



CONCEPTUALIZING ILLUSION: THEORETICAL ILLUSTRATION OF TRUTH AND FALSEHOOD IN EPISTEMOLOGICAL METHODOLOGY FOLLOWED IN ISLAMIC FINANCE

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ABSTRACT

This paper aims to establish the point that even the field of Islamic economics and Islamic Banking and Finance IBF, are vulnerably deficient and cannot produce valid solutions for post-colonial Muslim economies. This is due to the prevalent *homoeconomicus* tone in Islamic Banking & Finance IBF in the academic arena as a direct result of the cognition reality of Muslim individuals involved in IBF academic research that contributed towards its adherence to neoclassical economics. This will be approached by displaying the contrast between *homoislamicus* and *homoeconomicus* vision of the world, to understand the intrinsic malfunction of IBF and inclination towards *homoeconomicus* that will persistently occur unless religious *homoislamicus* policy is adopted while leaving lesser margin for *homoeconomicus* social policies. This study will pursue discourse analysis methodology with subjective positivist analysis of the *Homo's* dichotomy, to apprehend the difference between them. This difference has not been realised and the *homoislamicus* promise of Islamic economics has not come out as a methodological difference. Then discussion will cover the behavioural norms (psychological and sociological) of researchers in the field and their contributions toward creating epistemological bubbles that cannot serve as a valid foundation for knowledge due to its fragility. This paper suggests that the field of Islamic economics is mainly found on neoclassical *homoeconomicus* grounds and has no potential in creating ethical Islamic financial system besides its claim of elimination of Rib (Interest). This paper recommends that Islamic economics should reunite with Islamic fiqh rather than looking at it as an independent field.

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1. INTRODUCTION

Modern academic cognition methodology is widely susceptible to error of illusion by conceptualising falsehood governed by the concept of locality of social milieu, which is unique and collectively related to the regional positioning of the members of the Academic society. This factor floats to the surface when a new candidate from overseas applies for membership into this community; creating a cognitive dilemma for the new comers, who is expected to speak the same rationale language of those members in order to be granted acceptance and access the social and financial resources of this society. The Islamic narrative of the world is totally different from the conventional neoclassical view point, which prevailed in the post-colonial world. This access prerequisite, normally, diverts overseas researchers from achieving their goals of correcting the problems of their indigenous knowledge, but rather it offers a major redirection of the whole tools and goals of their home culture, accordingly Muslim researchers are not exceptions.

Another dimension of this problem is that participations in this arena are not always accurate in their scientific judgements and proving process; and this state of falsehood tends to circulate in Academia and further get augmented by the passage of time and by the contribution of successive participants and prospective candidates to this false academic statehood. The tendency of transferring local ideas overseas can cause more damage to the foreign receptive culture than they cause good. Concepts like “fundamentalism vs. patriotism” and “terrorism vs. heroism” can be used interchangeably with reference to the geographical location of those who look into such concepts. The victorious culture with its military might and superior access and control of technological media normally have the upper hand in deciding which of those paradoxical concepts get circulated and augmented creating an *epistemological bubble* even if it was based on false or very shallow unproven ideas. Inferior cultures on the other hand import the concepts of victorious cultures due to their belief that the military victory was caused by the superiority of its culture and social norms (Ibn Khald n’s Muqaddimah). Hence, native concepts of receptive culture get alienated and callers to old norms get marginalized and sometimes punished. By the time a Muslim tries to get strong hold of his Islamic traditions, he would be labelled a fundamentalist. This can be understood in the alien culture but it is often inexcusable

when this practice happens by fellow Muslims within an Islamic environment.

Moreover, Muslims tend to get defensive when they are faced with false conceptualization and feel inferior to their accusers, and tend to spend every effort to prove the opposite in refutation, which further amplifies the problem and further inflate the very *epistemological bubble* of Islamic economics and its financial arm the Islamic Banking and Finance (henceforth IBF).

This paper argues that Islamic economics and IBF is a distinct norm based on aspirational reality. Important conceptual dimension of this imagined reality is the distinction between *homoislamicus* and *homoeconomicus* behavioural norms. However, looking at the practice of IBF, *homoislamicus* has not been realised while *homoeconomicus* still prevails despite Rib exclusion. However, Rib elimination does not rescue the situation and produce the *homoislamicus* because it is much larger conceptual framework. Therefore, this paper attempts to locate why *homoeconomicus* still prevails in the definition of the operation as well in the theoretical form of IBF. Hence this paper aims to locate its reason in the cognitive reality, as well as the pedagogical process the Muslim individual encounter while joining the IBF. Hence, IBF is in itself deficient and cannot produce valid solutions for post-colonial Muslim economies; by displaying the contrast between *homoislamicus* and *homoeconomicus* vision of the world we can understand the intrinsic malfunction of IBF that will persistently occur unless religious *homoislamicus* policy is adopted while leaving a margin for *homoeconomicus* social policies.

In order to achieve this, this study will pursue discourse analysis methodology while using subjective positivist analysis of the *homo's* dichotomy. While in a later stage of the study, it will discuss the behavioural norms (psychological and sociological) of contemporary researchers in the field and their contributions toward creating *epistemological bubbles* that cannot serve as a valid foundation for knowledge due to its vulnerability. This paper suggests that the field of Islamic economics is mainly found on neoclassical *homoeconomicus* grounds and has no potential in creating ethical Islamic financial system besides its claim of elimination of Rib (Interest). This paper recommends that Islamic economics should be reunited and returned back to its place as part of Islamic *fiqh* rather than looking at it as a separate and independent field of knowledge.

2. HISTORICAL DEVELOPMENT OF ISLAMIC ECONOMICS AND ISLAMIC BANKING AND FINANCE

In order to understand this problem, some light should be shed on the prevailing academic environment within which this phenomenon of epistemological bubble occur; that is the *European neoclassical* or *liberal individualism*. *Liberal individualism* was widely spread in Europe and the Western world, influenced by Jean-Jacques Rousseau's theory of social contract which was propelled and manifested in the French revolution, as well as its successor Proudhon's *individualistic anarchist social contract* theory, while holism and collectivism spread in the poor old world, where religion is the social contract determining relations amongst its followers. In recent years, the western world was striving to achieve a; unified, global, super and multicultural code based on its *Judaeo-Christian* traditions.

This multicultural code attracted attention in post-colonial world as soon as the last Islamically administered state the Ottoman Islamic (Sunni) Caliphate collapsed in 1916. Ever since, neoliberal values started to flood academia in the Muslim world. Values mainly dismissive of fundamentalism and praising enlightenment ideologies based on the European experience during the renaissance era. Consequently, a novel theoretical methodology was developed as an alternate to the classical school of Islam. These two theoretical methodologies prevailed in the Muslim world since the beginning of the twentieth century coincided with the collapse of the last Islamic *Khil fah* governing system which lasted for thirteen centuries since the death of Prophet Muhammad (pbuh).

The first one followed a conservative fundamentalist approach promoting the return to the old pure form of Islam while disregarding the additions of later reformists. This school illustrate Islam as a religion of full *obedience* to the original teachings of Islam set by the early preferred generations who witnessed the descending of the divine revelations on Prophet Muhammad (pbuh) and the successive two generations after that. Its followers believe that the religious axioms are static and unchangeable, while leaving the door open for *Ijtih d* for unlegislated cases.

The second school was formed by the so called scholars of *Islamic enlightenment* or renaissance. Its promoters believed that Islam's parameters are mainly dynamic and serve as means to establish the *Civilisation of Islam* to compete with other human civilisations internationally. The establishment of this school

developed in conjunction with the collapse of the Ottoman Caliphate and played a direct role in its downfall.

A generation of enlightenment writers and thinkers, or what was called the *Modernist Occidental Enlightenment School*, emerged in the Arab Muslim region such as: Rif Ĥah Al-ĤahĤw , ĤAbd al-RaĤmĤn Al-Kaw kib , JamĤl al-D n Al-Afgh n and his disciple sheikh MuĤammad Abduh the grand mufti of Egypt 1899-1905 (Al-Sh r z Al-Ĥabb gh, 2005); of which enlightenment is nothing but an *epistemological bubble* still getting augmented by more modern form of European illumination. This school grew up within the confines of the West, while its thinkers were shuttling between Cairo, Aleppo, London and Paris. This matter made Egypt as the cradle of what is called the Islamic renaissance, while the classical school adhered to the ×anbalite Salaff institutions of Saudi Arabia. The former conservative school was less famous than the latter during the first half of the twentieth century; however it gained momentum after 1973 under the auspice of the Saudi monarchy and their gigantic cash flow from petro-dollars generated by the oil embargo.

On the Indian end of the Muslim world, there were other important social, political and economic developments taking place in the first half of the twentieth century. India, before British colonisation, was widely governed by Islamic monarchies of the Moghul dynasties, and as soon as India gained independence after the World War II, Indian Muslims strived to gain accreditation for their Islamic traditions within their novel post-colonial and neoclassical democratic legacy. Their struggle gained its grounds by the declaration of the Islamic Republic of Pakistan in 1947. Sayyid AbĤ al-AĤĤ al-Maud d , the founding father of the Jamaat-e-Islami political party in Pakistan as well as the conceptualiser of modern Islamic economics, feared that the British were keen to suppress the Islamic face of the Muslim-Indian identity to a more nationalistic Indian spirit while locking Islam within mosques (Kuran, 1996). Furthermore, Maud d 's ideology matched, almost identically, the Egyptian Ikhwani school reflecting the very same politically oriented concepts (Al-Ĥaq l, 2008). The Muslim brotherhood founder sheikh ×asan Al-Bann evolved from within the ranks of the enlightenment school of which he was a fan and guru by lecturing books of ĤAbduh and al-Kaw kib (IkhwanWiki, n.d.).

Post-Maud d Pakistani scholars were the pioneers and major contributors in the field of Islamic economics due to the fact that it was the first country in the post-colonial world that was created with a proud spirit of Islam (Kuran, 1996). However, Saudi Arabia was

also then a proud Muslim nation that was not previously colonised by any European powers, but was rather based on the traditional fundamentalist approach to Islam. Saudi scholars did not approach Islamic economics as an isolated independent concept structured within a neoclassical framework as happened with their Pakistani counterparts, rather they kept economic transactions as part of the overall Islamic *fiqh*.

During its short history, Islamic economics have gone through three different phases in its young life of above sixty years in response to global political change. First phase (1940-1973): *Conceptualisation of Islamic Economics* by Indian scholars in the post-colonial world of 1940's (Kuran, 1996), playing a significant role in the creation of the Islamic Republic of Pakistan in 1947. The *Post-Colonial Islamic Economics School* emphasized on establishing and differentiating the concept of Islamic economics from the western interest based economics. Debate, during this period, was oriented towards proving that socio-tropic interest free economy is plausible and profitable.

Second phase or the *Cold War phase* (1973-1991): after the Arab Israeli War of 1973 and its financial consequences, the resultant flow of petro-dollars in the Middle East has initiated the need to develop the financial infrastructure in the Muslim world to accommodate this cash flow, hence initiated the development of the concept of IBF. Socialist ideology, during this stage, was widely accepted in Muslim states and hence IBF was intended to function as a social banking substitute to western banking, which can reflect the *homoislamicus* phase of the IBF. This stage was characterised by the successful adoption of national banking systems of some Muslim nations such as in the case of Saudi Arabia, Pakistan and Indonesia.

Third phase or the *Globalised IBF phase* (1991-onwards): after the collapse of the eastern bloc in 1989, and the commencement of the Globalisation process of knowledge, IBF started a major transformation from its previous social banking phase into the new globalised world predominantly neoclassical and capitalist, devising its economic, social, political and even academic rationale. This period was also characterised by the adoption of IBF concepts by big banking corporations to serve not as social solution but rather as a marketing concept to serve a promising niche market. Banking corporations, such as: Barclays, HSBC Amanah, Lloyds Buraq, Islamic Bank of Britain IBB, Royal Bank of Scotland RBS and many more started engaging in IBF by offering dedicated windows for this purpose and it is still gaining grounds in new markets in Russia and

the US, as well as in the Muslim world. This adoption of IBF by global banking corporations, have tipped the *homoeconomicus* side of IBF, leading to divergence of IBF away from Islamic moral principles of Islamic economics; and the conflict between *homoeconomicus* vs. *homoislamicus* started to destabilise the academic foundation of IBF towards predominant *homoeconomicus*. Consequently, theorists and practitioners started transforming their stands by giving more lenient version of IBF that can accommodate more neoclassical individualistic western values by even accepting prohibited Rib but with social flavour, or even without such social taste. The economic rationale characterised this phase, with extraordinary growth in IBF institutions and their assets base (Asutay, 2007). Moreover, Islamic *Fiqh* scholars were totally supportive of the creation of Islamic banking institutions during the early stages of IBF conceptualisation, however, this marriage was not destined to last, and divorce came during the last phase, depicting the divergence in the practices of IBF.

Modern day Islamic economics and IBF are nothing but a direct consequence of the enlightenment school. The fundamental error of the enlightenment school is its striving in postulating the *Islamic civilisation* as main objective of Shariah, in order to compete with other economically successful civilisations i.e. the developed Europe. Accordingly, if a principle of Shariah does not get in line with modern civilisation rationale, then it will be marginalised and ignored. In order to achieve this goal enlightenment theorists replaced the Islamic Shariah with the manmade *Maqā'id al-Sharā'ih*. The intellectual neoclassical rationale became the parameter in accepting or rejecting the rulings of Islamic Shariah, instead of the latter being the corner stone and reference for right and wrong. This dichotomous vision was at the core of conceptualisation of both *homoislamicus* (Salaff, fundamental, backward) vs. *homoeconomicus* (reformist, neoliberal, neoclassical, modernist). Thus, IBF encountered this fundamental dilemma, represented by substitution of moral maxims of Islamic economics and limited it only to interest prohibition and Islamic contracts without the social spirit of Islamic economics (Asutay, 2007).

3. THE POLITICAL ECONOMY OF ISLAMIC ECONOMICS

The outbreak of the French revolution initiated the formation of new ideologies. Thus, secularism started to flourish with the overthrowing of the church religious authority and the intellectual

stagnation that prevailed during the eighteenth century; all of which have contributed to the creation of the individualistic ideology based on equality, citizenship and inalienable rights. Hence, the society transformed from cooperative social behaviour into consumerist individualism. Concepts of Conservatism, liberalism and socialism emerged during the nineteenth century in order to fill the socio-political vacuum resulting from the collapse of the alliance between the French monarchy and the church (Wallerstein, 1996). Moreover, revolution became a religion in France after it started in the late eighteenth century. It normalised and regularised the idea of inevitability of change, novelty, and transformation rather than being an exception in the political arena. It featured the religion of modernity with the sanctification of Newtonian science of the seventeenth century and the conceptualised progress of the eighteenth century. “In short, what the three ideologies offered us was not a response to the question who is the appropriate historical subject, but simply three starting points in the quest for who incarnates the sovereignty of people: the so-called individual, for the liberals; the so-called traditional groups, for the conservatives; the entire membership of society, for the socialists” (Wallerstein, 1996: 60).

The church was prior to that the motor for social movement and even a legitimate caller for wars, while *orientalism* kicked off immediately afterwards in the name of *enlightening* Islamic religion in the Muslim World (Sh kir, 1997), which had a big stake in modern Muslim political economy. On the one hand, Liberals believed that society is the sum of all individuals who behold the ultimate political, economic and cultural rights. This represents the connection between modernity and individualism under liberal ideology, which is at heart nothing but modernity. However, liberalism encountered endogenous epistemological faults such as the concept of equality as a social and legal framework. Equality, as provoked by the French Modernity, was quite a contradictory concept. Individualism establishes the fact that all people are equal in rights and responsibilities; however children cannot be autonomous as mature adults. The argument is that when can children become autonomous depends on judgement of others on them; hence individualism cannot promote equality as it requires the judgment of other non-equal individuals to nominate other independent individuals; which invalidates the whole assumption of equality ideology (Wallerstein, 1996). On the other hand, conservatives followed *modified continuation method*, whereas “building on earlier views and trying to strengthen them at places where they had been

found deficient, without altering their basic outlook and ambition” (Wagner, 1996: 108); an attitude also represented in neo-functionalism of modernisation. However, it inclined Post-modernism by emphasising on diversity of individuals, while resisting all universal statements, except the idea that no well-grounded general statements are conceivable (Wagner, 1996).

Dissolution of society for the benefit of individualisation came, as Wagner (1996) quoted Latouche, after the development of the globalised world market, with the utilisation of technological boom. This matter wiped the territorial immunity and advantage of productive structure while raising the occidentalisation of the world. This uniformisation movement of life imaginary led to the loss of cultural identities. *Individualisation theorists* believe that all established social orientations that are based on class, culture, family and even religion are thawing away. This process exposes individual human beings to great vulnerability when considering their lives. This made the second crisis in modernity where nation-states become the grand individualiser and destroyer of old social structures and collective identities. This means isolation of human beings from their societies while making them more dependent on their anonymous machine-like public organisations which proved to be more susceptible for corruption when compared to the previous socially oriented family (Wagner, 1996). Despite the 1960s increasing attitude in the west to emphasize the normative intolerable inclination of organised modernity to limit and undermine the idea of any natural community, communities in the west took different forms of substantive grounds in reconsidering their social identities rather than the contradictory grounds of individualisation (Wagner, 1996). However, this does not seem to be taking place in the previously socialist states, nor in the Muslim World, that took the path of liberal individualisation of their institutions and societies during the last two decades, even leading to divergence in the research methodologies in Academia.

The social consequences of the advancement in technology are unmistakable. Technological boom have led to unprecedented academic development by facilitating endless information resources, in fact, internet have created a world with virtually no immunity against invasion of alien values to remote cultures and speeded up the customization of Islamic values to conform to globalised secular culture based on the Western neoclassical mind set, with individualism and consumerism in the core. This has contributed towards replacing religiously irrefutable metaphysics or *Ghaybiyyah*,

which are in the core of religious epistemological reality, with tangible materialistic rationale.

Moreover, Islamic economics was developed from within two contradictory worlds in their mechanisms of comprehension, aims and means. These are namely the world of philanthropy and the world of economic rationale; the latter aims to maximise profits motivated by greed, while the former aims to approach *utopia* by altruistic relations between fellow members of the group. The former measures success by collective utility acquired to the society as a whole, while the latter measures it by individualistic consumerist materialist utility (maximum utility in shortest time). From another angle, "Islamic economics, in its modern usage, came into existence in the early 1970s mainly as a critique of both the capitalist economic mode of development and communist resource allocation system." (Asutay, 2007: 169). "The primary role of the norms is to make the individual member of Islamic society, *homoislamicus*, just, socially responsible, and altruistic. Unlike the incorrigibly selfish and acquisitive *homoeconomicus* of neoclassical economics, *homoislamicus* voluntarily foregoes temptations of immediate gain when by doing so he can protect and promote the interests of his fellows" (Kuran, 1986: 136).

Indeed, divine religions do not contradict science, but rather it explains a lot of unexplainable phenomena, which lay beyond the comprehension of modern science based on human limited rationale, as the Islamic scriptures frequently order believers to investigate and research material world comprehensively. Hence, Islam urges its believers to believe in both the seen and the unseen worlds as both are interlinked and interdependent, contrary to material observable secularism that fails to describe certain natural phenomena as simple and recurring as death for instance. In fact there is a persistent deficiency in human academic research behaviour that needed the continuous interference of Almighty Allah by sending many messengers to bring back human cultures from epistemological error destined by human attributes of desire, forgetfulness and deviance.

4. THE DICHOTOMY OF *HOMOISLAMICUS* VS. *HOMOECONOMICUS*

Homoeconomicus is defined as: "the Economic Man represents a rational human ... who acts in self-interest to achieve in a goal oriented manner", while *homoislamicus* is: "the Islamic Man ... is assumed as a part of an idealized society, imbued with Islamic values

and commitment” (Farooq, 2011: 2). The debate between *homoislamicus* vs. *homoeconomicus* is an old phenomenon, and been recurring since the early stages of Islamic economics. The Syrian Dr. Ma r f Al-Daw l b ’s presentation in the Islamic Jurisprudence Conference in Paris 1953 proclaimed that conventional western interest rates paid on bank loans are not the prohibited Rib as it is meant to be loans for commercial purposes not for consumption financing, however, Sheikh Darr z refuted this claim in the same conference denying the existence of such categorization of the prohibited or permissible *Rib* , in a conference witnessed by not small number of western jurists (Al-×uġayyin, 2010). This clearly exhibits the fact that this problem is a profound one.

At the beginning, when the concept of IBF was coined, it used to be respected especially when compared to the interest bearing banking practises that prevailed in post-colonial Muslim world in the twentieth century (Al-×uġayyin, 1408 A.H). Then, there were very few banks practicing IBF concepts and the practice was not clear. However, by 2010 IBF’s practices became evident to observers that it approached (disguised) *Rib* . Islamic banks were keen to develop products imitating conventional banking practices, including speculation and financial derivatives, but under *Arabic terminologies*. One of the most deceptive products was indeed what was called “*Tawarruq Mub rak* or *Tays r Al-Ahl*” (Al-×uġayyin, 2010), which is a cheap ploy to bypass the foundational axioms of Islamic Shar ĩiah principles by a documentation manoeuvre to provide immediate cash loans instead of selling products, by assigning the bank to sell the product on behalf of the client to release immediate cash. The CEO of the General Council for Islamic Banks and Financial Institutions even said, as quoted by Al-×uġayyin (2010: 116) that: “I am pretty sure that if we kept doing this (manipulating interest bearing loan contracts to comply with Sharfġah) then Islamic banks would lose its theoretical and scientific foundation for its establishment and survival”.

The dilemma in IBF orientation necessitated theorists to look into the *psychological* background of the field. Thus, altruism is considered to be one of the main differences between the *homoislamicus* and the *homoeconomicus*; where the welfare of the community is a religious duty on every individual that requires altruistic behaviour. The theory of consumer behaviour, which aims to maximise utility as the end result of consumption, is dominant within *homoeconomicus* framework to achieve economic satisfaction stimulated by maximum money reward (Farooq, 2011). One might

argue that a modern economy cannot be built on altruistic model, despite its unchallengeable relevance to any society (Farooq, 2011), however this represents the locality factor of knowledge as illustrated by Harding (1996) where altruism is a characteristic of supreme Muslim individuals and been practiced for centuries within Muslim societies as well as amongst Muslim traders in local and global markets, and proved promising.

Both *homoislamicus* and *homoeconomicus* are convinced of the deficiency of each other, as in Farooq's (2011: 10) quote of Warde: "For economists, Islam does not have a realistic view of human behaviour; for Islamists, economics is founded on the principle of individual self-interest and as such, it glorifies greed and is immoral." Despite the fact that the Human nature (*Filrah*) dictates the lust for limitless wealth, as argued by Farooq, however the Islamic Shariah, contrary to the belief of Farooq that it should be given positive accreditation, requires Muslims to control this negative desire rather than nurturing it to become dominant over their lives.

Thus, *profit and loss sharing* models contradict this human nature of self-interest (*Shu'ul*), hence they seem unattractive (Farooq, 2011). This drives the *homoislamicus* to behave *homoeconomicusly* even within an Islamic Banking environment. This happened when "a New International Economic Order seemed within reach. As the abstract views (of Islamic economics) collided with a harsh reality, Islamic economics became more pragmatic...In contrast with the tendency of conventional economics to treat positive economics in such a way, as if "what is" is "what should be," it seems that Islamic economics and finance has constructed itself treating "what should be" as "what is." The result is predictable and understandable that Islamic economics has evolved as something "utopian". (Asutay, 2007), as the cases of IFIs (Islamic Finance Institutions) illustrate, *homoislamicus*, both from the side of the customers and the serving institutions, seems to behave like the *homoeconomicus*." (Farooq, 2011: 12).

Methodologically speaking, Rudnycky argues that adopting constructivist methodology in general is unacceptable due to the ignorance and limitedness of human beings, as they have no authority to reshape the world in accordance to their desires. He also argues that rightly guided altruistic person is a myth and never existed in history. However, in his argument he is departing from a constructivist viewpoint due to the fact that humans are totally biased

beings (Sears, 1983), and he was trying to portray positivism but with his constructivist viewpoint.

This *homo*'s dichotomy can be addressed from various dimensions, due to its multidimensionality. Asutay (2007) and Rudnyckyj (2011) addressed the problem from a *moral-administrative* perspective, where Muslim countries had different experiences in approaching Islamic economics. He portrayed two types of IBF have recently experienced in Muslim countries adopting this type of finance. The main aim of the first approach (Indonesian case of spiritual reform i.e. Islamic management) is to promote *Islamic morals* within the *corporate* environment under the same conventional economic productivity and efficiency paradigm followed in the West to achieve competitiveness in the market, while the second approach (Malaysian case in trying to be a global financial hub for IBF similar to London, NY and HK for Western economies) promotes a viable system of Islamic finance as an overt *substitute* to conventional finance (Rudnyckyj, 2011), while assuring compliance with Islamic Shariah Principles (Asutay, 2007). Under this vision, the dichotomy stands between moralisation of the conventional economic process (*homoeconomicus*) and its complete substitution (*homoislamicus*).

The main deficiency of the former Islamic morals school is that; when IBF consider competing with conventional banking, this behaviour will undoubtedly lead to the recognition of the neoliberal parameters used and cherished by conventional banks (Asutay, 2007). In other words: "it must compete in the terms of a system to which it seeks to present itself as an alternative." (Rudnyckyj, 2011: 10). IBF behaved according to the neoclassical rational in managing its finances in contrary to the foundational axioms it proclaims adherence to the *Islam-ethical* financial system i.e. "Since the systemic understanding of Islamic economics is not considered by IBF so it has developed a working framework located in the neo-classical economic paradigm." (Asutay, 2007: 172).

The prevailing political economy framework in the marketplace, where IBF is functioning, also contributes towards deciding the orientation of IBF operations. In the Indonesian case, Rudnyckyj reported that "One foreman in the slab steel plant explained to me that prior to the late-1990s the "the social was the most important and profit was secondary, but now profit is number one and the social mission [misi sosial] is number two" (Rudnyckyj, 2011: 4). In this sense, the market is normally governed by the prevailing international techniques and axioms used across markets, hence

when socialism was convincing, even virtually, it prevailed over Islamic economics, while the former was replaced with capitalist norms, while keeping Islamic economics dormant, notwithstanding its projected stability if compared with its conventional cousin. In other words, “Efforts to merge Islamic and economic practices reveal the recursive relationship between rationalization and globalization as they are at once the cause and effect of one another.” (Rudnycky, 2011: 7). Consequently, the vicious cycle of globalisation, where cost reduction and maximising output is dominant to face competition, dictates that IBF won’t be able to compete unless it either abide with the globalised standards of the markets or it receive state protection through tariffs or subsidies. Additionally, political *dictatorship* can also determine public attitudes by enforcing Islamic finance norms, otherwise the behaviour of IBF will follow an economic rationality in maintaining neoclassical norms persistent with neoclassical economics (Asutay, 2007).

Some theorists were openly critical with the fundamental resources of Islam which strive for distinction from conventional economics. Kuran for instance, argues that the problem of Islamic economics is laid within the Islamic fundamentalism, which opposes western economic traditions, have created a clash within the Muslim self between being *homoislamicus* or *homoeconomicus* (Kuran, 1996). He also argues that aiming towards economic development and preserving the Muslim Identity have contributed towards the creation of (*homoislamicus* vs. *homoeconomicus*) clash. It seems that locality factor of knowledge have contributed towards adopting this view by Kuran who is a professor at Duke University USA. He further argues that promoting Islamic morals in the society is insufficient in removing the deeply rooted economic deficiencies of Muslim societies, while recommending the institutionalisation of Muslim economies to solve the above problems (Kuran, 1996).

The discrepancies in the practices of IBF create confusion within their employees that their employers are not compliant with Islamic maxims, making them feeling guilty. The response of IBF to this was, according to Kuran, by camouflaging this with Islamic facade such as: providing prayer rooms, hanging Quranic verses on walls, and introducing scarfed ladies to members of the staff. However, Kuran believes that this contradiction is based within the fundamental sources of Islam not within the wrong doing of its members, which (I mean here Kuran’s false perception) could be due to the nature of Islamophobic surroundings that prevails in his academic environment in the US, which tend to attach the

deficiencies in Muslims behaviour to the fundamental sources of Islam rather than to their human nature.

The neoclassical background of Kuran persists in his recommendation to use western economic structures, following the steps of Italians who swapped the developed Arabic numerals instead of their inherited Roman numeral system (Kuran, 1996). On the same track of Kuran's, other theorists argued that IBF should not perform the irritating role of a merchant where it owns the products it sells to its clients as a prerequisite for functioning its financial processes, on the contrary they wanted IFIs to perform as financial intermediaries by providing the finances and avoid merchandise operations (Tag el-Din, 2005).

Even within Islamic economics paradigm, IBF in practice showed inclination towards preferring debt financing of *Mur ba ah* instead of the equity financing of *Mush rakah* and *Mu rabah*, contrary to the recommendations of Islamic economics. Evidence shows also the preference of IBF for short-term trade and retail industries (consumption), rather than long-term agricultural and industrial production (Asutay, 2007). This proves IBF preference for the nearest Islamic solution to the neoclassical rational. Kahf believes that, as quoted by Asutay, Islamic economics should be studied from within the main principles of economics, which ignores the aims of Islamic economics paradigm.

Moreover, IBF is not a mean of the rational economic action; it simply places certain limits on the spread of economization, while asserting that meeting Islamic *Shar iah* axioms is its utmost objective (Rudnykyj, 2011). From another angle, neoclassical economics call for rational self-interest individualism seeking maximising utility through market exchange, in contrast to Islamic economics which promote *socio-tropic individualism* with god-conscious rational while abiding to Islamic constraints and seeking market exchange, as portrayed by Asutay (2007). By combining those two definitions, it appears that the Islamic economics in theory equals the neoclassical economics but after adding god-consciousness (*m n*) and social good (altruism).

Indeed, IBF have managed to generate considerable followers, at its beginnings, but it managed also to attract critics at its later stages, especially after achieving an unprecedented expansion in its institutions and assets bases (Asutay, 2007). IBF believers were challenged by increasing criticism from Islamic academic theorists since its transition into its latest phase in post-Cold War world. This have contributed towards the destabilisation of the core academic

foundations of IBF and created a gap between theory and practice of IBF, hence feeding the very delimitation of *homoeconomicus* vs. *homoeconomicus*. Such criticism might create shockwaves across the market if IBF critics win this battle, in a very similar pattern as bravely declared by Jean-Claude Juncker, the Luxembourg Prime Minister, who said: "We all know what to do, but we don't know how to get re-elected once we have done it." (Economist, 2010). He said so during a European Finance ministerial summit to his fellow European colleagues, indicating that adopting the correct decision is a very brave step, and requires courage to tolerate its consequences.

5. SOCIAL PSYCHOLOGY OF EPISTEMOLOGICAL BEHAVIOUR BEHIND IBF FAILURE

Social psychological perspective is needed to understand the phenomenon responsible for epistemological bubble. This perspective would give us an understanding of what are the thoughts that occupy the minds of new researchers into academic society from overseas institutions, which will alter their behavioural norms and subsequently end up with a total divergence of their research direction; from finding solutions for problems of their homeland, to finding ways to deconstruct their indigenous cultures for the sake of establishing axioms of host cultures, mostly without realising the damaging consequences of such behaviour. This is due to obliviousness of home culture in contrast to their deep and fresh graduate understanding of their novel sophisticated knowledge of host culture after years of mentoring and research. Thus, the divergence in illustrating the Islamic finance and economics comes from such deficiency, resulting in laying the foundations for Euro-Western values, centred on individualism, whilst abandoning the relational and holistic Islamic home culture. Later in this section, some light will be shed on behavioural norms of academic mentors, which will also vividly affect the direction of research findings and recommendations.

Socio-Holistic cultures normally residing in the old world, where religion is still the social domain amongst its members, are characterised by higher population growth rates despite higher poverty levels. Vice versa, individualistic cultures are developed by the advanced imperial world with lower population growth rates, with much higher GDP per capita levels. The invasion of western consumerism into the world, through globalisation after the end of the Cold War in 1989, was utilised by disabling any socio-economic

immune system in recipient cultures through unbalanced bilateral and multilateral trade agreements; all of which have contributed to the prevailing of individualistic consumerism over communal charitable work.

The *two-tier relationship*, between students and mentors in an academic research process, necessitates the understanding of this cognitive socio-psychological behaviour from two different angles; on the one hand, mentors' strong position with long careers in research; while on the other hand, students vulnerable position especially in overseas environments wherein they feel alien and obscure.

The behavioural norms of pupil researchers can encounter various forms of defection during their research programme. In most cases, their humble understanding of their home culture at the beginning of the study, while pursuing knowledge overseas, drives researchers into *challenging* their own home culture's axioms, which illusorily seems inferior to the host culture. Nonetheless, as soon as they cross out of their country's borders, they become vulnerable with their traditional norms not as sophisticated as their host culture, hence the abandonment of their inherited social beliefs to adopt the new axioms of terminal cultures either for self-realization or in fear of prejudice.

Additionally, students normally assume that terminal destinations are globally reputable scientific hubs and are scientifically superior to homeland institutions, and without such assumption they wouldn't have originally left their countries. Visible social *stigma*, such as race or gender can be hardly hidden which makes prejudice inescapable, while concealable social stigma, such as religious affiliation, makes the experience of prejudice avoidable, however such behaviour is corrupt as people become untrue with themselves and ultra-vigilant to avoid any possible floating of such stigma hence triggering prejudice, thus the adverse effect influencing IBF student's abroad, especially after September 11th 2001. Hogg and Vaughan (2011: 376) quoted that; "...Stigmatised individuals are aware that others may judge and treat them *stereotypically*, and thus, on tasks that really matter to them, they worry that through their behaviour they may confirm the stereotypes – that their behaviour will become a self-fulfilling prophecy". This will create anxiety and can lead to impairment of task performance, "when there are signals that the milieu is dominated by a cultural world view that differs from that of our own group" (Hogg and Vaughan, 2011: 379).

Moreover, IBF research students benefit from the support of the Islamic environment of home country, but become vulnerable when they relocate to western academic institutions for; higher education and better access to academic resources. This vulnerability urges the researcher to cast his thoughts to conform with the new environment even if it makes him compromise his Islamic cultural legacy. This vulnerability can, also, make students fall into another type of error namely the *system justification* (theory), which assumes the justification of the status quo for the purpose of uncertainty reduction (Hogg and Vaughan, 2011). In this sense, students will avoid any confrontation with their mentors and academic institutions in order to avoid any possible future discrepancies of their studentships; by justifying the academic status quo even if it was against their core beliefs.

Another side of the problem here is the tendency of researchers to achieve *self-realisation*. This can be interpreted as the “discovery of an inner-self and the attempt to live up to that inner self’s exigencies..... giving priority to one’s own goals at the possible neglect of higher values” (Wagner, 1996: 98). Self-realisation, hence, can become a threat to cognitive epistemology as it values marketability rather than provability of ideas, in pursuit of self-realisation.

On the other end of the academic experience, sits the behavioural norms related to mentors in the academic process. Mentors’ epistemological grounds are governed by different variables. One of these variables is *ignorance of recipient student’s culture*, while have almost perfect knowledge of his own field of speciality, thus, as the Arabic proverb says, “people are enemies of what they are ignorant of” can reflect the fact that opponents are wary of each other until one side accept the other’s axioms and his lifestyle, which can take quite a prolonged period of time, as Allah SWT said in the Holy Quran: “Never will the Jews nor the Christians be pleased with you (O Mohammad) till you follow their religion” (Al-Baqarah: verse 120).

Mentors behaviour can be governed by *racial or ethnic prejudice*, which can be extremely inescapable, and a matter of ethnic group membership. Generally, most human interactions will encounter some sort of discrimination across the geographical boundaries of its cultural territories. Although, western countries have succeeded in expelling values of racial prejudice and discrimination from their cultures throughout the last three decades by criminalising such behaviour; cognitive prejudice remains

extremely difficult to spot and fight due to its' high levels of sophistication, especially after long periods of validation and proofing, as stated by Hogg and Vaughan (2011: 370): "Prejudice may be a relatively ordinary reaction to frustrated goals, in which people vent their aggressions on weaker groups, which serve as scapegoats for the original source of frustration". Such frustration in academia can be originated from the fear of competition of new ideas, prospect career positions, hence access to resources, as well as phobias propelled by propaganda and mass media communication.

The diversity of the field of Social Psychology provides several theoretical explanations to understand prejudice behaviour in a given society, and Academia is the chosen field for this purpose. One of them is the *Belief Congruence* theory that states: "similar beliefs promote liking and social harmony among people while dissimilar beliefs produce dislike and prejudice" (Hogg and Vaughan, 2011: 390). Axiomatically, new students with totally incongruent values and world views with their mentors' could face prejudice, whether disguised or not, from their supervisors abroad.

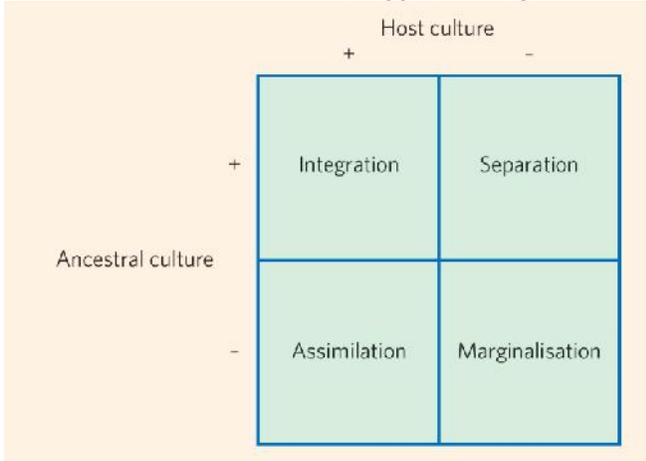
Another theory of prejudice explanation is the *Social Dominance* theory "attributing prejudice to an individual's acceptance of an ideology that legitimises ingroup-serving hierarchy and domination, and rejects egalitarian ideologies" (Hogg and Vaughan, 2011: 390). This theory reflects the deeply rooted competition between the oriental Muslim culture and the occidental Judaeo-Christian Europe, with rich history of military and cultural hostile confrontations for the entire life of Islam. *Orientalism* was one of the latest and most complicated tools that were utilised in these historic clashes. By studying Islam, orientalist gave recommendations of the best methods to deconstruct Islamic culture from within, after centuries of expensive military confrontations. Thus, the fruits of centuries of orientalism have started to harvest, resulting in a feeling of *social dominance* by westerners over their rival easterners, the Muslims.

Someone might argue that if all opinions were accepted in academia, while interpreting any evaluation process as prejudicial, then what is the advantage of cognitive knowledge in proving correct thoughts and dismissing falsehood? Here comes the locality factor of knowledge, which is going to be discussed in a later section of this paper. However, despite all efforts made by western governments to insure eradication of discrimination and prejudice practicing, the "Racial and cultural resentment and partiality lurk beneath the surface relatively dormant but ready to be activated by a social environment (political regime) that might legitimise the expression

of prejudice.” (Hogg and Vaughan, 2011: 370). Normally, right-wing political conservatism, gaining momentum during periods of severe economic stagnation and austerity, promote legitimization of such policies of prejudice nature. Implementing such policies can lead, in extreme cases, to major military confrontations (Hogg and Vaughan, 2011).

In order to avoid falling into ultimate attribution error, this paper assumes that knowledge is local to homogenous norms occupying a certain geographical location. The ultimate attribution error by definition is a cognitive error committed by biased people in which negative behaviours are blamed to outgroup members’ personality, stereotypically covering all of its members. In contrast to negative behaviours committed by ingroup members are justified to be situational, or external causes, and do not have similar impact on judgments of the ingroup as a unit as it has on outgroup members (Pettigrew, 1979). Thus, disregarding locality of knowledge factor will create dichotomous problematic conceptualisation of the exact same behaviour (fundamentalism vs. rationale, patriotism vs. terrorism, etc.); and will contribute towards furthering epistemological falsehood. This was exactly Foucault’s argument in his “Labelling Theory”.

FIGURE 1
Four Paths of Acculturation (Hogg and Vaughan, 2011)



Finally, researchers face fundamental decision to choose which acculturation methods to follow (Hogg and Vaughan, 2011).

Methods include (Figure 1); *Integration*: maintaining home culture but also relating to dominant culture; *Assimilation*: giving up home culture and embracing dominant culture; *Separation*: maintaining home culture and being isolated from dominant culture; and *Marginalisation*: giving up home culture and failing to relate properly to dominant culture. Therefore, IBF theorists have fallen into *assimilation* as of acculturation due to the above mentioned psychological reasons; they have abandoned Islamic axioms for the sake of their newly adopted individualistic consumerism, which pathogens were transmitted from their residence in the west during their study; this path is followed by the *homoeconomicus*, while *separation* would insure the adherence of the IBF students to the axioms of Islam while pursuing the *homoislamicus* social identity in the overseas, because Islam is a comprehensive system proven to successfully function as social alternative to rival cultural norms.

6. LOCALITY FACTOR OF KNOWLEDGE

Most social scientists act upon an assumption that they own epistemic advantage as they are the constituents of professions and skills of production of knowledge. “The dominant paradigms and conceptual schemes of social theories, including theories of knowledge and philosophies of science, lead to such assumptions for they emphasize disinterested, dispassionate, rational, objective methods, and the susceptibility of the regularities of nature and social relations to explanation through such processes. These paradigms and conceptual schemes construct professionals as model knowledge producers. In societies valuing such rational, objective methods, professionals in knowledge production get high social status” (Harding, 1996: 146). This means that as societies believe that theorists and philosophers are considered to be the owners and creators of knowledge, so they get high social status. This particular character is an incentive for prospect researchers’ interest in accessing academia for self-realisation of high social status.

The features of local cultures have great significance in the micro and macro scientific processes. These local features contribute to and sometimes constitute the cognition of how nature functions (Harding, 1996). The development of Islamic finance, especially in the post-cold-war West came only to extract finances of the niche market of pious Muslim individuals striving to avoid any encounter with the forbidden interest. Hence they were epistemologically bound with the dominant paradigms in their western economics to

find solutions within their markets. Accordingly, Muslim researchers, who studied in an academic environment, with research methodology predominantly coloured by post-colonial modernity of the previously colonial west, constitutes a slack in the scientific explanation far from being an unmitigated source of the growth of scientific knowledge, and prevents them from seeing new ways for understanding nature which can hold higher accuracy in proving their claims (Harding, 1996).

“The production of knowledge is a social matter, and what gets to count as knowledge is shaped in part by what the socially advantaged groups in any society want to know and how it benefits them to understand and explain it” (Harding, 1996: 148). IBF theorists, both from western academic environment as well as the migrant researchers who came from an Islamic background, are restricted to this deficiency of knowledge locality, hence causing divergence in the direction of research policy of IBF academic institution. Channels available for the *weak* to represent his view of the world is severely *scarce*; leaving the socially disadvantaged unheard while on the other hand the socially advantaged person has multiple channels represented through various theories to describe his relative cognitive advantage within his society in contrast to the socially disadvantaged (Harding, 1996). This should have shed some light on the scarcity of methods available to the *homoislamicus* researcher in comparison with the capitalist market oriented *homoeconomicus*.

Furthermore, the socially advantaged have the power enabling them to legitimise even their false claims justified by their strong social grounds (Harding, 1996). Hence, socially advantaged IBF scholars have epistemic disadvantage due to their limited ability to view different theories than those which originally made them advantageous, while the socially disadvantaged have the freedom of perceiving his world from different upward/downward angles, as depicted by Harding (1996: 150) “the social advantage creates epistemic disadvantage, and social disadvantage creates the possibility for epistemic advantage”. It is not always a cognitive advantage for the socially disadvantaged to get included into socially advantaged societies, as they are liable for marginalisation and silencing by the group members. Their silence is the price for their admission. Moreover, those accepted individuals into a higher epistemic class is normally the one who can sociably work within the dominant model environment; as well as being able to abide to the prevailing standards of excellence (Harding, 1996).

Symbolic orientation of epistemology is traceable in most contributions of *homoeconomicus* IBF scholars who are predominantly educated and employed by western universities, with Judaeo-Christian sense of right and wrong, which was later substituted with individualistic liberal modernism incited by the French revolution. The European expansionism during the colonial era established firm grounds and wide acceptance for Northern sciences around the globe, as well as eliminating alternative scientific traditions as Harding cited Pettijean. “Their cultural specificity is thus hidden by the advantages provided by their alliance with power” (Harding, 1996: 156). This shows the double influence of European sciences in the periphery’s academia as well as the European institutions involved in creating knowledge for the disadvantaged world, including the field of IBF.

The universal uniqueness of prevailing sciences does not reflect in particular the absolute adequacy of scientific standards, but rather is a function of how successful these sciences in destroying any feasible alternative. *Orientalologies* and *Africologies*, for example, were constructed by Northern theorists for centuries, which created Eurocentric explanations of the features of other cultures in contrast with that of Europe (Harding, 1996). These explanations characterised Northern sciences even in constructing IBF; they perceived Islam as a problem rather than as a solution, and engaged in technically tracking even vague similarities between Shariah and the Northern ethno theories, hence impersonating Islamic concepts by conventional un-Islamic ones; ending up with an IBF structure very similar to conventional banking however with Islamic terms. “Most cultures do not value neutrality, they value their own cultures’ values; so one that does is easily culturally identifiable. (Hence) All knowledge is and must be socially located” (Harding, 1996: 157). This fact is exactly the same conclusion made by Imam Ibn Qayyim in his famous quote in his book *Al-Muwaqqi‘in ‘an Rabb al-‘Alam n* (*Notifying the Signatories*): “Whoever issued a fatwa for the public just by quoting from books while disregarding the differences in their; customs, traditions, conditional proofing, eras and locations, hence he has strayed and has misled.... This ignorant *mufi‘* is very harmful on the religion of people” (Al-Jawziyyah, 1996: 66). This technicality of knowledge locality is only related to matters of *Ijtihād* but not the universal axioms of Islam.

7. CONCLUSION

Axioms of Islamic economics, of *Tawālīd*, *‘Adl & Īs n*, *Ikhtiyār*, *Rub biyyah*, *Tazkiyah*, *Khil fah* and *Maqā'id Al-Sharā'ih*, are reflections of the indigenous error of Islamic economics. This pedagogical deficiency directs the thought of Islamic economists to reduce the scope of Islam to this blend of uncategorised concepts, with political *homoeconomicus* connotation. In other words, these axioms become the main and only representatives of Islam for the *homoeconomicus* Islamic economists and bankers.

Furthermore, Islamic economics is perceived to be an independent source of rules not as integral part of Islamic Sharī'ah as a whole. Historically, Islamic finance resided in the books of *fiqh*, side by side with other *fiqh* sections, and scholars used to consider Islamic Sharī'ah as part and parcel so they can perceive its general; scope, significance, methodology and objectives. However, when the doors were widely opened for contributors from all backgrounds to study and alter the orientation of Islamic economics under the pretext of *Maqā'id Al-Sharā'ih*, thus its scope inclined more towards the unfavourable *homoeconomicus*, interested in profit maximisation, away from the *homoislamicus* who is preoccupied with Sharā'ih as an unbreakable entity. Hence, the *fiqh* of transactions cannot be understood in isolation from its other sections of *Jihād* (security code), *ḥajj*, *Umrah*, *Qīlā' & ḥudūd* (criminal code), travel ... etc., thus the integration of transactions as a dependent part of *fiqh* but with lesser priority.

Our suggestion here does not prohibit the study of Islamic economics as a field of knowledge, but rather it is a critical historical narrative of how Islamic economics was initiated as a post-colonial reflection in order to compete with the colonial economic legacy, and to act like a companion to the novel Muslim nation-states which were meant to be found on neoclassical political and economic structure. This has made it a deformed Islamic hybrid tool for the use of non-Islamic superstructures. In other words, the beginning was faulty, within wrong environment, which will indefinitely produce error.

In our modern world the establishment of the Islamic state exactly imitating the prophetic experience is desirable, with its main objective to raise the *homoislamicus* person who worships the one God, while its entire do's and don'ts were to serve this objective. The contemporary discussions now are restricted to only addressing Islamic economics and IBF as a limited Islamic tool serving a non-Islamic goal.

The modern day judiciary, domestic and foreign politics, health, education, culture, higher education, defence, petrol and even Islamic *Awqaf* ministries all are constructed on a neoclassical foundation. On the one hand, limiting the normative conceptualisation of Islamic axioms to only providing social welfare and affluent life (permissible but not exclusive) is deficient in nature. On the other hand, Muslim individuals are required to oppose their worldly desires, luxuries, and comfort for a more rough lives to achieve the satisfaction of Allah SWT following the prophet and companions' examples, hence entering paradise. This is the core of *Wasaliyyah* (centricity) of Islam; neither excessive nor negligent, so when the individual behave excessively or negligently the opposite force corrects him. Thus, IBF will always be liable to error until an effort is produced to acquire Islamic Sharīḥ in its entirety, while alienating neoclassical ideologies.

The above critical analyses suggests that IBF has not fulfilled its aspirations as defined by Islamic moral economy and the *homoeconomicus* still conquers the *homoislamicus*, mainly due to methodological difficulty and pedagogical cognitive reality indigenous to IBF academic research. The balance between the inner driven *homoislamicus* and external driven *homoeconomicus* can be the best approach to achieve a sustainable socio-economic development for longer periods; as the utility scale for Muslims goes beyond maximising worldly economic utilities of the *homoeconomicus* to maximising hereafter rewards embedded in the *homoislamicus* behaviourism (Farooq, 2011) (Rudnycky, 2011), namely a two-dimensional utility function (Asutay, 2007). This matter represents a very delicate balance between these two lives to approach success (*falāḥ*) in both of them, rather than short-sightedly limiting it to only the first one.

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