DEFINING AND FRAMING ISLAMIC ECONOMICS AS ISLAMIC MORAL ECONOMY: AN ATTEMPT TO EMBED PUBLIC POLICY IN ISLAMIC ECONOMICS TO GENERATE EMERGENCE SCIENCE

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ABSTRACT - Islamic finance's re-emergence in modern times in the form of Islamic economics is due to the economic development and financial failures; and therefore, around s1960s, founding fathers aimed at developing an authentic understanding to develop a moral economy frame through embeddedness. It implies that economy and finance has to be integrated and also be the outcome of value system; and also financing has to be embedded into real economy. Hence, economic and non-economic factors should determine economy and financing; suggesting to develop an operational moral economy. Thus, the authenticity search relates to normative dimension of Islamic economics in developing a norm based embedded economy; authenticated by such principles of Islam. This paper aims to identify that Islamic economics as a moral economy through which it is claimed that it constitutes an emergence economics as part of evolutionary economics by proposing a system in the form of a process, but at the same time producing a product, that is Islamic banking and finance. The paper hence aims to identify the systemic nature of Islamic moral economy, but also describes Islamic banking and finance as an emergent pattern and practice, which does not share any longer the systemic and emergence Islamic economy's claims of moral economy. Therefore, this paper suggests that while Islamic banking and finance can be considered as an emergent pattern and practice with its own process, the observed dichotomy refers to 'convergence' over emergence economics, namely Islamic moral economy.

Keywords: Islamic economics, moral economy, systemic approach, embeddedness, everyday practice, emergence, emergent pattern


Kata kunci: Ekonomi Islam, moral ekonomi, pendekatan sistemik, embeddedness, praktek sehari-hari, munculnya, pola yang muncul.
INTRODUCTION

Islamic finance’s re-emergence in modern times in the form of Islamic economics is due to the economic development and financial failures. Since 1960s, founding fathers aimed at developing an authentic understanding (in this case Islamic moral and Shari’ah principles provides authenticity) to develop a moral economy frame through embeddedness.

Towards Islamic Moral Economy

Borrowing from Polanyi (1944), embeddedness implies that economy and finance has to be integrated and also be the outcome of value system; and also financing has to be embedded into real economy; hence economic and non-economic factors should determine economy and financing; suggesting to develop an operational moral economy. Polanyi also identified the moral economy of past societies by referring how ‘great transformation’ from moral economy to self-regulated market system resulted in commodification and fictitious commodities. Hence, moral economy based societies embedded their economies to prevent commodification; and also moral economy is articulated through reciprocity, community, social good, cooperation, solidarity, distribution, etc.

As Oscar Wilde’s statement summarises the self-regulated market economy, as opposed to the moral economy: ‘they know the price of everything but the value of nothing’; hence neo-classical economics’ hegemony pushed the value from economic analysis.

Polanyi (1944, 1957, 1960) states that in an attempt to provide some quality of substantial morality to the process and outcomes of self-regulated market economy, social movements have contributed to re-embedding the process by rescuing land, labour and capital from further commodification. Thus, Islamic political/moral economy movement is part of the same social movement which aimed at rescuing labour, land and capital from commodification to create a re-embedded economy and society by essentialising the Islamic values of social justice, human and economic developmentalism, sustainable economy and society, by considering to create an Islamic system of economics (as opposed to Islamic economic system) to produce a moral economy.

Islamic Political Economy: Aspirations

Political economy also relates to social formation of societies in the sense of actual theoretical construct of a society. Social formation is determined by ‘modes of production’ in the sense how economy and society relations
established; and how resources are allocated and distributed and how labour division is developed in a particular society. Such as the role of capital and labour; in modern times, capitalism defines value of an object through ‘capital input’ mainly socialism defines it through ‘labour input’ only. However, Islamic methodology through complementarity suggests that Islamic political economy values both as essential; therefore mudarabah and musharakah is essentialised by Islamic moral economy as true Islamic financing in terms of its consequences. Thus, the operational nature of such a instruments suggests a particular nature of modes of production through suggesting that ‘labour and capital complements each other’ through participatory financing, through sharing risk; and hence leading a purely democratic society of equals as part of the social formation.

In this effort of constructing moral economy based social formation, Islamic moral economy essentialises human well-being, as necessitated by maqasid al-Shari’ah, as a distinct construct and paradigm. The authenticity search, thus, relates to normative dimension of Islamic economics in developing a norm based embedded economy; authenticated by such principles of Islam.

**FRAMING ISLAMIC FINANCE AS A EVERYDAY PRACTICE**

The source of authenticity comes not only from ontology of Islamic knowledge and its epistemological articulation, but also through historical practice of economy and finance amidst the periphery as part of ‘everyday life’.

‘Economics and finance as everyday life’ as a political economy theory suggests that beyond the institutional forms of articulating and practicing a particular type of economy and or finance (such as particular economy and banking type, i.e. Islamic economics and finance), in reality people act according to such norms in their peripheral everyday life beyond formal and institutional construct in terms of cultural and religious construct.

In a similar manner, Islamic economics and finance cannot be limited with the emergence and existence of Islamic banks and finance; but importantly in everyday practice and behavioural norms as well as the peripheral forms and institutions of everyday life in the periphery of the Muslim world. Therefore, in addition to the ontological sources, everyday practice of Islamic finance over the centuries indicates that it has been practised over many centuries and despite Islam being withered away in everyday life. I do recall, for example, from my grandfather who used to talk about giving the land through mudarabah to some other villagers for cultivating; and this is beyond and despite the existence/non existence of Islamic banks. In other words, as a social
capital practice of Islamic finance has been around us for many centuries preceding Islamic banking; such as the case with share cropping; waqf institutions alongside use of Islamic financing instruments, etc.

Ontology and everyday practice of many centuries, hence, provides the authenticity, which provided the motivation for the founding fathers as academics, shari‘ah scholars as the re-interpreters of historically and ontologically constructed fiqhi knowledge, and banker and fanciers as the practitioners to develop ‘Islamic banking and finance’ as commercial Islamic banks we see it around us today in the form of operational tools of the initial imaginary of Islamic moral economy.

CRITICAL REFLECTION ON THE PERFORMANCE AND PROGRESS OF ISLAMIC FINANCE

Islamic banking and finance has been a successful proposal in the form of commercial banking and finance; the figures do speak for themselves in indicating such success. However, authenticity search cannot stop here; as in the knowledge construction process of knowing (Islamic ontology), doing (Islamic faith) and becoming (practice), Islamic moral economy is attached to ‘becoming’ beyond the state of ‘being’; and hence search for wisdom to expand and to make it better shall continue as a goal.

In this ‘becoming’ process, commercial Islamic banks should be considered as the second institutionalisation phase since 1975; as the first phase was dominated by equity based financing as in the case of (as the very first experience), Mith Ghamr Bank in 1963 in Egypt; Tabung Haji in 1967 in Malaysia; musharakah and mudarabah partnerships in 1950s in Pakistan and beyond; the everyday practice of business in the small streets from Sarajevo to Istanbul to the suk of Damas, Bagdhad and Cairo; in the periphery of Malay islands.

While the second phase in the form of commercial Islamic banking is a financial success, in exploring the authenticity through Islamic moral economy, we can see that there are problems as to the extend through which Islamic banks have been fulfilling the imagination of Islam or Islamic moral economy.

While imagination was a political economy construct in the sense of Islamic system of economics, namely moral economy, the current trends without any hesitation has been ‘Islamic capitalism’ in the sense of mirroring the experience of the conventional banking within fiqh paradigm stripped of Islamic moral economy imagination and converging towards neo-classical
paradigm and also to conventional practices in terms of operations and instruments. Thus, Islamic banks and financial institutions and their products have become hybrid products of the current markets; rather than creating its own opportunity space to develop an alternative paradigm beyond alternative products; thus, the search for authenticity continues. In other words, the developmentalist objectives including human development has not been touched upon by the growth of Islamic finance.

Hybridity or mimicry implies passivity and submission to the hegemonic nature of the existing banking system; Islamic moral and political economy implies creating Islamic system of economics in everyday practice beyond relegation of the entire process to the prohibition of interest, excessive *gharar* and excessive speculation, whatever these mean. While prohibitions relates to rational legality nature of Islamic *Shari‘ah*, Islamic morality requires consequentialism in its search for authenticity. While *Shari‘ah* scholarship suggests intentionalism aspect of their decision-making as the essential nature of Islamic finance as defined by the *usul* or methodology of *fiqh*, they suggest that consequentialism relates to Western ontology of rationalism and therefore does not relate to Islamic methodology. However, Islamic methodology of knowledge creation relates to complementarity within *tawhid*; ‘intention’ is essential but it provides only ‘instrumental morality’ (legality), which cannot be considered producing Islamic moral economy outcomes.

What is needed is ‘substantial morality’ as suggested by *maqasid al-Shari‘ah*, namely consequentialism in the sense of considering the outcomes of intentions; as through ensuring the consequences of Islamic axioms established in a financing scheme, only then social accountability can be established. Recalling that Islamic methodology suggest ‘faith’ being essential; but also suggests that ‘good deeds’ are necessary complementarity of Islamic methodology; one without the other does not make much sense. In other words, ‘contemplation’ and ‘action’ – they cannot be divorced or separated from one another due to complementarity axiom, which is based on consistency axioms;

This relates to the debate we have around us nowadays in relation to the performance of Islamic banking and finance: ‘form’ vs. ‘substance’ or ‘*Shari‘ah* compliant finance’ vs. ‘Islamic based finance’. While in ensuring ‘form’, Islamic finance has been successful through *Shari‘ah* scholarship, in ensuring substance or substantial morality of embeddedness, the same cannot be stated; as convergence and mimicry is resulting into dis-embeddedness and fictitious commodities. See *tawarruq* and see the dominance of debt-based financial instruments such as *murabahah*; see the dominance of financialisation
through increasing financings in the financial markets and bubble economies of real-estate market. Thus, search for authenticity has to continue; in addition to commercial Islamic banks, new form of authenticities should be developed to respond to consequentially, or Islam based finance, or substantial morality.

While commercial Islamic banks play an important role of pooling the funds, Islamic imagination for authenticity should develop new institutions to deliver the promise of Islamic moral economy: serving for human well-being, generating economic and human development, re-embedding economy and financing in value and real economy, namely bringing ‘value’ to the hearth of the matter as opposed to measuring everything within the parameters of ‘price’ and return.

Islamic political economy’s theoretical suggestion of extended stake-holding (such as mudarabah and musharakah as well as other forms of financing methods with such consequences that can be developed) should be considered as opposed to share-holding in the organisation and social formation of societies.

Hence the importance of maqasid al-Shari’ah or the objectives of Shari’ah which relates and articulates moral economy consequences, while Shari’ah relates to forms and intention. However, Islamic methodology requires maqasid should also be delivered along the line of Shari’ah within the complementarity methodology. This maqasid however has to relate to public policy beyond Ghazalian narrow definition of five items based maqasid; Al-Shatibi and even unlimited maqasid of Ibn Qayyim is essential to deliver public policy. Only then a comprehensive paradigm as suggested by political economy, and re-embeddedness as suggested by moral economy, and authenticated behavioural norms and forms suggested by everyday practice can deliver a comprehensive notion of Islamic moral economy to integrate instrumental morality of form in line with substantial morality of substance. It is only through such process, we can talk of Islamic economics discipline, as an emergence science, rather than a (an emergent) pattern of the existing system; when it is an emergence science then only it will be recognised within the heterogeneity of knowledge map as a distinct discipline; otherwise, will continue to be peripheral exercise.

The observed convergence in Islamic banking is due to the realities of the market, but at the same time it can be explained by the incomplete imagination of Islamic economics in terms of not being able to develop a theoretical framework for Islamic banks to work with. Therefore, academic and professional research as well as conferences and workshops such as this one is
essential for the development of knowledge. Research should focus on developing alternative and authentic institutions and instruments to expand the authentic opportunity space.

Research and practical vision should go beyond bank as an institution into non-banking financial institutions so that community development, capacity development, human development, individual empowerment and value based economy can be developed in the periphery in an bottom up process as opposed Islamic banking’s development through top down.

CRITICAL REFLECTIONS: HYPBRIDISATION AND MIMICRY

In critically reflecting on the progress made over the recent years, it has been observed and highlighted that Islamic finance has been converging towards conventional banking and finance in its instruments, operations, and priorities. This move has led to a debate on the aspirations and realities of Islamic finance. The idealistic aspirations of Islamic finance are defined by the Islamic moral economy. However, the reality of Islamic finance is driven by the market conditions and requirements. In fact, commercial Islamic banking in its current form is not necessarily perceived as the best answer to the over-emphasised social and developmentalist goal of the Islamic moral economy. On the other hand, the contribution of commercial Islamic banks and financial institutions in terms of accumulating funds and leading economic growth is evidenced by many empirical studies and through actual experience. Thus, the on-going debate between ‘development’ and ‘growth’ has again risen to the top of the agenda for Islamic finance, as the founding fathers aimed for a developmentalist objective, rather than a source of financialization in their conception of Islamic finance.

Considering that the Arab countries as well as the emerging economies of Asia and Africa have turned to Islamic finance in recent years in order to finance economic development and answer employment needs of their constituents (as such demands have led to revolutions as in the case of Arab Spring), it becomes apparent that Islamic finance should also address developmentalist objectives through its operations. Failure to do so will result in the zealot population in the Muslim world, buoyed up on the hype of the expectations for Islamic finance, facing yet another disappointment from the expectation they build for a financial system labelled Islamic. Thus, in this new phase of institutional structuring, developmentalist-oriented Islamic financial institutions, in the form of Islamic social banks, Islamic microfinance, zakah funds, and waqfs should be built as complimentary institutions alongside the commercial Islamic banks and financial institutions. These non-banking
Islamic financial institutions should aim to have a developmentalist impact beyond the economic growth objectives of commercial Islamic banking. Considering that civil society oriented Islamic finance, in the form of Islamic microfinance in Indonesia has immensely contributed to economic development, individual empowerment and capacity building throughout the country, perhaps developmentalist countries should consider non-banking Islamic financial institutions to reach the economic and social objectives. It is also important to note that sukuk type of financial products can further contribute to development objectives through infrastructure financing. In addition to the need for institutionalisation, new and authentic financial instruments with a high developmentalist impact should therefore be engineered to contribute to the new micro-trajectories.

Thus, the recent debate has been on the ‘form’ versus ‘the substance’ nature of Islamic finance; while form represents the Shari‘ah compliancy (Shari‘ah approved products), the substance refers to the ‘social justice’, ‘sustainability’ and ‘developmentalism’. However, Islamic banks being commercial banks, their operations and consequences have remained the same as other commercial banks. Thus, despite the financial success, Islamic finance is repeating same financialisation at the expense of high moral expectations.

Whatever the criticism, the features of Islamic finance and the operations of Islamic banks and financial institutions indicate the Islamic ontological construct as a body of knowledge and the Islamic epistemology nature of operations and instrumental methods. Thus, beyond the question as to how much Islamic is Islamic finance in relations to the ‘substance vs form’ debate, it is important to reflect upon the fact that despite the Islamic nature of it and even with the involvement of Shari‘ah scholar how and why non-Muslim countries in Asia, Europe and Africa has facilitated a friendly environment for the development of Islamic finance in their countries. While Malaysian government eagerly forcing the development of Islamic finance in the country, perhaps to make sure that Islam as an identity should be substantiated in the country with the withering away of Chinese from the financial sector, the Chinese citizens of Malaysia established two Islamic banks; and the major customers of Islamic banks in Malaysia are known to be Chinese.

In addition, Islamic finance operations have now extended to the main centres of non-Muslim Asia as well as the West. Asian countries such as China, Japan and South Korea, as well as Hong-Kong, have been developing their infrastructure to be part of this value-oriented financial proposition with the objective of attracting the capital accumulated in the GCC region, as the supply
of GCC capital seems, in most cases, to be conditioned to Islamic facilitation. An exciting development in line with Islamic finance in Asian countries has been the recent membership of South Korea to the Islamic Finance Services Board, an international standard-setting body operating from Malaysia. In addition, London’s bid to remain a financial hub along with developments in France and Luxembourg is also important to consider. A chair in Islamic finance, albeit named as ethical finance, but conducts research in Islamic finance, which is paid for by the Saudi Arabians at the bastion of secularism, namely Sorbonne University is important to reflect upon.

While the capital need for economic growth is an essential reason for most countries to engage with Islamic finance, for some it is a matter of identity, such as is the case with Malaysia, Indonesia, and some of the GCC countries as well as the Arab Spring countries. Whatever the motivation for engaging with Islamic finance may be, Shari’ah-constructed financial solutions seem to be acceptable even under the political climate of ‘Islam as a problem!’.

Indeed, the financial nature of this proposition, regardless of it being Islamic, in a pragmatic manner, helps to overcome the implications of the larger issues associated with Islam. However, in addition to this pragmatist approach, an essential explanation is related to a much deeper philosophical issue: as convergence from Shari’ah compliant finance towards conventional finance has helped in the overall acceptance and the internationalisation of Islamic finance in the world. In this, Islamic finance has expressed its construct within modernity by giving up its consequentialist value proposition and expressing itself with the efficiency paradigm of neo-classical economics. Interestingly, it is the Shari’ah scholars which have responded to such demands in de-secularising the substance of Islamic finance by relegating the entire process to the conventional metaphor of moving capital but with old forms. This process can be expressed within multiple modernity project through which the hybridisation of Islamic finance (hybrid products of the conventional paradigm) through mimicking (of conventional finance) have resulted in observed convergence. Thus, despite the Shari’ah nature of Islamic finance, international acceptance has been possible through such convergence, resulting in Islamic finance giving up its value proposition. It is also important to understand the causality, as Islamically constructed financial solutions are then endogenised within the existing (secular) structure and legal/financial systems of the host countries, through which the process of multiple modernity gets even further complicated. Thus, in the internationalisation of Islamic finance, and then, in its integration within the existing system, the causality of
convergence takes place in bi-directional manner by commencing from Islamic finance to conventional finance.

Hence, a bi-directional convergence has produced Islamic finance within multiple modernities as a process and a product. Islamic finance through mimicking the conventional finance has moved away from foundational ontological claims by relegating the process through Shari’ah epistemology of rational morality as expressed rational legal meta ethics has found refuge in the conventional financial markets as hybrid products. As part of bi-directionality, Islamic financial products produced through multiple modernity is institutionalised and endogenised within conventional finance. Hence, the convergence; and hence due to such a converging profess through mimicking and hybridisation that Islamic finance has been welcome in every corner of the world despite the fact that Islam in general and Islamic in particular can be source of concern in many countries which have been facilitating Islamic finance.
Hence, modernity is re-produced by the ‘other’, here by Islam, in the form of an alternative modernity. In this case, IBF borrows the institutions of the ‘modernity’ and therefore ‘Islamises the products and institutions of modernity’ with its own ontology and epistemology, creating ‘multiple modernities’.

While international acceptance of Islamic finance should be considered as a positive development, the relegation of Islamic finance to forms through the mentioned convergence process (of becoming usual commercial banks) implies giving up its substance, which is a concern for those with high expectations. In addition, Islamic finance was considered to bring economic and sustainable development, human development, and contribute to social justice; however, with such a convergence such moral expectations have withered away. The result is that ‘finance’ is being conducted through Islamically!

**PLURALISM AS THE SOCIAL CAPITAL OF ISLAMIC FINANCE**

However, a positive outcome of this convergence has been the bridge (jīsr) role of Islamic finance, as it seems that through Islamic finance, opposing positions have managed to come together and depict the peace-oriented discourse of trade, observed over the centuries in the sense that ‘finance makes us brothers/sisters!’.

Islamic ontology and epistemology, the sources of IBF, have always been considered beyond the ‘universal truth’ of the modernity project, which assumed that all the world will convergence towards the Eurocentric definition of a homogenous civilization (see: Eisenstadt and Schluchter, 1998; and Eisenstadt, 2000 for the nature of modernity and multiple modernities discussion). Therefore, causality of knowledge transfer and development is always considered to be from the West to the ‘rest’. However, realities demonstrate that this has not been possible, nor will it be in the future. Take the example of IBF, an institution based on the different ontology and epistemology of Islam, which entered into ‘rational’ legal and regulative environment of entirely different structures produced by entirely different ontologies.

Secondly, Islamic finance has positively resulted in the emergence of self-confidence in Muslim Asia and the Middle East as, after so many centuries, they have managed to contribute to institutional and product innovation, regardless of whether it is in finance.
Thirdly, for the first time in many centuries, knowledge and know-how has been moving from Muslim Asia and the Middle East to the rest in Asia, Africa, and the West. Importantly, the transferred knowledge is ontologically divine knowledge (Islamic), which is not usually considered as a source of knowledge in modern times due to failing to be rational and scientific as necessitated by ‘modern knowledge’. Through Shari‘ah scholars’ interpretations, the Muslims search for verification of divine/Islamic knowledge in modern times has also been possible, resulting in the diminishing nature of tensions (albeit through multiple modernities) in the questioned applicability of divine knowledge in the modern world.

In other words, the significance of IBF in the relationship between the Muslim world and the beyond also becomes clear through institutionalisation and knowledge transfers. Since the beginning of the 20th century, the financial structures and operations of the GCC countries were shaped by the European banks. However, “...now European banks are now importing Shari‘ah compliant products from the Arab World, not only for their overseas Arab clients, but more significantly for the growing Muslim population of Europe as well as for their non-Muslim clients” (Wilson, 2007). There is hardly any brand now that has not touched upon by Islamic finance; from Wolkwagen to Benz to Aston Martin, Islamic finance is now an option.

Thus, the emergence of IBF and its adoption into the non-Muslim countries “is making the Euro-Arab financial relationship more a partnership of equals in the twenty first century” (Wilson, 2007). This change helps the GCC financial sectors to move out of the ‘dependence’ mood into ‘interdependence’ relationships, while the European financial systems now can learn from their Arab counterparts. This completes the bi-directional learning, thereby contributing to the development of social capital through financial development for both sides.

Lastly, While Islam is often correlated with ‘limitations’ in the non-Muslim context, IBF, on the other hand, provides ‘choices’ to Muslims and non-Muslims alike, both in the Muslim world and beyond. Thus, the availability of IBF in the non-Muslim countries helps contribute to pluralism within political culture in Europe, as political pluralism necessitates pluralism in other realms of life including finance. Financial pluralism in the form of IBF in non-Muslim societies and communities, thus, helps to overcoming the financial exclusion many Muslim from financial spheres - and as a result, financial and social developments can go hand in hand. Importantly, it provides choices to everyone; perhaps a better ethical solution even if it is not the best.
GENERATING EMERGENCE SCIENCE THROUGH RE-DEFINING AND RE-FRAMING ISLAMIC ECONOMICS AS ISLAMIC MORAL ECONOMY

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Borrowing from Karl Polanyi, embeddedness implies that economy and finance has to be integrated and also be the outcome of value system; and also financing has to be embedded into real economy; hence economic and non-economic factors should determine economy and financing; suggesting to develop an operational moral economy. Polanyi also identified the moral economy of past societies by referring how ‘great transformation’ from moral economy to self-regulated market system resulted in commodification and fictitious commodities. Hence, moral economy based societies embedded their economies to prevent commodification; and also moral economy is articulated through reciprocity, community, social good, cooperation, solidarity, distribution, etc. Polanyi states that in an attempt to provide some quality of substantial morality to the process and outcomes of self-regulated market economy, social movements have contributed to re-embedding the process by rescuing land, labour and capital from further commodification;

Thus, Islamic political/moral economy movement is part of the same social movement which aimed at rescuing labour, land and capital from commodification to create a re-embedded economy and society by essentialising the Islamic values of social justice, human and economic development, sustainable economy and society, by considering to create an Islamic system of economics (as opposed to Islamic economic system) to produce a moral economy.

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The paper hence aims to identify the systemic nature of Islamic moral economy, but also describes Islamic banking and finance as an emergent pattern and practice, which does not share any longer the systemic and emergence Islamic moral economy’s claims of moral economy;

Therefore, this paper suggests that while Islamic banking and finance can be considered as an emergent pattern and practice with its own process, the observed dichotomy refers to ‘convergence’ over emergence economics, namely Islamic moral economy. However, it aims to essentialise the moral economy nature of Islamic economics by locating the sources, methods and articulation of moral economy in Islamic economics by establishing authenticity through ontological as well as everyday practice of Islamic economy and finance historically and in current times.

**Defining Moral Economy**

“Moral economy studies the moral norms and sentiments that structure and influence economic practices, both formal and informal” (Sayer, 2007).

Since social good’ is one of the main thrust of moral economy, social goods are defined as ‘objects and qualities whose possession or consumption confers some kind of benefit and satisfies human needs and wants” (Arnold, 2001).

Sawyer (2000: 79) – moral economy represents “norms and sentiments” concerning “the responsibilities and rights of individuals and institutions with respect of to others”, which should go beyond matters of justice and equality to
conception of the good, for example, regarding the needs and the ends of economic activity”, including “the treatment of environment”.

Thus ‘moral economy’ can be defined as a collective system that distributes social goods to all because it considers moral and ethical norms in its economic practices. Thus, the main point of a ‘moral economy’ is to create a fairer economic model by the norms of a particular society.

An important feature of a moral economy is “embeddedness” (Booth, 1994) brought upon Polanyi’s criticism of the market economy. In the history, economy was “submerged” in social relationships or a general structure of society, which explains the concept of “embeddedbess” (Polanyi, Arensberg, & Pearson, 1957).

Since in a market economy all is subjected to “the law of the market”, then, the “organic forms of existence” – non-contractual social relations which are based on trust and reciprocity, such as kinship, the neighbourhood, and creed – are in the brink of elimination for they are seen as a hindrance of individual freedom and the profit maximisation in the market economy. This, this detached relationship with society is what makes the economy is dis-embedded (Harvey, Ramlogan, & Randles, 2007). Thus, moral economy is originally linked, as a concept, with the normative concept of subsistence ethics, reciprocity, community, embeddedness and ethicality.

As will be discussed, based on the definition of Islamic economics, its principles, values, norms, rules, and institutions, it can be see that Islamic economics fulfils the features of the moral economy on every aspects, as it is infused with Islamic ethical norms and values which mainly emphasise social justice and human well-being.

**Interdisciplinary Perspectives on Moral Economy**

(i) Philosophy: some analytical distinctions

(ii) Political philosophy and political economy: what is the relationship between market economies and moral economies

**Senses of ‘Moral Economy’**

- An approach to the study of an object:
- A discipline defined by an object of study
- A particular kind of economy
AN APPROACH TO THE STUDY OF AN OBJECT

(i) Moral economy is the application of ethical categories to the study of the economy.

- The elimination of ethical concepts in neo-classical economics leads to the ‘descriptive impoverishment’ of economics (Sen, 1978, 1980).

- ‘When economists spoke “qua economist” …they tried to speak in a value-free “scientific” language with “expletives” deleted’ (Sen, 1980).

- ‘The fact-value dichotomy ….penetrated neo-classical economics after 1932… [with] the resultant impoverishment of welfare economics’ ability to evaluate what it was supposed to evaluate—economic wellbeing (Putnam, 2003).

- Economics needs to rediscover the ethically ‘rich descriptions’ that marked the work of Adam Smith, the early Marx etc. (Sen, Putnam, Walsh, Nussbaum).

(ii) Moral economy is the application of economic categories to the study of ethics – the use of rational choice models, game theory etc. to explain the development of moral norms.

A discipline defined by an object of study

- Moral economy is the study of the ethical character of economic life.

  - Moral economy is ‘the critical study of the ethical character of economic activities and relationships, and of how this shapes and is shaped by other dimensions of social and political life’.

A particular object

- Moral economy comprises a particular set of relationships, beliefs and norms that constitute a particular kind of economic life.

The moral economy of the English crowd

- It is … true that riots were triggered off by soaring prices, by malpractices among dealers, or by hunger. But these grievances operated within a popular consensus as to what were legitimate and what were illegitimate practices in marketing, milling, baking, etc. This in its turn was grounded upon a consistent traditional view of social norms and obligations, of the proper economic functions of several parties within the community, which, taken together, can be said to constitute the moral economy of the poor (E. P. Thompson).
The Moral Economy of the Peasant

- Ethic of subsistence
- ‘The precapitalist community was...organized around this problem of the minimum income – organized to minimize the risk to which its member were exposed by virtue to its limited techniques and the caprice of nature. Traditional forms of patron-client relationships, reciprocity, and redistributive mechanisms may be seen from this perspective...’ (J. Scott MEP).

A particular kind of economy

- A moral economy is an economy that is embedded in or oriented by moral norms.
- Claim by both critics and defenders of market economies: markets are not moral economies in this sense. Markets are ‘ethics free zones’.
- Contrast of market and household (Aristotle, Polanyi, Marx)
- Contrast with ‘domestic moral economy’?
- Market economies disrupt the moral economies of pre-capitalist societies.
- Is this view of markets defensible?

Polanyi and the Great Transformation: Locating Moral Economy in Political Economy

Polanyi stated:

- The embedded economy nature existed since primitive-archaic time.
- However, the creation of self-regulated market, dis-embedded resulting into the creation of fictitious commodities through commoditisation;
- As a result, the constitution of the idea of market economy caused the malaise of society by changing the social formation of societies.
- The traditional forms of economy have always been moral economy through its traditional social formation;
- Therefore, the struggle of re-embedding economy in society and rescuing labour, land and money from the ‘fictions commodity’ or to de-commoditize them has been the aim of protective social movements and anti-liberal discourses.
Polanyian discourse is essential for us to understand the emergence of Islamic moral/political economy/Islamic economics through embeddedness through essentialising profit-loss-sharing financial products; risk sharing; and asset based financial transactions (Polanyi, 1944).

**Islamic Economics/Finance as a Moral Economy of Embeddedness**

In relation to the moral economy features of Islamic moral economy, the following features can be listed: Embeddedness in non-economic factors

- Decommodification and rejecting fictitious commodities;
- Values of Islam in shaping the norm
  - Embeddedness in real economy
  - ativeness
  - Reciprocity;
  - Community and charity
  - Convention and coordination
  - Collective action: cooperation including labor sharing

Islamic moral economy, hence, is another part of Polanyian double movement/counter movement to re-embedding the economy to ensure the dignity of labour and fair distribution of resources.

Importantly, these features indicate a particular social formation shaped by the normative nature of Islam.
Radical Position of Moral Economy Understanding: Shariati

Behdad observes that: “Shariati regards property as a source and a manifestation of oppression… Shariati views total destruction of property relations as the necessary condition for human liberation” (Behdad, 1994).

CONCLUSION

The notion of the moral economy rests with a central principle: embeddedness. Pre-modern economies are moral because they are an integral part of social relations and noneconomic institutions.

Of course, how economic and social relations work together will differ depending on various contexts but the common thread running through an understanding of a premodern moral economy is that aims, objectives and processes are informed and directed by the noneconomic (Polanyi, 1957, 1960, 1968; Scott, 1976).

Moral Economy’s features, in summary, are:

- Embeddedness or non-economic factors
- Reciprocity

Source: Nagaoka (Nagaoka, 2009)
• Community and charity
• Convention and coordination
• Collective action: cooperation including labour sharing

Islamic economics cannot fulfil Islamic norm based moral expectations in delivering an embedded economy; therefore, it has to be considered within Islamic political economy so that an integrative and interactive approach within complementarity methodology can be developed to reflect the embeddedness of Islamic epistemology. The substance of Islamic political economy is provided by Islamic moral economy in terms of identifying the consequences as well as intentions so that embeddedness can be achieved; which means that *fiqhi* approach of intentionalism or form by definition is not prioritised. Since public policy is related to consequences, it is essential that Islamic economics should be considered and conceptualised as ‘moral economy’; and since public policy requires a political economy frame to define the stakeholders and consequences, it should be considered within political economy frame. It is only then we can consider Islamic economics as an emergent science with full impact on the development trajectory of a society. Otherwise, *fiqhi* based approach and form or intentionalism based approach of Islamic finance cannot deliver the expected public policy consequences; as banks by definition, regardless whether they are conventional or Islamic (as per their operations and functions), cannot be expected to deliver public policy.

REFERENCES


