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ISLAMIC ECONOMICS AND FINANCE: AN INSTITUTIONAL PERSPECTIVE[#]

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1. INTRODUCTION

After a millennium of atrophy, Muslims have begun a critical reexamination of Islamic thought in all its dimensions in light of the present state of the world. Arguably the first discipline that began this process during the early decades of last century was political philosophy. Reexamination of economics started much later in the second half of the twentieth century and has continued uninterrupted to the present. There is an ongoing constructive debate among scholars on the fundamental question of whether there is a discipline that can be defined unambiguously as Islamic Economics and if so what are its distinguishing characteristics? This presentation is a modest contribution to that debate. It seems reasonable to suggest that any label or prefix that is attached to an economic discipline must bear concrete relationships with economic system that the discipline serves. Thus, disciplines such as socialist economics, capitalist economics, Buddhist economics, Christian economics, Jewish economics, Gandhian economics and others, relate to an envisioned system defined by its characteristics.

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In consonance with current thought, this paper envisions a system as the collection or the network of rules of behavior that constitute the institutional structure of the system. An economic discipline with a specific prefix, such as capitalist economics, relates to a unique arrangement of economic institutions operative in the society. Even though some of the institutions (rules of behavior) in one society may be shared by others, there must be an identifiably unique set of institutions to differentiate one prefixed economic discipline from another. The contention of this paper is that Islam prescribes rules of behavior (institutions) that collectively define a unique system. The economic relationships and issues within that system can be studied by an equally unique discipline called Islamic economics. More specifically, Islamic economics can be considered as a discipline concerned with: (a) the rules of behavior (institutions) prescribed by Islam as they relate to resource allocation, production, exchange, distribution and redistribution; (b) economic implications of the operations of these rules and; (c) policy recommendations for achieving rules compliance that would allow convergence of the actual economy to the ideal economic system envisioned by Islam.

Within each specific discipline there are variety of conceptions of the reality. When a given conception is accompanied by methods of analysis and coherent and internally logically consistent explanations that are accepted by a critical mass of practitioners, that conception of reality may be referred to as a paradigm. Any paradigm is based on a set of axioms, propositions, or assertions about relationships between and among crucial elements of its conceptualization of reality. In economics, these elements include, *inter alia*, concepts about the nature of man, society and the rules of behavior that describe the relationships between them. One way of understanding the nature of Islamic economics is to compare and contrast it with the neoclassical paradigm, that currently dominates economic thinking, as a benchmark. The next section addresses the two inter-related fundamental problems that all societies face: uncertainty and coordination. Each society searches for its own unique ways and means of solving these two problems. Section 3 briefly considers neoclassical paradigm and its foundational conceptions regarding the nature of man, society, their relationship and how this paradigm proposes that societies solve the two problems of uncertainty and coordination. Section 4 considers the same issues within the Islamic perspective. Section 5 presents a conception of what Islam considers as an ideal economy and draws implications from the rules of behavior prescribed by Islam. Finally, section 6 concludes the paper.

2. FUNDAMENTAL PROBLEMS OF SOCIETIES

Societies face two inter-related problems. Solutions to these problems determine the society's stability and continuity. These are the problems of uncertainty and coordination. The first stems from the fact that the future is unknown. Yet, humans have to make decisions and take actions that affect their future as well as that of others'. Making decisions is considered as one of the most fundamental capabilities of humans. It is inexorably bound up with uncertainty. Facing an unknown, and generally unknowable, future, people make decisions and choose among alternative courses of action based on their expectations of future consequences of their actions. These expectations are inevitably subject to uncertainty (Klir, 2006, Smithson, 1989 and 1993, and Shackle, 1983). Uncertainty, if severe enough, can lead to a state of inaction and paralysis both in the case of individuals and their collectivities. The problem becomes more complicated when uncertainty about the future is coupled with ignorance about how other individuals, or their collectivities, behave in response to unknown states of the world. A state of ignorance can take on a variety of forms. One taxonomy (Smithson, 1989 and 1993; see also Frisch and Baron, 1988) suggests the following: (a) all the things people are aware they do not know—this is the most recognized form of ignorance; (b) all the things people think they know but do not—this is ignorance based on error; (c) all the things people are not aware that, due to intuition, in fact, they do know; (d) all the things people are not supposed to know but could find helpful; (e) all the things people could know but find them too costly or too painful to know; and (f) all the things of which people are unaware that they do not know—this is ignorance-squared. This taxonomy casts doubts on the generally held belief that information and knowledge are one and the same and that ignorance is an antonym to knowledge. In point of fact, however, not only are they not the same, information and knowledge are quite different.

The general public as well as social and physical scientists consider ignorance as the opposite of knowledge and uncertainty as a state of "unknowledge". For example Shackle suggests ". . . where is knowledge there is not uncertainty, unknowledge, is what confronts the chooser of action . . ." (Shackle, 1983, 109). It is worth noting that the *Qur'ān* does not consider ignorance (*jahl*) as an antonym to knowledge (*ᶜilm*), particularly if knowledge is taken to mean information. Instead, it represents ignorance as an elemental factor in unbelief and often suggests that ignorance does not come from lack of information but out of a stubborn, continuous rejection of truth about which unbelievers have been fully informed, i.e., they display a combination of types of ignorance in (b), (c), and (f) in the above taxonomy. Indeed, as Taleb (2004, 2007) suggests, information can, and often does, become toxic to Knowledge.

The problem of decision-making under uncertainly is compounded by two additional factors, the competence of the decision-maker and the difficulty of selecting the most preferred among alternative possibilities, especially if there is once-for-all decision since, once made, it destroys the possibility of making that decision again (Heiner, 1983). The gap between competence and difficulty enhances uncertainty leading to errors, surprises and regrets. The level of uncertainty regarding the state of the world, as well as with respect to decision-action of other individuals, makes collective action, necessary if the society is to survive and flourish, a challenge. It then becomes crucial for societies to find ways and means of solving the problem of uncertainty and promoting coordination among individual decision-makers. Because of the interdependence among members of the society, decisions made and actions taken by individuals directly and indirectly affect others. Only omniscient individuals with no uncertainty are able to take the most preferred action regardless of the degree of complexity of the decision environment. This is not, however, the case for the members of society who must make decisions in an uncertain and complex environment. Consequently, societies have to devise mechanisms that render individual behavior under uncertainty more predictable in order to attenuate uncertainty and promote coordination. By and large, societies develop rules of behavior that are more or less restrictive depending on the perception of the degree of uncertainty and the impact of individual decisions on other members of the society. Heiner (1983, 170) suggests that:

> "In general, greater uncertainty (from either less reliable perceptual abilities or a more unpredictable environment) will both reduce the chance of recognizing the right situation to select an action, and increase the chance of not recognizing the wrong situation for selecting it. . . . greater uncertainty will cause behavioral rules to be more restrictive in eliminating particular actions or response patterns to potential information. This will further constrain behavior to simpler, less sophisticated patterns which are easier for an observer to recognize and predict. Therefore, greater uncertainty will cause rule-governed behavior to exhibit increasingly predictable regularities, so that uncertainty becomes the basic source of predictable behavior."

Accordingly, rules of behavior are designed to accomplish three objectives: (a) to reduce the cognitive demand on individuals in the face of uncertainty; (b) to specify acceptable and unacceptable behavior; and (c) to make actions by individuals predictable. In totality these three reduce uncertainty of environment by making the response of individuals to states of nature of their environment predictable. The new institutional economics refers to rules of behavior as institutions. In the words of Schotter (1981, 10-11), an "institution is a regularity in social behavior [that] . . . specifies behavior in specific recurrent situations, and is either self-policed or policed by some external authority." Institutions impose constraints on behavior and shape interactions among individuals in the society, they "define and limit the set of choices of individuals" (Aoki, 2001, 3). They are "phenomena that coordinate, regulate and stabilize human activities." They "facilitate" or "hinder human coordination"; they "can be regarded as both restrictions and opportunities, in both cases facilitating action by reducing uncertainty" (Groenwegen et al., 1995, 20). In situations of uncertainty, individuals form expectations about the consequences of their own decisions-actions as well as those of other members of the society. One crucial characteristic of institutions (rules of behavior) is to "absorb uncertainties". Another is to reduce "the demand on the cognitive capacity of the human mind. Parallel with this, institutions also stabilize expectations and coordinate actions . . ." (Groenwegen et al., 1995, 35).

The collection of the rules of behavior prescribed for individuals and collectivities in a given society constitute the institutional structure of that society and defines the overall system to which the society adheres. The rules of behavior—whether enshrined in instruments such as social contracts, constitutions and legal framework, or are embedded in social conventions, customs, habits and cultural values—are sustained by enforcement mechanisms that provide proper incentives of rewarding rule compliance and punishing rule violation. The incentive structure is such that "not only are deviates from the desired behavior punished, but a person who fails to punish is in turn punished (Kandori, 1992, 63). Not only the incentive structure must be such that rules of behavior become self-enforcing, it also must be such that it renders the enforcement mechanisms in place effective by providing "appropriate incentives . . . for the enforcers to perform their mission properly" (Aoki, 2001, 6). When and if "a mechanism that was designed with the purpose of achieving a prescribed social goal is not self-enforceable, then it needs to be supplemented . . . by enforcers (the courts, police, ombudsmen, etc.) . . .” (Aoki, 2001, 6). The stronger the rule compliance by individuals in the society, the more self-sustaining and self-enforcing the rules become. For this outcome to be attained, the rules must be internalized by individuals as endogenous elements of their own minds which find external expression when the rules become shared beliefs among individuals in the society. The stronger are the shared beliefs, the stronger would be the coordinated collective actions and the more stable the society. As Aoki (2001, 13) suggests, an institution (rule) “by the very fact of its existence, controls agents’ individual action-choice rules by coordinating their belief. These beliefs channel their actions in one direction against the many other directions that are theoretically possible . . .” Following Douglass North, Aoki conceives of institutions as “rules of the game” and defines “an institution” as “a self-sustaining system of shared beliefs about how the game is played. Its substance is a compressed representation of the salient features of an equilibrium path, perceived by almost all agents in the domains as relevant to their own strategic choice. As such it governs the strategic interaction of agents in a self-enforcing manner and in turn is reproduced by their actual choices in a continually changing environment”. He defines “the domain” as a set of agents—either individuals or organizations—and sets of physically feasible actions open to each agent in successive periods” (Aoki, 2001, 20-21).

Each economic system has an “institutional matrix” that “defines the opportunity set, being one that makes the highest pay offs in an economy’s income distribution or one that provides the highest payoffs to productive activity” (North, 2005, 61). North contends that in all economic system, institutions (rules of behavior) are designed by humans to impose constraints on human interaction. These institutions “structure human interaction by providing an incentive structure to guide human behavior. But an incentive structure requires a theory of the way the mind perceives the world and its functioning so that institutions provide those incentives” (North, 2005, 66). It is here where paradigms become relevant because paradigms in economics do have conceptions of man, society and their interrelationships. Such conceptions are themselves products of a meta-framework whose elements may or may not be explicitly specified but which, nevertheless, exist in the mind of the designer prior to the construction and presentation of a paradigm. For example, the meta-framework of the neoclassical economics is the classical economics as the name implies. There are basically two meta-frameworks that underlie all economic paradigms; Creator-centered or Man-centered. The former derives its economic analysis from rules of behavior (institutions) prescribed by the Creator for individuals and societies. Examples are economic paradigms that are based on Abrahamic Traditions, Judaism (see for example, Tamari, 1987), Christianity (see for example, Long, 2000) and Islam. The latter, the secular tradition, takes as given, or derives, rules of behavior (institutions) that are designed and approved by the society. The next section will briefly consider the fundamental principles of neoclassical economics as a representative of a paradigm based on the second type of meta-framework.

3. FUNDAMENTAL PRINCIPLES OF THE CLASSICAL-NEOCLASSICAL PARADIGM

Neoclassical economics takes as given the classical economists' postulates regarding man, society and their interrelationships. That is the worldview, or the meta-framework, of the neoclassical economics is that of the classical economics. The latter itself has its roots in the historical and existential experience of philosophers such as Thomas Hobbes in mid-seventeenth century England during the chaotic period in "the aftermath of religious and factional wars which had left disbanded armies and landless peasants roaming the highways, with thousands drifting to the cities to settle outside their walls and laws. Religious authority faltered under the impact of factional and dynastic disputes." With both the temporal and spiritual authorities discredited, men became "masterless" (Mansbridge, 1990, 4). With the polity in disarray, thinkers like Hobbes had to find a more concrete and predictable basis for reconstructing and reconstituting. The notion of self-interest was the concept which Hobbes developed into a political theory. From self-interest and concern for protection and preservation of private property, Hobbes derived "a state of universal, irreconcilable conflict. Although some individuals might be content with sufficiency, he reasons, self-preservation required that even these seek infinitely more power in order to protect themselves against the predations of the insatiable. The universal structural position of vulnerability combined with self-interest to produce the war of all against all which Hobbes proposed could end only with the decision to submit to a superordinate authority, the sovereign" (Mansbridge, 1990, 4). While the notion of self-interest as proposed by Hobbes has been given a variety of rationalization and justification since his time, the essential element of his thought on self-interest as the primary motivation for human action has been preserved. Indeed, it became the organizing principle of the view of man as "rational egoist" with "rational self-love" as the prime motivator of human action upon which the whole edifice of classical-neoclassical economics was built. It is important to note that from the time of Hobbes down to today the dominant economic thought has been decoupled from any theistic nations. The development has not been accidental. Since Hobbes' time, there has been a conscious attempt to avoid such conceptions. Even in the case of Adam Smith, while in his first book, *The Theory of Moral Sentiments* (1759) there are more than just hints of his theistic bend of mind (see Mirakhor and Hamid, 2009) no such hints appear in his second book, *The Wealth of Nations* (1776). Even in the case of moral norms and rules, the contention of classical-neoclassical thought is that complying with them serves the individual's own self-interest. The notion of self-interest came to be regarded as "natural", "rational, i.e., self-evident through reason", "concrete" and "predictable", therefore, a firm basis for building an economy, polity and society. Beginning in the second half of seventeenth century, these dimensions of self-interest, particularly the idea that it was natural, gave rise to the position that any attempt to regulate either self-interest itself or consequent actions based upon it was doomed to failure. This argument provided the ground to reject notions such as "just price", "fair wages" as well as prohibition against interest which had been the legacies of economic ideas of Christian scholastics of the Middle Ages.

Reasoned or "rational" self-interest meant that individuals as "self-seeking egoists" are motivated to prefer more to less all the time and everywhere, i.e., seek to maximize what can be had. While preserving self-interest as an axiom, neoclassical economists sought to give a more concrete and analytic interpretation to the axiom of rationality in the mid-twentieth century. It defined rationality in terms of consistency and transitivity of preference ordering of individuals. The idea was that individuals are capable of ordering bundles of goods in terms of satisfaction they derived from them such that the bundle in their ordering would imply that it gave them more satisfaction than the second placed bundle which, in turn, provided greater satisfaction than the third and so on. Moreover, the ordering was such that the first bundle would be preferred to the third because it was preferred to the second, which was preferred to the third (transitivity). Rationality meant that the individual motivated by self-interest and aided by reasoning would order bundles of goods based on their derived satisfaction in such a way that always and everywhere when offered the same bundles, the original preference ordering could remain the same (consistency). The individual then is postulated to have "revealed rational preferences". As Amartya

Sen suggests, in the neoclassical economics there is a conception of man as rational egoists whose self-interests are defined such that "no matter what he does he can be seem to be furthering his own interests in every isolated act of choice" (Sen, 1990, 29). He contends further that such "definitional egoism",

> ". . . sometimes goes under the name of rational choice, and it involves nothing other than internal consistency. A person's choices are considered "rational" in this approach if and only if these choices can all be explained in terms of some preference relation consistent with the revealed-preference definition, that is, if all choices can be explained as the choosing of 'most preferred' alternatives with respect to a postulated preference relation," (Sen, 1990, 29). ". . . A person is given one preference ordering, and as and when the need arises this is supposed to reflect his interests, represent his welfare, summarize his idea of what should be done, and describe his actual choices and behavior. Can one preference ordering do all these things? A person thus described may be 'rational' in the limited sense of revealing no inconsistencies in his choice behavior, but if he has no use for these distinctions between quite different concepts, he must be a bit of a fool. The purely economic man is indeed close to being a social moron," (Sen, 1990, 37).

Sen, thus, considers that the neoclassical postulates of narrow self-interest and rationality are too narrow and reduce man to a "self-seeking" animal. The remedy, Sen argues, is to modify the traditional economic theory which assumes that personal choice and personal welfare are identically one and the same by broadening the notion of self-interest to include sympathy for other people, as Adam Smith had done, and commitment to a principle "as a part of behavior" which involves "counter-preferential choice". This departure from a narrow conception of self-interest would "drive a wedge between personal choice and personal welfare" and lead to the rejection of pure egoism (Sen, 1990, 31-33). The postulates of self-interest and rationality of the classical-neoclassical system of thought find their greatest relevance in the presence of a third postulate: that of scarcity of resources relative to the, assumed, unlimited wants of humans. The idea is that there are limited primary resources, or factors of production such as land, labor and capital. This imposes a constraint on the amounts of goods and services produced at any one time to satisfy the unlimited wants of the members of the society. This limited amount of resources confronts unlimited wants and establishes the idea of scarcity which, in turn, and in combination with the postulates of self-interest and rationality, leads to justification for greater production of goods and their acquisition. One result of this conception of scarcity is that it creates a justification for a never ending process of economic growth since the gap between unlimited resources and ever growing and unlimited wants can never be closed.

The notion of unlimited wants harkens back to Adam Smith and the Scottish School of Philosophy and the Enlightenment (Mirakhor and Hamid, 2009). These scholars represented self-interest as meaning acquisition of more and more wealth. Smith extended this notion to the society as whole by positing the idea of the natural harmony of individual and social interests since both interests would be served by greater accumulation of wealth. Motivated by self-interest, individuals increase their production and wealth, which simultaneously increases the wealth of the society. It is by defining increasing production and wealth accumulation as the means of serving the self-interests of both the individual and the society that Smith arrives at the idea of the harmony of interests. By pursuing their own self-interest through increased production, the individuals are "led by an invisible hand, to promote an end which was no part of his intention" (Smith, 1937, 423). In the neoclassical paradigm all three axioms, self-interest, rationality and scarcity come together to form the notion of consumer satisfaction, producer profits and society's welfare. Just as in other systems, capitalism, the system relevant to the classical-neoclassical paradigm, has its behavioral rules. Compliance with them serves the self-interest of the individuals. Smith held that honesty, frugality and faithfulness to conditions of contracts, were rules and norms of behavior (institutions) essential to the proper functioning of the economic system. Individuals would abide by these rules because doing so was in their own self-interest. Among praiseworthy and positive values promoted were thrift, parsimony, hard work and honesty. All served the purpose of achieving the ultimate objective: capital and wealth accumulation. These virtues were to be developed into a concrete list of factors responsible for the triumph of capitalism and referred to as "the spirit of capitalism" by Max Weber (1930). According to Weber the sum total of the rules of behavior which constituted "the spirit of capitalism" is "the earning of more money combined with the strict avoidance of all enjoyment" (Weber, 1930, 51). This ethic can be traced directly to Adam Smith and early capitalists' effort to convince people that it would be "natural" and "rational" that their self-interest would best be served by the pursuit of economic gains. Smith's idea of harmony of individual and social interests gave credence to the notion that an economic order can be attained if individuals were given full economic liberty in pursuit of their own economic gain. The logic behind such idea was that the best interest of the society consists of ever increasing goods and services that could be sold in the market that brought increasing income and wealth to the producers and that it served the interest of the individual producers whose goal was increasing their income and wealth anyway. Therefore, by being left free to produce and compete with one another in the market in pursuit of their own self-interests, the individual producers would bring maximum output to the market at the lowest possible price. This way public interest would be served by the unhindered behavior of individuals in pursuit of their own selfish ends, i.e., accumulation of wealth. This then was the logic of *The Wealth of Nations*.

The classical paradigm was a radical departure from the ideas of pre-capitalist economic thinking dominant until the sixteenth century. Rooted in the ideas of the Churchmen or the Scholastic thinkers of the Middle Ages (Mirakhor, 2003; Vickers, 1997), economic attitude was moral and ethical. "Money making for its own sake, the taking of interest, buying cheap and selling dear, exploiting the vagaries of supply and demand for one's advantage, etc. – all these and other activities which form the daily routine of economic life today were considered morally reprehensible throughout Western civilization more or less until the sixteenth century of European history. . . . The Fathers of the church used a moral approach to economic problems and looked at them from the point of view of the salvation of an individual. . . . In the writings of the medieval Schoolman, in the thought of Luther, and in the economic thinking of the Anglican Church, economic conduct was subjected to religious ethics, and the pursuit of economic gain as an end in itself was still rejected as immoral. However, Calvin and the English puritans, after the Revolution, considered the economic attitudes—such as thrift, diligence, sobriety, frugality, work in calling—as Christian virtues. Yet, in the practice of communities dominated by their precepts, life in general and business activities in particular were still subject to the rigid discipline of an almost totalitarian church regime. The religious element began to disintegrate in the eighteenth the century; the individualistic work-and-success ethnic, however, remained victorious in a secularized form. In the writings of the classical economists the religious cloak was completely dropped, and economic thinking emerged in its autonomous form. . . . The secularization of economics included its conscious emancipation from ethics. Because the religious approach—indeed, the approach to economic problems from the days of Aristotle onwards—had been ethical, the new science of economics tried to eliminate all traces of its antecedent by eradicating from its explicit, overt system of thought all conscious, normative, ethical aspects" (Weisskopf, 1955, 14-15).

Today, even those who advocate reintroduction of ethics into economics decouple ethics from religion to the point of holding an anti-religion attitude (Sen, 1999). Weisskopf (1955 and 1971) believes however that the "emancipation" of economics from ethics, morality and religion "was never completely successful" as both the Christian values and the values promoted by non-religious classical economics "became internalized value systems of western middle-class man." He argues further that the two value systems "were, and still are to some extent, the source of a basic conflict in our civilization. This conflict found its reflection in economic thought. Some of the elements which are present in economic thought almost throughout its entire history can be interpreted as a symptom of the largely unconscious conflict which raged in the minds of economists and their contemporaries, between the Christian pre-capitalist ethics and the economic value complex" (Weisskopf, 1955, 15). Weisskopf argues that "the economic value complex" is what Weber referred to as the "spirit of capitalism" and constitutes the prescribed rules of behavior in a capitalist economic system. He presents the elements of this "economic value complex", which also constitutes the fundamental institutional framework of capitalism, as follows:

> "1. Accumulation: the striving for acquisition of wealth and riches, for the increase of possessions, is felt to be a duty. The individual must continually prove that he is chosen, successful, and valuable, he can never relax, never tell himself that he has accumulated enough and reached his goal.
>
> 2. Quantification: the tendency to account for success in quantifiable terms, to carry on a sort of moral, economic book-keeping.
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> 3. Labor: Work and labor in an occupation within the framework of the existing economic order is considered a duty and the only acceptable way of life; it acquires the dignity of an ultimate end.
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> 4. Individualism: the individual is supposed to strive for this worldly success in isolation alone.
>
> 5. Competition: the main driving force is to prove one's value through success, 'successful' members of the middle class . . . consider themselves an elite group; they must distinguish from the

unsuccessful or 'damned'. This attitude requires that success be accomplished by competition, at the expense of somebody else, to set apart the 'blessed' from the 'rejected'.

6. Rational conduct: economic success should be pursued in a conscious, rational, systematic way based on constant motives, on a life-plan, in a purposive, consistent fashion. Spontaneous, emotional, impulsive, capricious, sentimental, or enthusiastic behavior is considered to be morally reprehensible.

7. Asceticism: enjoyment . . . is more or less repressed. In respect to economic conduct, this results in a high evaluation of saving and a rejection of luxurious consumption (Weisskopf, 1971, 13).

This value system had its religious roots in Calvanism and Puritan ethics (Weber, 1930). After the economic success of capitalism and full development of the market economy, this value system was decoupled from its religious moorings and some of its elements, especially asceticism, were either modified or jettisoned altogether. The rest of the elements—accumulation, quantification, labor, individualism, competition, and rational conduct—were preserved.

The institutional framework that supported the classical-neoclassical notion of how the economy works developed in order to allow the flourishing of these values. The most salient features of this institutional framework were: (a) the sanctity of private property in order to ensure that accumulation, individualism, and labor would find their unhindered expression; (b) free markets organized to allow competition reward labor, initiative, and innovation; (c) consumer sovereignty in order that production finds easy market; (d) sanctity of contracts to reduce uncertainty of future transactions, and; (e) a legal structure that fully supported these features with enforcement power.

How would such a system address the two fundamental problems of uncertainty and coordination? As noted above, the society in this paradigm is a collection of "self-seeking egoists" whose rational self-interested behavior would, through the workings of the "invisible hand", ensure the "harmony" of individual's and society's interests. The institutional structure—i.e., the rules of behavior enforced, to a great extent, by the legal framework—would support the emergence of this "harmony of interests". The latter would ensure that there is a strong enough enforcement to elicit rule compliance from individuals to allow reduction in uncertainty regarding, *inter alia*, the sanctity of property rights and of contracts. In other words, while the classical-neoclassical paradigm assumes that "people are always and everywhere motivated by self-interest, and that differences in behavior are due only to differences in opportunities," the society has to develop the institutional framework—including a strong legal system—to create the incentive structure compatible with rule compliance. That is, the society must rely on "institutions that make it in people's rational self-interest to speak the truth, keep their promises and help others—not on people having good motivations . . ." (Elster, 1990, 44, see also Elster, 1989). The neoclassical economics takes the institutional structure as given and proceeds to develop the analytic framework to drive the classical idea of "harmony of interests" in terms of efficiency of resource allocation in a capitalistic market economy. In the words of two of the most famous neoclassical economist: "There's by now a long and fairly imposing line of economists from Adam Smith to the present who have sought to show that a decentralized economy motivated by self-interest and guided by price signals would be compatible with a coherent disposition of economic resources that could be regarded, in well-defined sense, as superior to a large class of possible alternative dispositions. Moreover, the price signals would operate in a way to establish this degree of coherence," (Arrow and Hahn, 1971, vi-vii). While Arrow-Hahn only mention self-interest and market, they take for granted other elements of the institutional structure that must be present for their theoretically-envisioned system to work.

To summarize, institutional framework reduces uncertainty (North, 2005) and the "harmony" of individuals' and society's interests ensures coordination to achieve the best allocation of resources. However, over the past four decades it has become clear that coordination is a serious problem. "The rational self-interest of individuals may lead them to behave in ways that are collectively disastrous," (Elster, 1989). An example of the coordination problem in a capitalist society is the problem of collective action, which is "also referred to as the problem of free-riding or the problem of voluntary provision of public goods, is deep and pervasive." Examples include: "The formation of trade unions or a price cartel is a collective action problem for the members: all benefit if all join, but each benefits more by abstaining. Nonmembers can benefit from wage increases negotiated by the Union. Defectors from a cartel can corner the market. Voting presents a problem of collective action . . . cleaning up the environment and abstaining from polluting are classical collective action problems, as are participation in community work . . . honesty among tax payers or among public officials and voluntary donation of blood. . . . Although the sum of benefit typically exceeds the costs, so that there is a collective interest in the contribution, the cost typically exceeds the benefit to the contributor, so that there is no individual interest in it being made," (Elster, 1989). Another related coordination and collective action problem is the "tragedy of commons" which is manifested in the case of goods that are commonly held, like common pasturelands. Here, while it is to the communities' interest that collective action be targeted to the preservation of the commonly held asset, it serves the individual's interest to use as much of the asset as possible. The first to call attention to the "tragedy of commons" was Garett Hardin (1968) who referred to the way the cattlemen in the southwestern United States created an environmental problem by overgrazing lands placed in their common use. "As rational being, each herdsman seeks to maximize his gain . . . the only sensible course for him is to add another animal to his herd. And another, and another . . . But this is the conclusion reached by each and every rational herdsman sharing a commons. Therein is the tragedy," (Hardin, 1968).

In recent years, more and more economists have raised serious questions regarding the basic postulates of classical-neoclassical economic paradigm. Aside from those who have focused their criticism on the separation of economics from ethics, such as Amartya Sen, others have focused on the postulate of rational self-interest of the paradigm without rejecting its other features. One example is the position of two prominent economists, George Akerlof and Robert Shiller. In their recent book (2009), they revive the concept of "animal spirits" proposed by Keynes who "appreciated that most economic activity results from rational economic motivation—but also that much economic activity is governed by animal spirits," (Akerlof and Shiller, 2009, ix). While accepting that "people rationally pursue their economic interests" they, along with Keynes, argue that exclusive adherence to this view ignores "the extent to which people are also guided by non-economic motivations. And it fails to take into account the extent to which they are irrational or misguided. It ignores the animal spirits," (Akerlof and Shiller, 2009, 3). The concept of "animal spirit" refers to a restless and inconsistent element in the economy. It refers to our peculiar relationship with ambiguity or uncertainty. Sometimes we are paralyzed by it. Yet, at other times it refreshes and energizes us, overcoming our factors and indecisions," (Akerlof and Shiller, 2009, 4). In their view, the animal spirits have "five different aspects", each of which, "affect economic decisions: confidence, fairness, corruption and antisocial behavior, money illusion, and stories." Confidence derives from the basic trust that people have in one another, the market and the state "and the feedback mechanisms between 'confidence' and the economy that amplify disturbances." Fairness concerns "the setting of wages and prices." Corruption and other social behavior are acknowledged in this theory as playing a role in the economy and affecting it. The theory also revives another Keynesian concept, "money illusion", referring the assertion that people are often fooled by nominal values of economic variables such as wages, prices, incomes and wealth. They are "confused by inflation or deflation" and do not "reason through its effects." Finally, by the stories aspect of animal spirits, Akerlof and Shiller mean the sense of identity people hold of themselves, their economy and society. "Our sense of reality, of who we are and what we are doing, intertwined with the story of our lives and of the lives of others. The aggregate of such stories is a national or international story, which itself plays an important role in the economy." Of the five aspects, Akerlof and Shiller consider confidence and money illusion as the cornerstones of their theory (Akerlof and Shiller, 2009, 4-5). They believe their theory, with its centerpiece of the concept of the animal spirits, describes how the economy works. "It accounts for how it works when people really are human, that is, possessed of all-too-human animal spirits. And it explains why ignorance of how the economy really works has led to the current state of the world economy, with the breakdown of credit markets and the threat of collapse of the real economy in train," (Akerlof and Shiller, 2009, xi). This digression on the view of Akerlof and Shiller demonstrates how little classical-neoclassical economic paradigm has advanced its view of man, perhaps the most important cornerstone element of any social science theory. It has traversed the time frame from the eighteenth to the twenty-first century, from considering man as a purely self-interested egoist of the classical economics to the "rational" self-interested egoist of the neoclassical economics of twentieth century and finally to the "animal spirits"-motivated "rational" self-interested egoist of the twenty-first century neoclassical-Keynesian hybrid conception of Akerlof-Shiller.

4. ISLAMIC ECONOMIC PARADIGM

The fountainhead of all Islamic paradigms is the *Qur'ān*. It provides the framework within which all relevant envisioning conceptions of reality find their source. This eternal source specifies rules of behavior (institutions) applicable to all societies at all times. These rules are immutable temporally and spatially. No one understood the *Qur'ān* more than the Messenger (ṣ.a.w.), appointed to deliver it to mankind.

During his blessed life on this plane of existence, he was both the spiritual and temporal authority for his followers. In his capacity as the spiritual authority he expounded, interpreted, and explained the content of the *Qur'ān*. In his capacity as the temporal authority the messenger operationalized the rules (institutions) specified in the *Qur'ān* in Madīnah. The economic system which he established in Madīnah is the Archetype of Islamic economic systems. In this Archetype, there is a core of institutional structure which is immutable because they are firmly established based on the Messenger's authoritative operationalization of the rules prescribed by the Creator in the *Qur'ān*. A typical example is the institution of inheritance where the specific procedure is described on how the inheritance is to be distributed. There are also institutions which the Messenger established which, while not explicitly stated in the *Qur'ān,* are based on his understanding of the *Qur'ān* as its highest interpretive authority. An example of this type of institution is the rules of market behavior. These two types of rules are immutable, i.e., any conception of how an Islamic economy works will have to take these two elements of the Archetype Model as given. There is a third type of institutions at the periphery of the Archetype Model that are temporally and spatially specific to the time and the place in which the Archetype Model was implemented. For example, the Messenger instituted rules of non-interference with market forces and the need for unhindered flow of information in the market. This rule is of and itself an immutable rule of the Archetype Model but the forces that would interfere with market functioning may vary and are time and place dependent. For instance, before Islam one acceptable method of interfering with the market forces in Arabia was that middlemen would meet caravans bringing supplies some distance outside of the cities and purchase their supplies. The Messenger prohibited this procedure. Clearly the principle of noninterference with the market forces is unchanged but this particular procedure is no longer relevant. The economic hermeneutics of this rule and its application to a particular time, place and market is part and parcel of what an Islamic economic paradigm would seek to address.

The Metaframework specifies rules (institutions) that are, to a degree, abstract. The Archetype Model articulates the operational form of these rules. The Metaframework specifies the immutable, abstract rules. The Archetype Model demonstrates how these rules are operationalized in a human community. The abstract became operational in the hands of the one human being who was the one and only direct recipient of the Source of the Metaframework, i.e., the

Qur'ān. Through the words and actions of this perfect human the Metaframework given by the Creator in the *Qur'ān* was interpreted, articulated and applied to the immediate human community of his time. The Metaframework specifies general universal laws, rules of behavior. The Archetype Model provides universal-specific rules of behavior and the institutional structures needed for organizing a human society based on the immutable rules of the Metaframework (Mirakhor and Hamid, 2009).

Islamic economic paradigm is a Creator-centered conceptualization of reality. Its view of man distinguishes between the exterior, physical form (*bashar*) and the non-physical, substantive and internal substance full of potentialities (*insān*). The two concepts roughly parallel Man and Human. In exteriority, they are similar in appearance, but there are significant differences between the two. The most important difference is an active awareness of the supreme Creator and Cherisher Lord of the Worlds which separates a "*bashar*" from an "*insān*". Both share the same general physical attributes and the same physical needs. What is different is what is inside them. Outwardly they are alike, inwardly, however, the attributes may range from being worse than animals in the sense of non-recognition of their full human potential yet possessing the powers invested in mankind such as cunningness, ability to carefully devise and execute premeditated plans that make this creature more dangerous than animals. At the other and of the spectrum, humans may be inwardly so aware of the potentialities of the human state that, by actualizing these potentialities, they may surpass even the angelic state.

Those of mankind who become aware and conscious of their human state and its potentialities focus on continuous actualization of these potentials. The passage from *bashar* (man) to perfect human state—where all potentialities of the latter are actualized—is imbued with gradations represented by an upward spiral movement marked by the degrees of compliance with the rules of behavior associated with the dynamic movement.

The Metaframework of Islam specifies these rules of behavior within the context of its fundamental principles. The first and most important of these principles is the Oneness and Uniqueness of the Creator (*tawḥīd*), a corollary of which is the unity of the creation, particularly the unity of mankind. The second fundamental principle is the belief in the appointment and delegation from the Creator humans who serve as His messengers and prophets (news-givers) to others of their kind. These are very select among the humans. Every messenger and prophet affirmed and confirmed the messages revealed before them and invited the people of their time and place to affirm the Unity of the Creator and comply with the rules of behavior contained in the revelation. Every messenger confirmed previous messages and supplemented the rules of behavior commensurate with the added complexity of human life and the growth of human consciousness. The final, universal, perfect message was then delivered by the last of the messengers, Muḥammad (ṣ.a.w.). While delivering the message constituted the primary responsibility of their mission, messengers had other responsibilities and objectives to achieve. The latter can be represented in terms of short-term, medium-term and long-term objectives. The first included reciting the revelation to humans, cleansing them, teaching them the revelation, particularly the rules of behavior *vis-à-vis* their ownselves, other humans and the rest of the creation, and their Supreme Creator (*Qur'ān*, 62:2). The last among the short-term objectives of messengers was the formation of a community of believers once a critical mass of followers attached themselves to the message and the messenger. The organizing principles of these communities were the belief in the Unity of the Creator and all other principles and rules of behavior that followed from it.

Once the community of believers was formed, establishing social justice became the medium term objective of the messengers and prophets in that community (*Qur'ān*, 52:25). The messengers did so through their own Archetype Model for operationalization of the Metaframework contained in the revelation they brought and those that existed before them. The final objective of the messengers was to lead the people out of an existential darkness associated with unawareness of the Creator and potentialities of their own human state to the enlightened state of being an actualized perfect human (*Qur'ān*, 14:1,5). Whereas all other messengers were commissioned by the Supreme Creator to a particular people, for example Mūsā (a.s.) was sent to his own people as were ᶜĪsā, Nūḥ, Lūṭ, Ṣāliḥ and others (a.s.), the Last of Messengers, Muḥammad (ṣ.a.w.) was appointed as the Messenger of Allah (s.w.t.) to all of mankind as was Allah's message, the *Qur'ān* (21:107; 34:28; 81:27). Along with the messengers and prophets there were other select humans appointed to carry on the tasks of achieving the objective of the messengers. The third fundamental principle of Islam relates to eschatology, the belief that there will come a day where all members of humanity will be called upon to account for all they have done during their life on Earth. Acceptance of these principles and all corollaries and implications that follow from them makes one a Muslim, a submitter to the Will of the Creator. The operational significance of this is the commitment to comply with the rules of behavior that follow from the act of submission.

Corresponding to the objectives of the messengers and prophets, humans are to listen to the revelation with the aim of internalizing the rules of behavior (institutions) prescribed in the message, cleanse themselves of character traits unworthy of the human state, develop the earth (*Qur'ān*, 11:61), establish social justice, and finally, move from darkness into light and help others of their kind to do the same. All these the humans can achieve by being fully rule-compliant. Doing so, humans serve their own best self-interest. This requires that humans are fully conscious and aware of their true self-interests that are not limited only to the life on this plane of existence but cover, in accordance with the third fundamental principle, the life to come. This means recognition that no one knows the best self-interests of humans other than their Creator Who has prescribed rules of conduct compliance with which assures them of attainment of their best self-interests. In over 126 verses, the *Qur'ān* assures humans that the prescribed institutional framework ensures that compliance with the rules is "best" for them. To emphasize that their Creator knows best, the *Qur'ān* asserts that there are things that humans believe to be best for them but are in fact harmful to them, and there are things humans believe to be harmful to them but are best for them. This assertion is immediately followed by the phrase that "Allah knows and you do not" (*Qur'ān*, 2:216). In a number of verses after prescribing a rule of behavior, the *Qur'ān* immediately states that compliance with the rule "is best for you if you only knew," (see for example, *Qur'ān*, 2:184, 271, 280; 4:25; 8:19; 9:3, 41). Continuous consciousness and awareness of the need to be rule-compliant progressively actualizes the potential in humans to come to "know" why behaving according to a prescribed rule serves their best self-interest because their Creator provides them with "a light with which to traverse on earth," (*Qur'ān*, 6:122).

Consciousness and awareness of their Creator and the prescribed rules renders humans rational decision-makers. Rational, meaning reasoned, action in a human who is aware, follows reasoning by a faculty with which every human is endowed by the Creator. This is intelligence (^{c}*aql*) which initiates a process of cognition by the heart. The faculty of ^{c}*aql* (intelligence) is defined as the instrument by which the All-Merciful Creator is adored and through which final felicity (*al-Jannah* or Paradise) is achieved. The ^{c}*aql* (intelligence) is distinguished from intellection which is a process of cognition by the mind. The ultimate operating rule of the *ᶜaql* is for its possessor to cognate the truth that the criterion for reason-based action is achieving the satisfaction of Allah (s.w.t.). This faculty is dormant in *bashar* (man). It is activated when man embarks on the path of becoming human (*insān*). Reading the revelation to humans, cleansing them, and teaching them how to internalize the revelation by the messengers, activates the *ᶜaql* (intelligence). When intelligence is dormant, man can only reason through intellection. Without *ᶜaql*, decision-making process takes place through reasoning via intellection alone. The process is faulty because without the cognition by the heart, reasoning is activated and governed by character traits unworthy of the human state. Reasoning through use of *ᶜaql* (intelligence) while choosing among alternative decision-actions available, the one selected is the one with the best chance of achieving the satisfaction of the Creator, i.e., choosing the action-decision compliant with the rules prescribed by Allah (s.w.t.). Choice of a decision-action, in the absence of the *ᶜaql* (intelligence) would be governed by the whims (*hawā'*) and in response to stimuli to the basic of instincts in man.

The discussion above demonstrates that while the postulates of self-interest and rationality are crucial in decision-making in both paradigms, they are radically different in their substance. The third postulate of the classical-neoclassical tradition is that of scarcity. In the Islamic paradigm, scarcity takes on three different aspects. First, the *Qur'ān* repeatedly asserts that from a macro-global standpoint, Allah (s.w.t.) has created all things in "exact measures" (*Qur'ān*, 49:52) indicating that the Lord Cherisher, Sustainer of all creation provides sufficient sustenance for all in His creation including for mankind. The *Qur'ān*, however, recognizes two other aspects of scarcity. It acknowledges a micro-actual scarcity stemming from maldistribution of resource, greed and gluttony. Hence, one encounters in the *Qur'ān* the overwhelming emphasis on social justice, rules against waste, accumulation of wealth, and extravagance. The third aspect refers to the real scarcity arising from the fact of finite conditions of man on this plane of existence. The physical conditions of man impose a finitude constraint. "Man is finite, mortal and aging, limited in time and space," (Weisskopf, 1971). Becoming aware of these constraints as well as of the potentialities of human state, human consciousness, once awakened, not only allows humans to grasp potentialities but also permits the realization in them of their ability to transcend the limits of their physical existence to imagine "what is and what could be". Humans, thus, realize that their physical existential constraints impose limits on how much of their potentialities they can actualize; they must then "choose between the alternatives grasped by transcending consciousness." This aspect of scarcity is addressed in the *Qur'ān* where there is a constant reminder of limitation of time on this earth and the rapidity of its passage. This is symbolized by the question humans are asked on their transition to the next level of existence. They are asked, "how long did you spend on the earth?" and their answer is, "a day or part of the day!" (*Qur'ān*, 18:19). Similarly the *Qur'ān* clearly and repeatedly reminds humans about the natural aging process that erodes their physical and mental abilities (*Qur'ān*, 68:36; 70:16). The "existential scarcity" caused by the finite conditions of existence of humans on the earth "leads to an allocation problem of scarce means to alternative ends . . . the resources which are ultimately scarce are life, time and energy because of human finitude, aging and mortality," (Weisskopf, 1971, 22-23).

The Metaframework envisions an ideal society as one composed of believers committed to rule compliance. The individual members are aware of their "oneness" and conscious of the fact that their own self-interest is served by seeing "others as themselves". Such a society is one of "golden mean" that avoids extremes, and a society that is so rule-compliant that it serves as a benchmark for and a witness to humanity (*Qur'ān*, 2:143). This is a society which actively encourages cooperation in socially beneficial activities and prohibits cooperation in harmful ones (*Qur'ān*, 3:104, 110, 114; 9: 71). Moreover, in this society, consultation, both at the level of individual as well as collectivity, is institutionalized in accordance with the rule prescribed by Allah (s.w.t.) (*Qur'ān*, 3:159; 42:38; 2:233). Similarly, all other rules of behavior prescribed in the *Qur'ān* are institutionalized with sufficiently strong incentive structure to enforce rule compliance. The ultimate objective being the establishment of social justice in the society.

The internalization of rule of behavior by individuals and their institutionalization, along with the incentive structure and enforcement mechanism, reduces uncertainty and ambiguity in decision-action choices confronting the individual and the society. Coordination problem too is resolved through compliance with the rule of cooperation. Moreover, there is a binding rule from the Archetype Model that resolves the negative aspects of the collective action problem. Not only cooperation is ordained as a rule-based feature of the society's institutional structure, the rule of negation of harmful externalities and reciprocation of one harmful act by another, i.e., the rule of not harming third parties by one's action and the right of not to be harmed by anyone's action without reciprocation (*lā ḍarar wa lā ḍirār*), mitigates the risk of emergence of collective action problems similar to those mentioned above like the tragedy of commons (Kamali, 2006; Mirakhor and Hamid, 2009).

To establish the ideal society by its members is the mission objective of all humans. To facilitate achieving this objective, humans have been provided with a cornucopia of divine endowments, the most important elements of which are: *Walāyah*. This is the Love of the Creator for His creation (Shah-Kazemi, 2008). *Walāyah* is one of the richest concepts of the *Qur'ān*. Its root and its derivatives appear in more than 200 verses. It denotes a relational activity between two things. The most fundamental activity denoted by *walāyah* is coming or working towards being in the closest proximity to someone. That is, when one person has *walāyah* relationship with someone else, they are so close that nothing seems to separate them. From the basic idea of proximity flow a number of dimensions of *walāyah* at the heart of which is the kernel of love. The kind of love that motivates the activity of *walāyah* also creates affection, fondness, attachment and devotion between the lover and the beloved. One of the most important dimensions of *walāyah* is comforting in the sense of strengthening, assistance or support, given out of genuine love for the helped party. This aspect of *walāyah* is frequently polar. The respective role of each party to *walāyah* has a bearing on the precise manifestation it projects with respect to each party. One pole of *walāyah* manifests as guardianship and authority. The other pole manifests as allegiance, loyalty and obedience. If the love that is the essential axis between these two poles weakens or vanishes, then *walāyah* diminishes or vanishes accordingly.

The one who is doing the *walāyah* is called a *wālī*. In the guardian-to-ward relationship, each is the *wālī* of the other. The axis of an ideal, healthy *walāyah* relationship is mutual, reciprocal and symmetric loving; the manifestation is polar and complementary. Each entity involved symmetrically loves the other, though the relationship of guardian-to-ward is a polar one. In this relationship, the word *wālī* indicates a comforter as in the *Qur'ān* (2:257): "Allah is the Comforter of those who are true believers; He extracts them from all manner of darkness into light." "The Comforter" here is used in the sense of strengthening help. At the other pole, that is when *walāyah* refers to loyalty and allegiances, the word *wālī* denotes a "devotee", meaning ardent, strongly attached, and intimate follower and lover as in the expression "*wālī* of Allah" appearing in the *Qur'ān* (10:62): "Indeed! The devotees of Allah will have no fear upon them nor will they grieve." Here, "fear" refers to the apprehension regarding the future and "grief" is the result of regrets over the past. It is important to note that the stronger the rule compliance on the part of humans, the stronger the *walāyah* relationship with the Creator. And, the stronger this relationship, the less the uncertainty of decision-action and the regret over decisions made and actions taken. What, in effect, humans are missioned to do is to pass on the *Walāyah*, the Love, of the Creator to His creation including importantly, others of their kind. The Love of Allah (s.w.t.) for His creation is manifested through His gifts to humanity. These include:

*Karāmah***,** the dignity which Allah (s.w.t.) has invested in His creation especially in the humanity (Mirakhor and Hamid, 2009; Kamali, 2002). The most direct declaration of the dignity with which humanity is endowed by the Creator is found in the *Qur'ān* (17:70): "We have bestowed dignity on the progeny of Ādam […] and conferred on them special favors above a great part of Our creation." Among these "special favors" are the priority of access to all created resources (*Qur'ān*, 20:31), guarantee of sustenance (*Qur'ān*, 151:6; 31:17; 6:11), the primordial nature of humans (*fiṭrah*); freedom of choice, and the status of agency on earth (*khilāfah*). All of these are manifestations of the *Walāyah* of Allah (s.w.t.) for humans (Kamali, 2002; Mirakhor and Hamid, 2009).

Fiṭrah or the primordial nature of mankind is a gift of the Creator to all humans at the time of their creation. It is the crucial essence of human dignity. The reason for the lofty position of *fiṭrah* is that it carries the immutable imprint of the cognition of the Oneness and Uniqueness of the Creator (*Qur'ān*, 30:30). *Fiṭrah*, in effect constitutes the meta-consciousness towards which human consciousness experientially gravitates. Consciousness and meta-consciousness converge when the cognition of the Oneness and the Onlyness of Allah (s.w.t.) and His ever-presence become a permanent, intimate and fully active fixture of the human awareness. This is a gradual process likened to an inner torch of awareness which grows in luminosity. When fully lit, it is called *taqwā*. At this stage, consciousness and meta-consciousness have converged. The entire experiential process of Islam can be summed up as a process by which humans recover *fiṭrah*, their primordial nature, which is dormant until human consciousness begins its awakening process.

The gift of human dignity and *fiṭrah* are accompanied by the gift of freedom of choice without which the human state and its potentialities and endowments would fail to actualize. This gift is so crucially important that in one sense, Allah (s.w.t.) considers His own adoration (*ᶜibādah*) by humans worthy only when they choose freely to adore Him. This is so important that the fundamental principles of Islam mentioned earlier can only be meaningful if and only if they are accepted through the exercise of free choice and as a result of unencumbered contemplation by intelligence. It cannot be done through emulation or following even one's parents, teachers or anyone in authority. The significance of the gift of free choice can be grasped more fully when it is realized that humans have the choice of rejecting their own Creator. This is clear from an astonishing verse which, in addressing the Messenger (ṣ.a.w.), the All-Powerful Creator declares: "Had your Cherisher Lord so wished the totality of everyone on earth would have become believers (*Qur'ān*, 10:99; see also *Qur'ān*, 10:35, 107; 6:146; 13:31; 16:93; 26:3-4; 32:13; 42:8). Yet, Allah (s.w.t.) chose to allow humans to exercise their freedom of choice therefore rendering Islamic totalitarianism an **oximoron**. Instead of negating the freedom of choice of humans, even to choose to accept or reject their own Creator, messages and messengers were sent with revelations, the self (*nafs*) of humans was "inspired" to recognize right from wrong, truth from falsehood, and humans were endowed with the pure *fiṭrah*, which constitutes their immutable meta-consciousness, then the choice is left to the humans. Accordingly, the *Qur'ān* declares: "Say (O Messenger) Truth has come from your Cherisher Lord. Therefore, whoever wishes will become believer and whoever wishes will reject," (*Qur'ān*, 18:29; see also *Qur'ān*, 73:19; 81:28; 76:29; 78:39; 74:73).

Once humans were endowed with these and other gifts, they were collectively asked to testify to the Oneness and Uniqueness of the Creator as the **One** and **Only** Cherisher Lord (*Rabb*) of all creation and everything else that this declaration implies, including the necessity of complying with rules of behavior which their Lord Creator has ordained and prescribed for a life of felicity on earth. All members of this cycle of humanity, i.e., all the progeny of Ādam testified so (*Qur'ān*, 7:172). Facilities, such as ᶜ*aql* (the intelligence of the heart), human dignity, *walāyah*, *fiṭrah* (the primordial nature of mankind), gifted to mankind by their Creator, were to be employed in cognition, remembrance, and fidelity to this primordial covenant (*Mīthāq*). The crucial importance of fidelity to this covenance drives the necessity of remaining faithful to all covenants, contracts and promises often emphasized in the *Qur'ān* (e.g. *Qur'ān*, 5:1). The commitment to remain faithful to the terms and conditions of the primordial covenant and equipped with the gifts of their Creator, humans were then assigned the role of Trustee-Agent (*Khalīfah*, viceroy) of the Divine on earth (*Qur'ān*, 2:30). This mission consisted of, *inter alia*, developing the earth (*Qur'ān*, 11:61); establishing social justice through the exercise of *walāyah* towards their kind and the rest of the creation, as a reflection of the *Walāyah* of the Creator, and removing the obstacles from the path of others of their kind towards Allah (s.w.t.), i.e., their passage from the darkness of personality traits unworthy of the human state towards the light of nearness to their Creator. Once again, it is the compliance with the rules of behavior prescribed by the Creator which makes treading the path feasible.

5. THE IDEAL ECONOMY

To have a conception of the ideal economy within the Metaframework, consider a verse in the *Qur'ān* that contains the necessary and sufficient condition for the existence of an ideal society and economy. The verse states that: "If the members of the collectivity were to be rule-compliant (*mu'min*) and ever-conscious (had *taqwā*) surely We should have opened for them blessings from the sky and from the earth. But they rejected (the Divine messages) therefore we seized them on account of their (non-compliant) deeds," (*Qur'ān*, 7:96). According to this verse then, the necessary condition for an ideal economy is *īmān*, being rule compliant. Those who believe experience, at times, lapses in rule compliance. This is a human problem Aristotle called *akrasia*. It occurs when humans, fully aware of what they should do, act in a contradictory manner and, often, against their best interest. It is the famous problem of believing and saying one thing but acting in contradiction to one's beliefs. The *Qur'ān* admonishes the believers on this score: "O you who believe, why you espouse that which you do not. It is most hateful in the sight of Allah that you say that which you do not," (*Qur'ān*, 61:2-3). The sufficient condition of *taqwā*, i.e., the activated inner torch of consciousness of the ever-presence of the Creator, requires that there be no lapses in rule compliance whatsoever. That is, the ideal society is one in which its members are fully rule compliant. They comply with rules specified generally for all in the society and specific rules relating to behavior in specific circumstances such as those relating to economic behavior. The first include, *inter alia*, the rule of enjoining the good and forbidding evil behavior, consultation, cooperation, avoiding harm to others, and establishing social justice. These have already been mentioned. Of these, by far, the first is the most crucial. It is an imperative without which compliance with all other rules, general and specific, will be weak or avoided altogether. It is a foundational rule that empowers all other decreed rules of behavior compliance with which allows humans to tread the absolutely desirable path of closeness to Allah (s.w.t.).

Commanding oneself and others to rule compliance derives directly from cognizance and acknowledgement of the love-bond (*Walāyah*) between the Creator and mankind as well as its derivative love-bond among humans. This rule and its observance is so fundamental that the *Qur'ān* makes references to communities in the past that were destroyed because they ignored or violated this all-important duty (*Qur'ān*, 25:37; 27:54; 29:28; 11:81-83; 11:51-58; 11:61-68). Among these are communities in which members were not only non-compliant with the rule but the most powerful among them did exactly the opposite, i.e., commanding evil and forbidding the good and righteous conduct.

The duty of commanding the good and forbidding evil, incumbent on individuals as well as the whole community, is the most important means of enforcement of prescribed rules of the Metaframework and the Archetype Model. It is also an effective promoter of social solidarity and preserver of social order. Existence of oppression, corruption, massive inequality and poverty in a society is *prima facie* evidence of non-compliance with or outright shirking of this duty. Coupled with the prescribed rule of consultation (*Qur'ān*, 42:38), this duty gives every member of the society the right and a responsibility of participating in the affairs of the community; no one is absolved from the necessity of performance of the duty of commanding rule-compliance and forbidding rule-violation. This is particularly binding *via-à-vis* the rulers. Even though there is particular emphasis both in the *Qur'ān* and in the sayings and actions (*sunnah*) of the Messenger on just (rule-compliant) political authority, the individual members of the society are not absolved from the duty of commanding the authorities, at all levels, to righteous conduct and forbidding them from rule violations whenever the individuals recognize the necessity of doing so. The *Qur'ān* identifies legitimate authority as those who know and adhere unfailingly to the prescribed rules and are recognized as such by the people over whom they rule as those with a strong track record of rule compliance. Such humans are identified in the *Qur'ān* as the *Ulū al-Amr*. This concept is made up of two terms *Ulū* and *al-Amr*. The first term (meaning possessor) indicates that these humans are such adoring-servants (*ᶜIbād*) of the Cherisher Lord, i.e., are consistently and fully rule-compliant, that they are deemed worthy to carry the responsibility of exercising authority in the overall implementation of rules in the society. The second term *al-Amr* refers to command and decree, i.e., the set of rules decreed and prescribed for the community of believers. It is important to note that it is the strength of rule compliance in these humans, recognized by the members of the society, which legitimizes their authority. It is not their cunning, adeptness in playing political games, mental or physical prowess, their riches or other worldly advantage that gives them the status of *Ulū al-Amr*. They draw their legitimacy first from their Creator who knows their full devotion to and compliance with the rules He prescribes. Secondly, they draw their power to implement the rules in the society from the willingness of the people to follow them. This willingness itself comes from the fact that people recognize and acknowledge the depth of these leaders' knowledge of the rules and the strength of their rule compliance. This recognition leads the people to exercise their free choice to follow and obey these leaders.

Addressing those who are already rule compliant, the *Qur'ān* decrees: "O believers, obey Allah and obey the Messenger and those among you possessors of the full knowledge of the rules decreed (*Ulū al-Amr*). If then you disagree about anything refer it to Allah and the Messenger if indeed you believe in Allah and the Last Day, this is the best and fairest (way) for final settlement," (*Qur'ān*, 4:59). This verse makes it clear that the final authoritative reference for rules and the degree of compliance with them are the Metaframework (specified in the *Qur'ān*) and the Archetype Model (the way the Messenger understood and implemented the rules). The legitimate authority has been left no degrees of freedom to rule according to their whims. Every decision must draw its legitimacy from the two fundamental sources – the *Qur'ān* and the *Sunnah* of the Messenger. The community and its members, commit through a contract, to following and obeying the legitimate ruler so long as the authority in charge is itself fully rules-compliant. In turn, the legitimate authority commits not only to comply with all the prescribed rules, among which is the imperative of consultation, but also to preserve the cohesion and the wellbeing of the community in accordance with the duties of trusteeship and agency. It must be clear that the strength of rule-compliance of the legitimate authority must surpass that of a representative believer—meaning that those in authority must possess stronger *taqwā*, otherwise not only their own legitimacy becomes questionable but also the foundation of rule implementation by members become shaky. The legitimate authority serves as a symbol of operationalization of the rules prescribed by the Metaframework and the Archetype Model. And, the strength of its legitimacy is derived from implementation of the rules. No authority has any legitimate basis for creating rules that contradict those specified in the two fundamental sources.

The institutional framework of the ideal economy is composed of a collection of institutions—rules of conduct and their enforcement characteristics—designed by the Law Giver, prescribed in the Metaframework and operationalized by the Archetype Model to deal with allocation of resources, production and exchange of goods and services, and distribution-redistribution of resulting income and wealth. The objective of these institutions is to achieve social justice (*Qist*). Important among their functions is reduction in uncertainty for members of the society to allow them to overcome the obstacles to decision-making caused by paucity of information. Rules specify what kind of conduct is most appropriate to achieving just results when individuals face alternative choices and must take action. They impose restrictions on what society's members can do without upsetting the social order on whose existence all members count in deciding on their own actions and forming their expectations of others' responses and actions. Compliance with the rules determines the degree of certainty in the formation of these expectations, prevents conflict, reconciles differences, coordinates actions, facilitates cooperation, promotes social integration and social solidarity, and strengthens the social order. To obtain these results, two conditions must exist; one is necessary and the other sufficient. The former requires that rule compliance is enforced, through persuasion if possible, coercion if necessary. The sufficient condition requires that the rules of conduct are enforced universally in all cases irrespective of circumstances and/or consequences. The degree of effectiveness of rule enforcement is determined by the degree to which the objective of achieving social justice becomes an integral part of the subjective interiority of the members of the society. The *Qur'ān* makes clear that rule compliance is the guarantor of social justice, social cohesion, unity and order in any human collectivity (*Qur'ān*, 5:2; 3:103; 8:46). This is so central among the objectives of the Metaframework that it can be claimed that all rules of behavior prescribed are those that lead to social justice, integration, cohesion, solidarity and unity. Conversely, all prohibited behavior are those that ultimately lead to social injustice and disintegration.

The earlier discussion alluded to the role of the duty of commanding rule compliance and strongly discouraging rule violation incumbent on all members of the society. It also hinted the source of this duty is *walāyah*, the love, of the members of the society for one another, as the reflection of the *Walāyah*, the Love of Allah (s.w.t.) for humanity. When believers faithfully discharge this duty, they are in effect expressing their love for others in urging righteous conduct because of the beneficial results that accrue to all members of the society. Similarly, in pressing others to avoid rule violation the believers wish to ensure that their fellow humans do not suffer the adverse consequence of non-compliance. This is because the believers see “the others” as themselves in accordance with Islamic teachings. The *Qur’ān* calls attention to the fact despite all apparent multiplicity, humans are fundamentally of one kind. They were created of one **self** (*nafs*) and will return to their Creator ultimately as one **self**: “Neither your creation (was) nor your resurrection (will be) other than as one united self,” (*Qur’ān,* 3:28), and “As He brought into being, so will you return,” (*Qur’ān,* 7:29). It is this unity, itself a reflection of the Unity of the Creator, that leads humans to extend *walāyah* (loving care) to one another. Qardawi (1979) states that a believer loves all humans because all are brothers in humanity and partners in sharing the loving adoration (*ᶜubūdiyyah*) of the Creator. They are related to one another ultimately sharing one father and mother, and share a common objective and have a common enemy. Qardawi refers to the *Qur’ān* (4:1) that addressed humanity: “O humanity! Be aware of your Cherisher Lord (*Rabb*) who created you from a single self and from her created her mate and from them Has spread forward a multitude of men and women, and be consciously aware of Allah, in Whom you claim (your rights) of one another, and the wombs. Lo! Allah Has been a Watcher over you.” Qardawi suggests that by “wombs” in this verse, it is meant the “womb of humanity” that connects all humans to one another as the beginning of the verse indicates. Referring to another verse of the *Qur’ān* —“O humanity! Lo! The Promise of Allah is true. So let not the life of this world beguile you, and do not be beguile regarding Allah. Indeed Satan is your enemy, so treat him as an enemy,” (*Qur’ān,* 35:5-6)—Qardawi asserts that humanity’s shared objective is the felicity of the eternal life and its common enemy is the Satan. He asserts that a Muslim’s love for other humans is central to the way of life that Allah (s.w.t.) has ordained; it is a belief through which a Muslim seeks nearness to the Creator. It is this love for other humans (*walāyah*) which is the ultimate enforcer of rule compliance. And, it is this love that leads to commanding rule compliance and forbidding rule violation.

Central among the rules that constitute the institutional structure of the ideal economy are rules governing: property; production, exchange, distribution and redistribution; and, market conduct. As to property, the *Qur’ān* makes clear that all property belongs to the Creator who has made all the created resources available for humans to empower them to perform what their Creator expects of them. This ultimate ownership will remain preserved for the Creator. Humans are allowed to combine their physical labor with the created resources to produce the means of sustenance for themselves and others of mankind. This right of access to resources created by the Cherisher Lord belongs universally to all of mankind (*Qur'ān*, 2:29). There are only two ways in which individuals can gain legitimate property rights in the limited sense of the previous two rules governing property. Individuals can gain property rights through a combination of their own creative labor and other resources or through transfer—via exchange, contracts, grants or inheritance—from others who have gained property rights title to an asset through their own labor. Fundamentally, therefore, work is the basis of acquiring rights to property. Work is considered a duty; its importance is reflected in the fact that it is mentioned in a large number of verses in the *Qur'ān*. Work is a foundation of "belief": "Indeed there is nothing for the human other than (what is achieved through) effort and that (the results of) his effort will be seen and then he will be repaid fullest payment," (*Qur'ān*, 53:39-41). The next rule governing property forbids gaining instantaneous property rights claim without commensurate work. The exception is transfer via gifts from others who have gained legitimate property rights claim on the asset transferred. The prohibition covers theft, bribery, gambling, interest from money lent, or, generally, income from unlawful sources.

Resources are created for all of mankind, therefore, if a person is unable to access these resources, her/his claim to resources (as an extension of the invariant ownership of the Creator) cannot be violated. All individuals have property rights claim in resources even if they are unable to partake in the act of production. These rights must be redeemed, in kind or in monetary equivalence. This is the foundation of the rule of sharing ordained by the Creator. Allah (s.w.t.) ordains sharing and threatens those who shirk in meeting this obligation and violate the rule of sharing (*Qur'ān*, 24:33; 3:180; 4:36-37; 92:5-11). The next rule governing property imposes limitations on disposing a property over which legitimate rights are claimed. Property owners have a severely mandated obligation not to waste, squander or destroy (*itlāf* and *isrāf*), use property opulently (*iṭrāf*) or as means of attaining unlawful (*ḥarām*) purposes. Once the rules governing property rights claims are observed and related obligations, including sharing, are discharged, property rights on the remaining part of income, wealth, and assets are held sacred and no one has the right to force appropriations or expropriation.

Rules governing the market relate to appropriate behavior of all participants in the market. The *Qur'ān* acknowledges the need for markets and affirms their existence, placing emphasis on contracts of exchange (*bay*[c]) and trade (*tijārah*). As a rule, the *Qur'ān* places emphasis on market transactions based on mutual consent, therefore, based on freedom of choice and freedom of contract which, in turn, requires acknowledgement and affirmation of private property rights. The Archetype Model implemented by the beloved Messenger (ṣ.a.w.) operationalized the conception of exchange and trade as well as the use of market as the mechanism for this purpose. The Messenger specified operational rules of conduct in the market place, appointed a market supervisor to ensure rule compliance, and encouraged internalization of these rules by participants before their entrance into the market. Compliance with the rules of market behavior ensures the emergence of prices that are fair and just. So long as market participants are rule compliant, no direct interference with the price mechanism is permitted, even though the legitimate authority has the power and the responsibility of supervision of market operations. Among the rules governing market conduct, five constitute the pillars of the market's institutional structure: (a) property rights, (b) free flow of information, (c) trust, (d) contract, and (e) the rule of the right not to be harmed by others, and the obligation not to harm anyone by one's activities. In combination, these five pillars reduce uncertainty and transaction costs as well as allow cooperation and collective action to proceed unhindered. The first and last of these five pillars were earlier discussed briefly. Here, the other pillars will be covered also in a summary fashion.

Islam forcefully anchors all social-political-economic relations on **contracts**. More generally, the whole fabric of the Divine Law is contractual in its conceptualization, content and application. Its very foundation is the Primordial Covenant between the Creator and humans—the *Mīthāq*. The covenant imposes the obligation on humans to remain faithful to its affirmation that they recognize the Supreme Creator as its Cherisher Lord (*Rabb*) and their *Wālī*. From an operational point of view, that cognizance is an affirmation that in their conduct on the earth, they will comply with the rules prescribed by their Cherisher Lord. In Islam, as a way of life in surrendering to the Will of Allah (s.w.t.), faithfulness to the terms of all contracts entered into, establishing justice, reward for rule compliance and punishment for rule violation on the Day of Accountability are linked to the fulfillment of obligations incurred under the stipulation of terms and conditions of the Primordial Covenant. This proposition links humans directly to their Creator and to one another.

The rule of remaining faithful to the discharge of obligations under the stipulation of terms and conditions of contracts between humans derives its power and authority from the generalization of the responsibility of remaining faithful to the Primordial Contract. In a direct, clear, and unambiguous verse, the *Qur'ān* commands: ". . . fulfill the Covenant of Allah," (*Qur'ān*, 6:152). In an equally clear verse it generalizes this imperative to all contracts: ". . . fulfill all contracts," (*Qur'ān*, 5:1). Thus, faithfulness to the terms of every covenant, contract, or oath to carry out obligations one has committed to do become a reflection of the Primordial Covenant. A believer, fully and consciously aware of the ever presence of Allah (s.w.t.), will only take on contractual obligations intending to fulfill them (*Qur'ān*, 16: 91-92; 17:34). Believers are said to protect their contractual obligations as a shepherd protects his sheep: "those who are shepherds of their trusts (that are laced in them) and their covenants (*Qur'ān*, 23:8). It is worth noting that throughout the history of Islam, a body of rules, based on the *Qur'ān* and the tradition of the Messenger (ṣ.a.w.), has been formulated constituting a general theory of contract. This body of rules covering all contracts has established the principle that any agreement not specifically prohibited by the Law is valid and binding on the parties and must be enforced by the courts which are to treat the parties to a contract as complete equals.

There is strong interdependence between contract and trust as reflected in *Qur'ān* (23:8) above. Without trust, contracts become difficult to negotiate and conclude, and costly to monitor and enforce. When and where trust is weak, complex and expensive administrative devices are needed to enforce contracts. Both the *Qur'ān* and the tradition of the Messenger (ṣ.a.w.) stress the importance of trustworthiness as the benchmark that separates belief from disbelief (*Qur'ān*, 2:282; 4:105, 107-108; 6:152; 8:127; 75-76). Trustworthiness and remaining faithful to one's promises and contracts are absolute. When a believer enters into a contract or is trusted with a commitment, money, pledge, or wealth by someone, the believer has to honor the obligation regardless of costs involved or whether the other party is a friend or a foe. A verse of the *Qur'ān* commands the Messenger (ṣ.a.w.) and his followers not to break a covenant existing between them and their enemies and fulfill their conditions to full term (*Qur'ān*, 9:4). There is also a network of micro-level rules that ensure transparency and unhindered flow of information. This includes, *inter alia*, the requirement incumbent upon sellers that they must inform the buyers of prices, quantities and qualities; a body of rules governing consumers' option of, under various circumstances, of annulment of a transaction, the rule of non-interference with market supplies; the rule against hoarding, and the rule against collusion among market participants (Mirakhor, 2007; Iqbal and Mirakhor, 2007). Added to these are elements of trust, contract and the requirement of faithfulness to the terms and conditions of contracts, and finally, reliance on the commitment of the Creator to assure humans, particularly those who are rule compliant, that they need not be afraid of the future nor regret the past, ensures reduction in uncertainty.

Finally, the most important economic institution that operationalizes the objective of achieving social justice is that of the distribution-redistribution rule of the Islamic economic paradigm. As was mentioned earlier, a crucial mission of all messengers and prophets is the establishment of social justice. In practical terms, the *Qur'ān* makes clear that this means creating a balanced society that avoids extreme of wealth and poverty, a society in which all understand that wealth is a blessing provided by the Creator for the sole purpose of providing support for the lives of all of mankind. The Islamic view holds that it is not possible to have many rich and wealthy people who continue to focus all their efforts on accumulating wealth without simultaneously creating a mass of economically deprived and destitute. The rich consume opulently while the poor suffer from deprivation because their rights in the wealth of the rich and powerful is not redeemed. To avoid this, Islam prohibits wealth accumulation, imposes limits on consumption through its rules prohibiting overspending (*isrāf*), waste (*itlāf*), ostentatious and opulent spending (*iṭrāf*). It then ordains that the net surplus, after moderate spending necessary to maintain modest living standard, must be returned to the members of the society who, for a variety of reasons, are unable to work, hence the resources they could have used to produce income and wealth were utilized by the more able. The *Qur'ān* considers the more able as trustee-agents in using these resources on behalf of the less able. In this view, property is not a means of exclusion but inclusion in which the rights of those less able in the income and wealth of the more able are redeemed. The result would be a balanced economy without extremes of wealth and poverty. The operational mechanism for redeeming the right of the less able in the income and wealth of the more able are the network of mandatory and voluntary payments such as *zakāt* (2.5 percent on wealth), *khums* (20 percent of income), and payments referred to as *ṣadaqāt*.

Distribution takes place post-production and sale when all factors of production are given what is due to them commensurate with their contribution to production, exchange and sale of goods and services. Redistribution refers to the post-distribution phase when the charge due to the less able are levied. These expenditures are essentially repatriation and redemption of the rights of others in one's income and wealth. Redeeming these rights is a manifestation of belief in the Oneness of the Creator and its corollary, the unity of the creation in general and of mankind in particular. It is the recognition and affirmation that Allah (s.w.t.) has created the resources for all of mankind who must have unhindered access to them. Even the abilities that make access to resources possible are due to the Creator. This would mean that those who are less able or unable to use these resources are partners of the more able. The expenditures intended for redeeming these rights are refereed to in the *Qur'ān* as *ṣadaqāt* which is the plural of the term *ṣadaqah,* a derivative of the root meaning truthfulness and sincerity; their payments indicate the strength of the sincerity of a person's belief (*Qur'ān*, 2:26; 2:272). The *Qur'ān* insists that these are rights of the poor in the income and wealth of the rich; they are not charity (*Qur'ān*, 917:26; 38:30; 70:25; 19:51; 2:177). Therefore, the *Qur'ān* asks that extreme care be taken of the recipients' human dignity of which the recipients themselves are fully aware and conscious to the point that they are reluctant to reveal their poverty. The *Qur'ān* consequently recommends that payment to the poor be done in secret (*Qur'ān*, 2:271-273). Moreover, the *Qur'ān* strictly forbids that these payments be made either reproaching or accompanied by ill treatment of the recipient or with annoyance displayed by the person making the payment (*Qur'ān*, 2:262-265). To summarize, in order that humans are able to carry out the mission associated with their *khalīfah* state, i.e., serving as trustee-agent of the Divine on the earth, Allah (s.w.t.) has created resources and place them at the disposal of humans. All humans have the right of unhindered access to these resources. Some are endowed with greater physical-mental abilities and, therefore, are able to use more of these resources than others of their kind, thus enhancing their ability to create wealth. They are, however, not entitled to keep the resulting wealth solely for themselves and must share it with those less able because the latter are, in effect, partners in wealth creation. These rights must be redeemed. Believers must remain fully conscious of this partnership throughout the process of wealth creation and the fact that they must redeem the rights of others in the created income and wealth. Being unable to access resources to which they have the right does not negate the share of the poor in income and wealth of the more able. Moreover, even after these rights are redeemed, the remaining wealth is not to be accumulated, wealth is considered as the life blood of the economy and means of support for the society.

Therefore, it must not be withheld from circulation through accumulation. Non-circulation of wealth among the members of the society creates a sclerosis in the body-economic of the society, restricting the flow of resources needed for the growth of its economy. To allow a healthy circulation of wealth, the Islamic paradigm envisions a financial system based on risk- and return-sharing. Within the Islamic framework, the central proposition of Islamic finance is the prohibition of interest-based transactions in which a rent is collected as a percentage of an amount of the principle loaned for a specific time period without the full transfer of the property rights over the money loaned to the borrower. One result of this type of transaction is that the risks of the transaction is shifted to the borrower. Instead, Islam proposes *al-bay*ᶜ, a mutual exchange in which one bundle of property rights is exchanged for another, thus allowing both parties in the exchange to share the risks of the transaction. The emphasis on risk-sharing is evident from one of the most important verses in the *Qur'ān* with respect to economic relations. The verse states that: ". . . they say that indeed an exchange transaction (*bay*ᶜ) is like a *ribā* (interest-based) transaction. But Allah has permitted exchange transactions and forbidden interest-based transactions," (*Qur'ān*, 2:275). The nature of property rights inherent in these two transactions hints at one of their crucial differences. *al-Bay*ᶜ is a contract of exchange of one commodity for another where the property rights over one commodity are exchanged for those over the other. In the case of a *ribā* transaction, a sum of money is loaned today for a larger sum in the future without the transfer of the property rights over the principle from the lender to the borrower. Not only does the lender retains property rights over the sum lent but property rights over the additional sum to be paid as interest is transferred from the borrower to the lender at the time the contract of *ribā* is entered into.

Arguably, the above verse renders exchange and trade of commodities or/and assets the foundation of economic activity in the Islamic Paradigm. From this, important implications follow: Exchange requires freedom of parties to contract. This in turn implies freedom to produce, which calls for clear and well-protected property rights to permit production to proceed. To freely and conveniently exchange, the parties need markets. To operate successfully, markets need rules of behavior and enforcement mechanisms to reduce uncertainty in transactions and ensure the free flow of information. They also need: trust to be established among participants; competition among sellers, on the one hand, and buyers, on the other; transaction costs to be reduced and the risk to third parties in terms of having to bear externalized costs of two-party transactions are mitigated. The rules prescribed by the

Metaframework and the Archetype Model accomplish these tasks. Rules that ordain: trust; faithfulness to the terms and conditions of contract; commanding rule compliance and prohibiting rule violations; transparency and truthfulness in transactions; prohibition of interference with market forces, such as hoarding of commodities to force increase in their price and formation of coalitions to influence prices and/or quantities; and market supervision to ensure rule compliance. These plus others mentioned earlier, when observed, reduce the incidence of informational problems that plague the conventional interest-based financial system (Mirakhor, 2007). A further implication is that finance based on risk-return sharing means that the rate of return to finance is determined *ex-post*, by the rate of return on real activity rather than the reverse which is the case when interest-based debt contracts finance production. This has a further economic implication in that risk-return sharing finance removes interest payments from the pre-production phase of an enterprise and places it in the post-production, and after sale, distributional phase. In turn, this has price-quantity consequences. It should be clear that compliance with the behavioral rules prescribed by Islam reduces risk and uncertainty, both of which are facts of human existence. When risks to income materialize they play havoc with people's livelihood. It is, therefore, welfare-enhancing to reduce risks to income and lower the chances of its volatility in order to allow consumption smoothing. This is accomplished by risk-sharing and risk-diversification (Shiller, 2003). By focusing on trade and exchange in commodities and assets, Islam promotes risk-sharing. Arguably, it can be claimed that through its rules (institutions) governing resource allocation, property rights, production, exchange, distribution and redistribution, financial transactions, and market behavior, the Islamic paradigm orients all economic relations toward risk-reward sharing. This can be said to be a logical consequence of insistence on the unity of mankind since through risk-sharing social solidarity is promoted through Islamic finance. "Massive risk can carry with it benefits far beyond that of reducing poverty and diminishing income inequality. The reduction of risk on a greater scale would provide substantial impetus to human and economic progress," (Shiller, 2003). The most meaningful human progress is achieved when all distinctions the basis of race, color, income and wealth, and social-political status are obliterated to the point where humanity, in convergence with the *Qur'ān* declaration (*Qur'ān*, 31:28), truly views itself as one and united. It can be argued that implementation of Islamic finance will promote maximum risk-sharing, thus create the potential for enhanced social solidarity (Mirakhor, 2007; Iqbal and Mirakhor, 2007: Askari, Iqbal and Mirakhor, 2009).

In addition to the risk-sharing characteristics, an Islamic financial system has the potential of greater stability than the conventional counterpart. The main reason for this is the fact that when production is financed entirely by risk-return sharing or equity finance, in the case of rapid changes in the price, assets and liabilities both move in the same direction simultaneously—thus the financial structure adjusts in tandem on both sides of the ledger. A number of analytic models have investigated the adjustment process and have demonstrated the stability of Islamic finance in response to shocks as well as the growth implication of such a system in closed and open economy situations (Khan, 1987; Mirakhor and Zaidi, 1988; Khan and Mirakhor, 1989, Mirakhor 1993). An important feature of these models was the assumption of 100 percent reserve banking based on the understanding of bank deposits as a safekeeping operation (*amānah*) fire-walled from the risks involved in investment operations, i.e., the so-called two window model (Khan, 1987). This feature of requiring banking depository institutions to hold 100 percent reserves against demand deposits removes two sources of instability associated with conventional interest-based, fractional reserve banking. Non-availability of interest-based financial transactions and 100 percent reserve banking eliminate the ability of the financial system to create money out of thin air (Krichene and Mirakhor, 2008) and impairs the ability to leverage an asset base into a relatively much larger liabilities (Mirakhor and Krichene, 2009). Moreover, when risk-return sharing replaces an interest-based debt system, a much closer relationship is forged between the financial and the real sectors of the economy. As early as the 1930s, the negative consequence for the real activities, in terms of income and employment, of interest-based debt-financing has been the subject of discussion by economists (Keynes, 1930; 1932; 1936). A number of economists have also drawn attention to the drawbacks of a fractional reserve system as a mechanism of generating instability (see for example Allais, 1987 and also others in the reference list in Mirakhor and Krichene, 2009). The world has witnessed repeated, periodic episodes of financial crises originating in systems with interest-based debt-financing at their core in the last two centuries. The frequency of these crises increased in the last decades of the twentieth century and culminated in the devastating global crisis of 2007-2008. As unfortunate as these crises have been, they have held lessons for Islamic finance still in its nascent stage of development, especially since Islamic finance is presently operating in an institutional framework which is basically that of the conventional interest-based debt-driven system.

6. CONCLUSION

This presentation has attempted to present a vision of the Islamic economic paradigm from an institutional perspective. It briefly sketched the institutional structure (network of prescribed rules of behavior and their enforcement characteristics) of a vision of an ideal Islamic economy. To provide a basis for comparison, it briefly outlined the classical-neoclassical economics as the dominant paradigm. It then presented the major rules of behavior from fundamental principles of Islam that provide the foundational scaffolding of the society and the economy. These include, *inter alia,* belief in: the Unity of the Creator and His Creation, the mission of messengers and prophets, the accountability on the Day of Judgment, compliance with rules prescribed for humanity to establish social justice and human solidarity. The paper also focused on specific rules governing economic behavior. These included, *inter alia*, rules governing property, trust, controls, governance and market behavior, distribution, redistribution and wealth accumulation. Finally, the paper considered the financial system that would facilitate transactions in such an economy.

What can be concluded from the discussion above is that compliance with the prescribed rules of behavior not only reduces uncertainty and promotes collective action via cooperation, but it also promotes growth with no or minimal levels of poverty. Rules governing transactions, such as trustworthiness, truthfulness, fatefulness to the terms and conditions of contracts, transparency in market transactions, and non-interference with the workings of the markets and the price mechanism, so long as market participants are rule-compliant, create a reasonably strong economy where information flows unhindered and participants engage in transactions confidently with minimal concern for uncertainty regarding the actions and reactions of other participants. Because of the high level of trust, transaction costs can arguably be assumed to be minimal. Risk- and return-sharing in financing production, moderate spending and avoidance of extravagant and opulent consumption would provide financial resources for investment. Rules regarding redistribution and prohibition of idle wealth accumulation would reinforce the availability of resources for saving and investment. The mission of developing the earth arising from the *Khalīfah* state (trustee-agency) with which the Creator has charged humans provides the imperative for growth and development with minimal level of poverty (Mirakhor and Hamid, 2009).

The paper is a theoretical consideration of the Islamic economic paradigm from an institutional perspective. It is important to note that there is in actuality no country in which the institutional structure discussed in this paper has been implemented. A major reason is that research needed to specify the nature of the Islamic economics is still in a formative stage. While this paper has outlined briefly a possible vision of Islamic economics, it is not a paradigm in the true sense of the term. Consensus has to emerge on a conception and vision of Islamic economics by a critical mass of practitioners before the vision and conception can be called a paradigm. Thereafter, significant investment of capital and effort will be needed to educate the public in order to reduce the cognitive difference between theory and practice.

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