taken the institutional route (Section 5). Finally, the implications for the future of Islamic economics and finance will be discussed (Section 6).

2. The social basis of economic exchange and wealth circulation

Social relationships, many have suggested, had more significance than economic ones until the advent of capitalism in Europe (Fromm, 1994; Fukuyama, 2011; Polanyi, 2001). This same pattern can be found in Islamic history (Javaid, 2015). Capitalism shifted the focus to the 'economic', where transactional relationships were institutionalized and the importance of organic social connections became secondary. Karl Polanyi argues that economic relationships are fundamentally embedded in social relationships, and that trust is essential for commerce to be successful (Polanyi, 2001). Furthermore, Polanyi (2001) says that critical to the birth of the market economy was the reversal of this relationship – a market economy is characterized by the embedding of social relationships within the market. A shift from 'direct embeddedness' to 'proxy embeddedness' in terms of Sencal and Asutay (2019)

Society can operate without institutional relationships if trust is sufficient among individuals, and bazaars can still operate seamlessly (Gharipour, 2012). Instrumentalization of the social for economic ends however creates an excuse for institutionalization which depersonalizes the relationship causing a reduction in trust between individuals (Curtis, 2007) through a phenomenon referred to as 'double hermeneutics' (Ghoshal, 2017). Institutional involvement can cover for the lack of trust to an extent, however, too much institutionalism can restrain society due to its inflexible nature and running costs, and can even create an environment of suspicion by treating everyone as having a potential for moral hazard (Ghoshal, 2017). Trust in human agency, therefore, it may be argued, necessitates organic social-human interaction. The organic can and has survived without institutions; however, on the other extreme, a society where people only interact through the rational and legal mediums of formal institutions may eventually collapse in the absence of organic social engagement (Peterson, 2002).

It is needless to mention that organic social relationships naturally exist before an individual forms' economic relationships with others as we are born in the organic or biologically necessary environment of a family. The organic environment of the immediate and extended family where humans are raised is particularly more obvious during pre-modern times and is considered a default form of human organization before complex societies ever came into being (Fukuyama, 2011). In many tribal societies, often comprising hundreds of individuals, exchange rarely happens, as the items of basic sustenance are shared by the members with each other. Such tribal societies have been in existence for many millennia (Graeber & Wengrow, 2021). In complex societies which emerged much later, where the exchange was a necessary phenomenon due to the division of labor, the unconditional relationships within the family still occur naturally before the conditional or transactional relationships that a person typically forms with non-family members when performing an exchange (Landes et al., 2010).

A child when growing up also experiences trust for the first time when raised by reliable adults, who

honor their commitments. The upbringing by trustworthy adults, therefore, instills the quality of trustworthiness among children as well. If the same trustworthy adult is a business owner and has earned credibility by demonstrating righteous behavior for a long time, the goodwill of the adult is also used by his children or relatives to gain trust among other traders in the market. When the name of such a business owner is used as a reference in the market, trust is immediately established for a person who is a stranger otherwise. The stranger may even get supplies on credit from some vendor because of his relationship with someone with strong goodwill (Javaid et al., 2019). The need for extensive paperwork or legal formalities or formal guarantees is eliminated or minimized, thus reducing the agency cost and speeding up the exchange process (Karra et al., 2006).

In contrast, if an institution like a bank is involved in the process, such goodwill will generally not suffice, even if the person is known to the employee of the bank. Everyone is seen as a stranger with a potential for moral hazard, and unless the institution itself has given the authority to a particular employee to skip formalities (which may happen rarely), the employee will have to follow the necessary formalities before doing business with a particular individual or firm. It can take months in some cases for a financing request to be entertained by a regular bank (microfinance banks however would charge an exuberant amount of interest or profit to mitigate the risk), as it takes time to verify all the evidence or guarantees provided by an individual.

If he or she is not an employee of another legal entity, does not own a registered business, or does not have sufficient collateral to offer either, it may be impossible for them to receive financing from a bank. Banks, even shariah-compliant banks, who are for-profit enterprises, cannot sustainably offer *qard-e-hasanā* as well (Majeed & Zainab, 2017), which can be referred to as an efficient tool of wealth distribution in Islamic history (Javaid, 2014; Javaid & Suri, 2016). *Qard-e-hasanā*, however, flows easily in an organic-social context when needed, if there is trust between individuals (organizations like Akhuwat or GEAR who do not use the legal structure

of a bank, use trust as a primary medium to extend support to the poor).

In Islamic history, much of the wealth distribution was done informally (Javaid, 2015). This was despite a formal system ensuring the flow of zakat to the poor. By virtue of the social relationship people had with each other, the wealthy would connect with the lesser off by informally establishing business relationships in a variety of ways. Those who had capital would do *muḍārabah* with those who did not have capital in a personal capacity or would do *mushārahah* with those who could also invest (Gharipour, 2012; Yi, 2004). Expert advice, sharing opportunities and connections, mediation in disputes, and sharing of space or land to set up a business would happen informally, allowing an unobstructed circulation of wealth in all segments of society. In recent times, we find some ethnic entrepreneurial communities having a similar culture of not just sharing wealth, but also wealth creation capacity with those who are struggling to establish themselves economically (Javaid et al., 2020). More details on how the economic activity was socially embedded in the Muslim past will follow in Section 4, the following section would first explain how organic informal social relationships were institutionalized in the modern world and what were its consequences.

3. The formalization of the social in the modern world

In the modern world, there has been a strong tendency towards institutionalization. Cartesian dualism gave the European elite a paradigm to justify the dominance of the rational over the emotional (also the intuitive, spiritual and religious), the objective over the subjective, quantitative over the qualitative (Harari, 2015). This dominance didn't just happen within the individual, but also on a micro, meso and macro levels in the European society and then in the colonies. The modern institutional framework in the market and state emerged as an embodiment of the rational to replace the influence of the tribalistic nature of the family and community from the economic and politics (Fukuyama, 2011). This perhaps had its own advantages however it led to the social disintegration of tribal society and class division caused by the rapid spread of capitalist

values. The religion also lost its significance as a force to organize the collective. This ‘Great Transformation, as Polanyi called it, also led individuals to prioritize their material-self-interest, rendering them less trustworthy (Fromm, 1994; Polanyi, 2001). Further, during the colonial period, the natives of non-European regions were typically seen as untrustworthy by default. The modern institutional framework, employing the idea of bureaucratic rationality, was therefore used to avoid the constraint the untrustworthy individuals as they were employed in market or the state institutions.

The traditional roles of an individual have been superseded by their institutional roles in the modern world. Human beings interact with each other more as agents of an institution than they do so in a personal capacity in a modern market society (Hallaq, 2013). The exercise of free will by individuals while interacting with each other is therefore restricted by roles assigned to them by their institutions (Han & Butler, 2017a). The objective of their interaction with other individuals is also determined by the roles assigned to them by the institutions they work for, where the interest or goals of the institution is expected to be prioritized (Fukuyama, 2011). Today even the parent-child relationship is often adversely affected by the parent’s push to send their children to the modern schooling system and perform as per the standards of the system even if those standards make no sense to either of them (Javaid et al., 2021).

Hallaq (2013) argues that an individual role in a formalized institutional capacity is essentially political and amoral as the individual is bound to act in line with the authority entrusted upon him by the institution irrespective of the fact that it aligns with his understanding of morality or not. The spread of institutionalism, which engage more and more people not in their personal capacity but only as agents of institutions, eventually replaces the moral with rational (Adewale, 2017). The dominance of the formal further disintegrates the organic or informal relationship within the family or community networks. Such disintegration may also reduce the trust or reliance between individuals as individuals may prioritize their institutional roles over their informal ones (Javaid, 2022).

Such a flow towards formal at the expense of the organic kinship ties, or disintegration of the kinship networks due to the over-dominance of market or state institutions, goes against the *Maqāsid-ul-Sharī‘ah*. The obligation towards the rational goals of the institutions also constrains the moral capacity of individuals, this outcome also stands against the *Maqāsid-ul-Sharī‘ah* (Ismail & Tohirin, 2010). The following two examples will illustrate this point.

- Assuming you go to a street vendor to purchase vegetables almost every day. One day you did not have cash; the owner of the shop very likely asks you to pay the next time you visit without involving any collateral or other formalities. In contrast, if something of a similar sort happens when you buy something from a superstore, the employee at the cash counter cannot give you this facility. Assuming the employee is your brother, but he is also out of cash, and the network is also down due to which debit or credit cards are also not functioning. Due to the authority entrusted to the cashier, he cannot let you take the product, even if the cashier fully trusts you in his personal capacity that you will visit the next day to make the payment.
- You borrow money from a relative and promise to pay after a few months. But you are unable to pay back at the promised time. The relative is also fully aware of the personal crisis you are going through and let you pay back as soon as you can in due time. In contrast, if you take financing from an Islamic bank, would the bank give you relaxation casually, even if the bank officer you are dealing with at the branch of the bank is your closest friend? It is more likely that the bank would apply a penalty as per the agreed terms and conditions, and even sell the collateral to recover the principal amount irrespective of the personal tragedy you are going through. It is beyond the jurisdiction of the banking officer to do any *Ihsan* even if that is exactly what is required, or what the officer personally wishes to do. The officer’s commitment to his or her employer supersedes even dissolves the idea of *Ihsan* towards the debtor.

Institutionalized relationships, even if shariah compliant, that is, only acting as per the rational goals of the institutions, may turn society into a machine-like entity. The more society turns mechanical, the more the individuals' moral agency to act independently of their institutional roles may diminish (Javaid & Suri, 2016). These roles, if we expand on MacIntyre's categorization (MacIntyre, 2007), may be broadly described as the investor, the corporate manager, the labor, the manager employed by the state or corporate bureaucracies, and the therapist (including all health care professionals). All of them are also consumers. And when the laborer in particular gets too frustrated, in view of MacIntyre, s/he takes the role of the protestor. The informal familial roles of a father, mother, brother, sister, son, daughter, etc., or any traditional role within the organic community are thus weakened as a result of the formalized engagement of individuals in the market or state institutions (Javaid et al., 2018). The psychological conditioning of modern education also prepares individuals for their institutional roles predominately, often decapacitating individuals to fulfill their familial roles to the fullest (Fukuyama, 2011).

It can be argued that this decapacitation of the organic and dominance of the institutionalized engagement of individuals has a significant role to play in wealth distribution in modern society as well. Traditionally, in view of Polanyi (2001), resources were informally distributed among community members, who would voluntarily share it with those who had met a personal tragedy or were lesser off. Fromm (1994) would also agree. The birth of capitalism, particularly the neoliberal doctrine, has a disintegrating effect on traditional communities (Javaid, 2022). It created economic classes, and then legal entities or institutions were created to manipulate the masses to perform as per the requirements of those in power, as the masses would otherwise indulge in class warfare to retaliate against the economic injustice perpetuated against them by the capitalist elite (Hickel, 2020; Polanyi, 2001).

The same institutions now formally manage wealth distribution in a modern market society. If following a neoliberal doctrine, the state often would create policies for the rich to accumulate more capital

at the expense of the middle class or the poor who are left at the mercy of the ruthless forces of the free market. The influence of the big business of the state or policymakers may also be considered here. This influence furthers the gap between the rich and the poor and can result in greater wealth inequality (Kornbluth et al., 2013).

4. Is everything economic?

Sandel (2012) argues that money cannot buy everything, rather, if money is involved in acquiring something to fulfill some human needs, the fulfillment of the need can become even more difficult. For example, can we purchase a friend, can we purchase mother's love, salvation on the Day of Judgement, piety, or sense of meaning in life? Humans have certain psychosocial and spiritual needs, which require an informal social engagement with family, friends, or a spiritual mentor for that matter. Longitudinal research at Harvard going on for 75 years now also endorses the point that family and friends who give you a sense of acceptance are essential for psychological well-being and good physiological health (Waldinger, 2015). For spiritual development at a personal level, a one-on-one connection with a spiritual mentor is believed to be necessary, which is not possible in the impersonal context of formal institutions. In the institutional context, within the modern educational, market, or state institutions, where the relationships are fundamentally transactional, where the modern individual spends most of his life, fulfillment of one's psychosocial and spiritual needs is unlikely (Hallaq, 2013).

The dominance of formal roles and the weakening of informal ones have a detrimental effect on the well-being of individuals in modern society, leaving them alienated while feeling a sense of worthlessness and insecurity (D.G., 2022). This sense of insignificance has been further exploited by capitalism, which offers products that purportedly provide what Baudrillard (1994) referred to as a 'simulated experience' of significance, strength, connection and security. However, individuals are unable to find true acceptance and security in the formal institutional context, as they are often expected to perform certain roles in exchange for

monetary compensation (Curtis, 2007). The modern free market, in particular, is not a safe space for those who are vulnerable, such as when someone is ill or injured, as opposed to the environment of the home or family which can unconditionally provide them care during such times (Javaid et al., 2018). Modern free markets and modern states rather often see these vulnerabilities as a means to manipulate individuals to submit to the process of capital accumulation or devote themselves to the system of power (Han & Butler, 2017b).

State institutions can come forward to support the vulnerable, provide free health care, create orphanages and old homes, or initiate community-building measures, however, state machinery typically cannot replace the sense of connection and belonging that may come from being part of a healthy organic family and community (Fromm, 1994). Since organic social networks have largely been disintegrated by the free market, therefore, it is often argued that the socioemotional needs of individuals are also generally compromised who are no more part of their organic kinship network. This problem of alienation has been discussed by many including Marx (1887), Durkheim (1984), Fromm (1994), Polanyi (2001), and others (Putnam, 2000; Sachs, 2010).

Children are often brought up in nuclear families where parents have little time and mental presence to provide emotional support to their children, who are rather looked after by paid employees of a daycare center instead. These children then grow up to be pathologically dependent on formal institutional structures, the only place that provides them some structure and acceptance, though conditioned to certain standards of performance (Gatto, 2010). Those children who are unable to meet those standards are often expelled from the system, and if they do not have a family or community to fall back to, they become susceptible to, for example, becoming drug addicts or getting recruited by criminal gangs (Maté, 2013).

So, a healthy informal-organic-social-kinship network of family and community is necessary to fulfill the socio-emotional and spiritual needs of individuals, fulfillment of which may not be possible

in the modern marketplace. Interestingly, social connections also are recognized as the primary mediums where economic relationships emerge particularly in economies that are not yet fully formalized as described in Section 2.

5. A glimpse into the socio-economic life in Muslim history

There is limited literature on the nature of the social organization or its 'substantive' (Polanyi, 2001) emergence in the Muslim world. The little literature which is available, and the literature on Muslim entrepreneurial communities which exists today paint a similar picture. The economic life is reported to be deeply ingrained in the social fabric of Muslim communities and was a bottom-up emergent phenomenon, specially organized around the social life of the community to serve the needs of the members of the community. Bazaars would not just be a place where one can earn money and purchase goods for consumption, but also served as a medium to keep the families and the community bonded. It would provide not just economic security to its members, but also serves as a medium to meet their socio-emotional and spiritual needs as well. Awad (1989) has noted:

“... guild system [in the Muslim world] was an informal economic and social organization, and was a spontaneous development from below, created not in response to state need, but to serve the social requirements of the laboring masses themselves” (p. 42)

Ironically, despite its significance, very few scholars have attempted to explore the socio-cultural element of economic life in Muslim history. Almost none has highlighted it as the layer upon which the economic life in the Muslim world was established. For most of the scholars of Islamic economics, it's all about the legal rules or formal components of the exchange process. The limited literature however highlights the criticality of the organic or informal-social engagements of Muslims with each other for their economic well-being as well. This literature suggests that the informal-social and cultural life of the Muslim bazaars was the medium in which the legal and formal components of Islamic economics were practiced. The informal-social preceded the formal (Sencal & Asutay, 2019). Market Institutions,

as they appeared in Europe, like banks, corporations, and stock exchanges, never emerged in Islamic history, until the colonial powers, the British in particular, forced them onto the Muslim world. It was rather the organic informal-social context where the economic activity took place, where legally enforceable contractual engagements would emerge from the personal interaction of guild members with each other. Yi (2004) notes:

“The institution of business partnership in the Middle East had been established in the sharia law since the seventh and eighth centuries, and it had a longer history than any organization of crafts or service guilds if we discount the legendary accounts of the mystical origin of “guilds” going back to the Prophet Muhammad and the rightly guided Caliph 'Ali”. (p. 96) ... “indication of the freedom enjoyed by individual members is the frequent and unrestricted formation of business partnerships (*sirket*) among them. Such an arrangement is very commonly seen in seventeenth-century documents [from Ottoman Era] ... Guildsmen used partnerships extensively to maintain the financing and running of their shops.” (p. 95) ... “we may safely judge that partnership was quite common among the guildsmen”. (p. 98) ... “The guild must have recognized *sirkets* as a perfectly normal everyday institution, as long as the activities of individual *sirkets* remained within one trade specialization represented by a guild and did not go against its rules”. (p. 101)

Shirkat-ul-aqd is a legally enforceable contract, however, it should be noted, emerged out of an informal-social engagement between individuals. It begs the question of how the necessary trust was already there to make it happen. The answer may lie in the social organization of economic activity (Sencal & Asutay, 2019). Looking into the internal structure of the guilds suggests how the family and business relationships would function in parallel. The family members would self-employ themselves in a particular economic activity, where junior ones would work as apprentices, while seniors would act as advisors and teachers, often acting as mediators to any disputes if they may emerge, but all in a voluntary capacity. Once an apprentice would reach a certain level of mastery they would invest their savings to become a profit-sharing member of the guild (Javaid, 2015).

A particular guild would appear like a giant family, while different guilds would have matrimonial ties among each other. A person growing up in such a community would informally interact with those who do not belong with his immediate family in their neighborhood in a variety of contexts like when offering prayers or sitting in I'tikaf in Ramazan in a masjid. Finding a spouse for yourself or your children would be facilitated with such informal interaction. An individual's existence was deeply embedded into the social fabric of the community, which added a huge cost to any form of anti-social behavior or malpractice. Further, it is a psychological need of every individual to belong to a social group, which is typically taken for granted until the social group collapses leaving the individual alienated (Javaid et al., 2018).

The need to belong is typically felt more when an individual is vulnerable. The relevant literature suggests that individuals were supported by the community members in the state of their vulnerability when they would face financial difficulties or disabilities due to any sickness, and the norm even prevails today in socially cohesive communities. Those who are declared unemployable due to some disability for example were and are employed and taken care of by their family or community members. Those who could offer help were and are further motivated by their religious beliefs which extensively encourage helping those in need (Qadir et al., 2020).

When mutual support flows in all directions in such a social context, it is not hard to understand, individuals in such a communal environment would not find it hard to trust each other not just because of the social and economic cost associated with the betrayal of trust but also because the conscience of a Muslim doesn't allow such an act. Islam discourages betraying trust, or not helping the needy when it is possible, as it may invite the wrath of Allah on the Day of Judgement (Javaid et al., 2020). *Tazkīyah-e-naafs* therefore had an operational significance in honoring commitments in social and economic engagements.

The flow of charity, *qard-e-hasanā*, or investment in the form of *mushārakah*, would seamlessly happen in such a social context, depending upon the requirement of the situation. The terms and commitments would be relaxed in case the other party can't pay back their due share in case they go through some legit crisis, rather more support will flow toward them. There are many documented examples of such behavior in Islamic history, and even today among various communities in Pakistan such as Memon, Delhiwala, Chinioti, Bohri, and Ismaili. A recent paper suggests that these communities do not just distribute the wealth they create to the needy, but also wealth creation capacity by facilitating the struggling individuals in a variety of ways, again informally. This necessitates an informal connection between community members, across the so-called socio-economic classes, for such informal support to flow whenever needed, as reported in a recent study (Javaid et al., 2020).

A doctoral thesis also finds out that many businesses owned by entrepreneurs belonging to aforementioned communities, often employing hundreds of employees, have grown much more smoothly in absence of financing from any banks. The respondents explicitly mentioned avoiding bank finance not just because of religious reasons but also because the stringent recovery policies would risk bankruptcy during an uncertain economic environment. If almost all businesses and consumers in a country follow the same path of avoiding bank financing, it would simply make the monetary policy of the state bank redundant (Javaid et al., 2018).

6. Why Islamization took the Institutional route?

If we believe the above to be the default phenomenon in Muslim communities in the pre-colonial era with some variations, the contemporary movement towards Islamization appears to be taking society in a completely different direction. If we ask, had there been no colonization in the past two centuries, what would Muslim societies look like? Would they have still evolved western-style institutions, or it would look similar to the one described above? To answer this question, one needs to look at the theories of institutional evolution, like the one presented by Polanyi (2001), which would suggest that if there

would have not been much change in the fundamental ideals, beliefs, and values, how individuals view each other in a society, and who holds the ultimate authority, the collective arrangements would have continued (Marchionatti & Cedrini, 2016).

The colonial influence however did something peculiar, an example of which is rarely found in human history. They brought in an institutional structure grounded in a very unique set of materialist and secular ideas, and forced or manipulated the entire Muslim society to submit to the requirements of these institutions, using the institutions to regulate the collective affairs of the Muslim society (Gilmartin, 2014). Many Muslim thinkers such as Sayyid Ahmad Khan, Jamal al-Din al-Afghani, Muhammad Abduh, Shibli Nomani, and Rifa'a al-Tahtawi endorsed the rule of these institutions and even suggested Muslims actively work in them as well (Farooqi, 2018).

The Islamization movement that started in the post-colonial world appears to have taken the institutional framework imposed by the colonial powers for granted. The institutional framework is indeed too hard to replace with any alternative, however, there does not seem to be much scholarly work to evaluate the legitimacy of the modern institutional design in the first place, particularly on the secular nature of the power they enforce. It is perhaps assumed by most scholars even today that the institutional framework is fundamentally neutral, and does not hold any weight of its own. Institutions may contain some haram elements which can be eliminated without changing much of the framework. Further, there appears to be an understanding that the institutions would work in a beneficial way for society if the key positions within these institutions are occupied by individuals with the right values and visions. So, if the *harām* elements are removed, and the manpower is ideologically aligned, that will be sufficient enough to Islamize the institutions, or make them operate in a way necessary for the ideological needs of a Muslim population, like establishing God Al-mighty as the ultimate sovereign in the society (Haneef & Furqani, 2013; Rafikov & Akhmetova, 2020; M.N. Siddiqi, 2011; Suharto, 2023).

The scholars who hold such views miss the point that institutions are a manifestation of ideas, so if the ideas are problematic, the institutions are problematic (Javaid, 2019). These ideas are, for example, about who we are as human beings, how we relate to each other, what is our purpose individually and collectively, how to differentiate the good from the bad, the just and the unjust, and who holds the ultimate power. These ideas exist at the very foundation of specific cultures of specific civilizations. Institutions are thus created by the very cultures to achieve specific goals in line with cultural ideals (Marchionatti & Cedrini, 2016; Schumacher, 1973). Institutions lose relevance during cultural shifts, however, if political authority benefits from these institutions one way or the other, they support the institutions that keep perpetuating the very ideas which legitimize their dominion. The purpose of institutions is thus to regulate the social, economic, and political relationship between individuals of society so that the social, economic, and political organization of the society submit to the ultimate aims of the highest echelons of power (Hallaq, 2013; Hickel, 2020).

Institutions also instrumentalize the piety, honesty, commitment, truthfulness, trustworthiness, and discipline of individuals in exchange of a monthly pay check¹. For example, in a casino, a person employed with the stated qualities will ultimately benefit the casino. Likewise, if the stock market somehow is designed to operate in a shariah-compliant manner then the banks or stock market will eventually benefit the larger social and political contexts which lead to its creation in the first place. These ends include maximizing shareholder value for the ultrarich, keep wealth concentrated in handful elite, keep exploiting the lower class for that purpose, and keep the inequality and injustice intact in the name of keep capitalism going (Bakan, 2020; Hickel, 2020).

In short, modern institutions restructure society in a particular way, ensuring the maintenance of the power of the state or the capital, while even changing the very nature of the relationship people have with

each other (Sencal & Asutay, 2019). Most scholars working in the Islamization movement, are yet to consider evaluating the political economy and philosophical roots of modern institutions like has been done by Hallaq (2013). Such an evaluation also requires a political theory or philosophy which is rooted in the value and belief system of Islam, an area that is reluctantly discussed by Muslim scholars (Usmani, 2010).

Hallaq (2013) has taken the task to the necessary depth, where he explains the very nature of modern institutional design, the very idea of the power they manifest, how they eradicate the human subject and the need for a morally-conscious individual, how they replace the informal relationships with institutional ones, and how thus they are incapable to the achieve any goals which the Islam intends to achieve at an individual and collective level. Hallaq's work focus more on political or state institutions, but can easily be extended to market institutions as well. A separate paper however is needed for that purpose, but the need for such an analysis is already delayed by a few decades.

7. Implications for Islamic economics and finance

The above discussion brings us to the questions presented at the very start of this paper: Where Islamic economic principles were practiced, and who used to practice them during pre-modern times in Muslim history? How can we create the conditions required to allow moral agents to practice Islamic principles to ensure socioeconomic justice, inclusion, and equity, given the institutional constraints created by modern society? The answer to the second question was described in Section 4. The answer to the first question is this: The communities where the social norms are similar to the one described in Section 4, still exist. A recent paper described the social and economic dynamics of at least three such communities in Karachi (Javaid et al., 2020).

A book by Dr. Amjad Saqib titled *Kamyab Log* (Saqib, 2016) describes similar social norms in the Chinioti community in Pakistan. The kinship networks are already strong in many other ethnic communities that also happen to be entrepreneurial as well. Some members of these communities are already using tools of Islamic finance like

(1) See 'instrumental rationality' and 'instrumental morality' in bureaucratic systems (Adewale, 2017; Spector, 2018)

mushārah and *muḍārah* to invest in each other's businesses (Javaid et al., 2019). The culture of *qard-e-hasanā* may already be existing to an extent in the respective communities, however, there appear to be no studies that provide statistical data on the extent of it. The *Kameti* system – an informal activity of pooling funds and lending to each member every month – is also commonly practiced (Carpenter & Jensen, 2002). So, the business community in the Muslim world needs to be educated in particular about the significance of the principles of Islamic finance and economics, so that individuals involved in economic activity in the market may engage all stakeholders in line with the letter and spirit of Islam. Further, work is needed to preserve the prevailing kinship or organic social networks, and develop them where they are not strong enough.

The preservation of the organic family and community, which is one of the key elements of the *Maqāsid-ul-Sharī'ah* framework, is not the focus of most literature attempting to describe the idea of the 'social' in Islamic economics. In fact, much of the literature attempting to describe the social dimension of Islamic economics even falls short rather than take for granted the definition of the 'social' mentioned in the literature of modern economics. That is, the goal is to improve the distribution of wealth, improve the circulation of zakat, eradicate poverty (Azid & Sunar, 2019; Bhuiyan et al., 2020; H.Beseiso, 2017; Iqbal & Mirakhor, 2017; M. Siddiqi, 2008; Syahrul Mubarrak et al., 2022), and in some cases, education and healthcare (Szirmai, 2015). However, if looked at closely, these goals are fundamentally related to the economic status of the marginalized segments of society.

The Islamic economics and finance literature, does not typically address problems like alienation or social disintegration caused by free-market capitalism (Javaid et al., 2018; Mayo, 2007; Polanyi, 2001). Further, there is hardly any discussion on the social contexts as a pre-condition for practicing Islamic economics and finance, nor about the political nature of modern institutional framework which rather nurtures a peculiar rationalized form of social reality. The author could only find a few papers (Asutay & Yilmaz, 2021; Chapra, 2000; Sencal & Asutay, 2019; Zaman, 2010) mentioning the 'social' in the context

of the preservation of the organic family and community. Further, the author could not find a single paper, except one (Javaid et al., 2020), that argued that the organic family and community, or the kinship networks, can be a starting point for practicing the principles of Islamic economics, where equitable distribution and reciprocal preservation of the organic kinship networks are both possible, as opposed to the formal capitalist world of modern financial institutions.

Trust between individuals, as it typically exists between the members of kinship networks, is perhaps the primary ingredient for the successful practice of Islamic finance and economics principles. Trust is developed by demonstrating trustworthy behavior which requires honoring commitments even in situations where doing so necessitates a sacrifice. It is easier for believing Muslims with pious hearts to sacrifice their self-interest to honor commitments, as their *rizq* is promised by Allah, and sacrifice for the good of fellow brethren would also invite Allah's blessings. So, there is a direct relationship between piety and trustworthy behavior. To develop piety *tazkīyah-e-nafs* is necessary. So, it may be stated, that the genuine practice of principles of Islamic economics and finance necessitates the operationalization of piety in the Muslim bazaars (Asutay & Yilmaz, 2021).

Scholars of Islamic economics and finance may need to focus on not just the cultivation of piety, but also on nurturing trustworthy and socially responsible behavior, particularly in places in the market where such behavior directly results in the mutual benefit of the stakeholders. Places where individuals form economic relationships with other individuals at will. Today, the micro and SME marketplace, where most business is family businesses, that use investments from their kinship networks, is where such one-on-one interaction may happen more commonly (Javaid et al., 2019).

Further, to facilitate the flow of wealth between the financially well off, and the struggling members of the community and beyond, the kinship networks must connect members from all socioeconomic classes within and even outside the kinship networks. In fact, the idea of a socioeconomic class is alien to

an ideal Islamic society, where the social hierarchy is determined by the level of piety, not by one's financial status, or tribal affiliations. However, there is evidence that an informal connection between the financially secure and struggling members is widening as consumer culture and class consciousness appear to be spreading among community members. To maintain their lavish lifestyle the privileged class now has a lesser inclination to support those in need (Javaid et al., 2018).

Many would suggest a formalized institutional approach as a solution to the widening division between socioeconomic classes without realizing that it is the very nature of modern institutions that reinforce and maintain these divisions for the reasons already explained in Section 3. Using a shariah-compliant approach does not undo the influence institutionalism creates in the first place, as shariah compliance does not bypass the modern institutional framework, but adjusts a few of the processes (Rethel, 2011). The entrepreneurial communities in Pakistan for example also have a formal institutional mechanism to distribute wealth, resolve disputes, and run educational or healthcare facilities to support the underprivileged, implying that the formal can run parallel with an informal culture of mutual support, but may fall short to act as a replacement to the informal flow of support altogether because of the agency cost associated with it. However, without curing the class division, it may be argued, the formalized form of charitable activities risk providing an excuse for the deterioration of the informal connection between community members, as it may create an impression that some activity is happening to facilitate the underprivileged, which may be true, however, it may fall short of reaching the poor due to budget constraint and standardized – one (a few) size fit for all – approach.

This reluctance to offer support may particularly hurt those who have not yet fully collapsed but are susceptible to some personal crisis. They are not poor yet, but if they do not get due support, they may end up being poor eventually. They may not be qualified to get support from a charitable organization yet, however, those who know them personally, or do business with them, can offer support like giving

extra supplies on credit, or purchasing their goods in advance payment. A formal institutional approach thus is not a substitute for the informal social support mechanism, as it has been explained already, therefore, the Islamization efforts must not ignore the latter. In fact, the institutional approach which emerges from pure Islamic cultures, like the institution of Waqf, may be used, however, that again does not compensate for the informal support one gets in real-time as and when the need arises. Informal support necessitates that sufficient concern for each other exists among individuals living and working together. To cultivate this concern and the ability to sacrifice for others, and to preserve where it already exists, is the key role ulema and concerned scholars have already been playing, but now they may also need to take a stand, for example, against the rising consumerism or consumer culture, which appears to be creating a class divide among Muslim communities.

So, the efforts that need to be undertaken by those involved in the Islamization movement must try to:

- End the class division where it exists for which discouraging consumerist value is also necessary;
- Encourage people to live a frugal and humble life to reduce class division
- Strengthen community bonding by encouraging *silāh-e-rehmi* and conflict prevention along with resolution;
- Cultivate trustworthy behavior;
- Encourage individuals to take care of each other voluntarily when needed while not excluding those who do not belong to their kinship network;
- Encourage individuals to consider the greater good of the community they are a part of and not just their self-interest while making any decision which can potentially affect others also;

Encourage individuals to prioritize self-employment and entrepreneurship, self-reliance and financial independence in general, so they can exercise their moral agency over employment in large institutions.

All of this is possible through the process of *tazkīyah-e-naafs*, and the cultivation of piety which is not just supposed to cure the problem of moral hazard, but also one's undue bias in favor of one's tribe particularly when the tribe or a particular member violates shariah. Muslims, whose hearts are rightly aligned are thus the ones who can implement shariah in its letter and spirit. If individuals rather do it as a job description while being employed inside an institution, then it simply takes the spirit or genuine intentionality, let alone the motivation to go beyond, that is, to the level of *Ihsan* and personal sacrifice whenever needed (Asutay & Yilmaz, 2021; Qadir et al., 2020).

Finally, Islamic economics also needs to look at the institutional theory and the political theory and philosophy which justifies the existence of modern institutions, and the kind of social order they eventually enforce. Phenomenon such as 'double hermeneutics' (Chatterjee et al., 2019; Ghoshal, 2017) must be understood to see how the system of rules, policies, and processes which takes the form of institutions are essentially a manifestation of ideas, the very ideas that are enforced by the institutional order.

8. Conclusion

If in a barren land, we erect some artificial plants, would it be wise to expect them to give us the fruit? According to Baudrillard (Baudrillard et al., 1994), 'socialism was born after the death of the social' in Europe. It appears that a similar approach is being used by those who are trying to revive Islam in modern financial institutions, and then wondering why the efforts are not bringing fruit. Some argue that it would take a long time for that purpose (Majeed & Zainab, 2017), but if we keep putting artificial plants on barren land how long would it take

for these plants to bear fruit? The analogy of a fertile or barren land is referred to the presence or absence of the necessary organic social networks where trust and cohesion are high, for which moral consciousness and the courage to exercise moral agency are prerequisites. Such moral agents would also help each other out in difficult times, helping even their employees, vendors, and customers when necessary and possible.

Modern financial institutions unfortunately are needed today to transfer large sums of money from one account to another, particularly while importing or exporting. However, their need as a financier to provide leveraging to business, even in shariah compliant manner is perhaps overstated when it comes to ensuring socioeconomic justice. In this context, modern financial institutions may not provide a viable alternative to the community culture where members invest and share their resources voluntarily.

Such a culture is the fertile land, as this paper argues, where the fruits of principles of Islamic economics and finance can be cultivated. The death of such a culture, if has happened, cannot be replaced by creating artificial institutional structures which attempt to perform a similar function. Scholars of Islamic economics and finance may urgently need to reconsider their expectation from the impersonal institutional framework of the modern market as a viable place where they see it possible to achieve an outcome that was culturally achieved through the engagement of morally conscious individuals within organic social networks. The focus is rather needed on reviving such a culture and preserving it where it already exists.

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أهمية الوكالة الأخلاقية في العدالة الاجتماعية والاقتصادية وغيابها في الاقتصاد والتمويل الإسلامي

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كراتشي، باكستان

المستخلص. يحاول هذا البحث بناء حالة الوكالة الأخلاقية للأفراد العاملين ضمن شبكات العضوية الاجتماعية -ردًا على الطبيعة غير الشخصية للمؤسسات المالية - كوسيلة مهمة لممارسة مبادئ الاقتصاد الإسلامي ولتحقيق العدالة الاقتصادية والاجتماعية في المجتمع. من خلال التحليل المقارن، تعتبر الورقة أن الإطار المؤسسي الحديث، بسبب طبيعته غير الشخصية، وتوجهه الرأسمالي، وتكلفة الوكالة، وطبيعته المتفككة اجتماعيا، ليس وسيلة مناسبة لتقدم برنامج عمل للاقتصاد الإسلامي. ولعل وجود بيئة سوقية، حيث يمارس الأفراد قدراتهم الأخلاقية على أكمل وجه، أمر ضروري. ولطرح هذه الحجة، تبحث هذه الورقة في تاريخ الأسواق الإسلامية والأعراف السائدة في مجتمعات الأعمال الإسلامية في العالم المعاصر لاستكشاف أهمية الوكالة الشخصية للأفراد المتدينين والواعين أخلاقياً. يعمل التجار أو المستثمرون الأفراد ضمن شبكاتهم الاجتماعية العضوية مع ممارسة العدالة الاجتماعية والاقتصادية بين أصحاب المصلحة. لتحقيق الأهداف الاجتماعية والاقتصادية المرغوبة من خلال تطبيق المبادئ الاقتصادية الإسلامية، توجد حاجة لتنمية ثقافة الثقة والدعم المتبادل (أو الحفاظ عليها حيثما كانت موجودة بالفعل) بين التجار الأفراد والمستثمرين في أي سوق. وهذا ممكن فقط عندما يتمكن التجار أو المستثمرون من ممارسة وكمالهم الأخلاقية بشكل كامل، وأن يهتموا ببعضهم البعض وأن يظهروا الجدارة بالثقة عن طواعية. وفي غياب مثل هذه الثقافة، ترى الدراسة أنه سيكون من الصعب التطبيق المرضي لمبادئ الاقتصاد الإسلامي في الأسواق، ناهيك عن تحقيق الأهداف الاجتماعية والاقتصادية المنشودة.

الكلمات الدالة: الاقتصاديات الاجتماعية الإسلامية، الاقتصاد السياسي، الوكالة الأخلاقية، المخاطر الأخلاقية، المؤسسية تاريخ الأسواق، الاقتصاد غير الرسمي، ريادة الأعمال المجتمعية

تصنيف JEL: B11, P51, Z13, D13, O17, E26

تصنيف KAUIE: B5, D0, E0, F21, F22, F51, H48, J1, S0