

Intellectual Discourse

Volume 34

Special Issue

2026

Special Issue on

**The 15th International Conference on
Islamic Economics and Finance (ICIEF 2024):
Driving the Agenda
for a Sustainable Humane Economy**



International Islamic University Malaysia
<https://journals.iium.edu.my/intdiscourse/index.php/id>

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Intellectual Discourse is a highly respected, academic refereed journal of the International Islamic University Malaysia (IIUM). It is published twice a year by the IIUM Press, IIUM, and contains reflections, articles, research notes and review articles representing the disciplines, methods and viewpoints of the Muslim world.

Intellectual Discourse is abstracted in SCOPUS, WoS Emerging Sources Citation Index (ESCI), ProQuest, International Political Science Abstracts, Peace Research Abstracts Journal, Muslim World Book Review, Bibliography of Asian Studies, Index Islamicus, Religious and Theological Abstracts, ATLA Religion Database, MyCite, ISC and EBSCO.

ISSN 0128-4878 (Print); ISSN 2289-5639 (Online)

<https://journals.iium.edu.my/intdiscourse/index.php/id>

Email: intdiscourse@iium.edu.my; intdiscourse@yahoo.com

Published by:

IIUM Press, International Islamic University Malaysia

P.O. Box 10, 50728 Kuala Lumpur, Malaysia

Phone (+603) 6196-5014, Fax: (+603) 6196-6298

Website: <http://iiumpress.iium.edu.my/bookshop>

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Transliteration Table: Consonants

Arabic	Roman		Arabic	Roman
ب	b		ط	ṭ
ت	t		ظ	ẓ
ث	th		ع	‘
ج	j		غ	gh
ح	ḥ		ف	f
خ	kh		ق	q
د	d		ك	k
ذ	dh		ل	l
ر	r		م	m
ز	z		ن	n
س	s		ه	h
ش	sh		و	w
ص	ṣ		ء	’
ض	ḍ		ي	y

Transliteration Table: Vowels and Diphthongs

Arabic	Roman		Arabic	Roman
اَ	a		أَ، آَ، إِيَّ	an
أُ	u		أُوَّ	un
إِ	i		إِيَّ	in
آَ، آِ، إِيَّ،	ā		أُوَّ	aw
أُوَّ	ū		إِيَّ	ay
إِيَّ	ī		أُوَّ	uww, ū (in final position)
			إِيَّ	iyy, ī (in final position)

Source: ROTAS Transliteration Kit: <http://rotas.iium.edu.my>

Islamic Economic Systems and Sustainable Development: Islamic Capitalism versus *Insanism* (Islamic Humanism)

Habib Ahmed*

Abstract: This article examines different economic systems and assesses their implications for promoting sustainable development. In a capitalist system, capital is managed by *homo economicus* who focuses on maximising profits and capital accumulation without ethical considerations. This has led to the continuous exploitation of natural resources, resulting in destructive impacts on the environment. Recognising that capital has the power to affect production and value creation, this article asserts that ethics is needed to tame capital and its production processes to achieve sustainable development. The configuration of an Islamic economic system will depend on the meanings of *Sharī'ah* and how it is interpreted. A narrow legalistic perspective would focus on legal compliance and would produce an Islamic capitalist system that would have similar adverse impacts on the environment as its capitalist counterpart. Alternatively, expanding the meaning of *Sharī'ah* to include legal-ethical principles and values would frame the economic system as *insanism* (Islamic humanism) that embeds human welfare-related ethics of *maqāṣid al-Sharī'ah* and legal maxims. In this system, moral *homo Islamicus* (*homo islami-ethicus*) imbued with the ethical characteristics of *khalīfah*, will act as a steward to guide capital and production processes, preserve the environment and contribute to sustainable development.

Keywords: Economic systems, *homo economicus*, sustainable development, *homo Islamicus*, insanism

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Abstrak: Makalah ini menganalisis pelbagai sistem ekonomi dan menilai implikasinya dalam mempromosikan pembangunan mapan. Dalam sistem kapitalis, modal dikendalikan oleh *homo economicus* yang menumpukan kepada pemaksimuman keuntungan dan akumulasi modal tanpa pertimbangan etika. Hal ini telah menyebabkan eksploitasi berterusan terhadap sumber alam, seterusnya mengakibatkan kesan buruk terhadap alam sekitar. Dengan mengenalpasti bahawa modal mempunyai kuasa untuk mempengaruhi pengeluaran dan penciptaan nilai, makalah ini menegaskan bahawa etika diperlukan untuk mengawal selia modal serta proses pengeluarannya bagi mencapai pembangunan lestari. Konfigurasi sistem ekonomi Islam bergantung kepada kefahaman terhadap makna Syariah dan interpretasinya. Perspektif legalistik yang sempit hanya akan menumpukan kepada pematuhan undang-undang dan menghasilkan sistem kapitalis Islam yang mungkin mempunyai kesan buruk terhadap alam sekitar yang serupa dengan sistem kapitalis biasa. Sebaliknya, sekiranya makna Syariah diperluaskan untuk merangkumi prinsip dan nilai perundangan-etika, sistem ekonomi akan terbentuk sebagai *insaniyah* (humanisme Islam) yang menerapkan etika berkaitan kebajikan manusia berdasarkan *maqāṣid al-Sharī'ah* dan maksud perundangan. Dalam sistem ini, *homo islamicus* (*homo islami-ethicus*) yang bermoral serta diresapi ciri-ciri etika sebagai *khalifah*, akan bertindak sebagai steward untuk membimbing proses modal dan pengeluaran, memulihara alam sekitar, dan menyumbang kepada pembangunan lestari.

Kata kunci: Sistem ekonomi, *homo economicus*, pembangunan mapan, *homo Islamicus*, *insaniyah*

Introduction

Climate change and environmental degradation pose an existential threat to humanity, as they can lead to food insecurity and societal collapse (Richards et al., 2021). Recognising the dire environmental issues facing humanity, the member states of the United Nations signed the Paris Agreement (COP21) in 2015 to limit the global average rise in temperature to below 2°C (ideally below 1.5°C) above pre-industrial levels by 2030 (Mckinsey, 2023; <https://unfccc.int/process-and-meetings/the-paris-agreement>). In the same year, the United Nations launched the Sustainable Development Goals (SDGs) in 2015 as an agenda of action for people, planet and prosperity. While the people aspect of SDGs calls for an equitable development that can tackle poverty and inequalities, the planet component relates to sustainability, which would necessitate changing to environmentally friendly

production processes and consumption patterns.¹ Since human welfare is closely linked to natural systems, achieving the goals of ‘planet’ is closely linked to the goals of ‘people.’

Climate change and its impending impact on livelihoods and human and nonhuman lives necessitate a new vision for development that balances between enhancing human welfare while protecting the environment. There are, however, contentions that market-based capitalism is part of the problem as it has unleashed destructive forces that have contributed to the problem of climate change and environmental degradation (Jones, 2022). There is a realisation that there is a need to rethink how the economic system needs to evolve to meet the needs of climate resilient sustainable development. Different solutions and alternative models are suggested to mitigate the destructive forces of capitalism, which include market-based solutions, circular economy, de-growth models, radical alternatives that change the ownership structure of capital and the stakeholders’ model that suggests, among others, introducing ethics in economic activities (see Ahmed, 2024).

Given the above, this conceptual article examines the Islamic economic framework that can help contribute to sustainable development. A key difference between the Islamic perspective and the other paradigms is that the former introduces Islamic principles and ethics into the discourse. It is argued that the values and principles entailed in Islamic ethical teachings related to economics and finance would promote sustainable development. While recognising that capital plays a powerful role in value-creating production processes in contemporary economic systems, this article asserts that in an Islamic economy, ethics should be integral to the production process to tame capital to preserve the environment and contribute to sustainable development.

This article highlights a few interrelated issues related to contemporary conceptual discourses on issues related to achieving *maqāṣid al-Sharī‘ah* (objectives of *Sharī‘ah*), which represent the goals of human welfare in an Islamic economic system. First, following

¹ While several SDGs (such as SDG 7 Affordable and Clean Energy, SDG 11 Sustainable Cities and Communities, SDG 12 Responsible Consumption and Production, SDG 14 Life below Water and SDG 15 Life on Land) relate to protecting the environment, SDG 13 (Climate Action) specifically calls for urgent action to combat climate change and its impacts.

al-Qaradawi (2022), this article maintains that the preservation of the environment is closely linked to human welfare envisaged in the *maqāṣid al-Sharī'ah* (hereafter *maqāṣid*) and would be an integral part of sustainable development. Second, this article emphasises that interpreting *Sharī'ah* as formal legal compliance and ignoring the ethical values would produce an Islamic capitalist system that will produce similar outcomes as a capitalist system. Finally, implementing the *maqāṣid* perspective would require conceiving *Insanism* (Islamic humanism) that produces an *maqāṣid* economic system (*al-iqtisād al-insāniyyah*).² In *Insanism*, moral *homo islamicus* (*homo islami-ethicus*) acts as a *khalīfah* and applies the ethical guidelines entailed in both *maqāṣid* and legal maxims (*qawā'id al-fiqhiyyah*) in using capital to produce wholesome goods and services and contribute to sustainable development.

A few caveats related to the scope of this article need to be acknowledged. First, it should be noted that climate change and environmental degradation are complex phenomena with multiple economic, social, cultural and political facets and dimensions. This article recognises that the complex problem of climate change and sustainable development cannot be resolved by reconfiguring capital and production processes only and would require other interventions at different levels. These other factors are beyond the scope of this article, and this research focuses on capital and production processes that play an important role in contemporary economic systems. Second, within an economy, environmental degradation is determined by both supply and demand side factors. The demand side issues related to utility maximisation, consumption patterns and consumerism are important factors that affect climate change and the environment and deserve attention. However, to keep the discussions manageable, the focus of this article is on the supply-side issues related to capital and production processes. Finally, a key issue debated in the capitalist system relates to its distributional aspects and the income and wealth inequalities it

² The English translation for the *al-iqtisād al-insāniyyah* would be 'humanistic economics.' However, since there is already a body of conventional literature on humanistic economics (e.g., see Komlos, 2021; 2024) and humanism (ABA, undated; Mele and Schlag, 2015), the term *insanism* and *insāniyyah* economy are used to highlight its Islamic foundations and the differences from the concept used in conventional economics.

creates. Again, to keep the discussions manageable and focused, the distributional issues are not covered in this article.

This article is organised as follows. After presenting a brief overview of capitalism and implications for sustainable development in the next section, Section three presents the legal and ethical principles guiding an Islamic economic system and the specific legal and ethical values governing environmental preservation. Section four develops a framework to assess the implications of different economic systems on sustainable development and uses this framework to assess capitalist and Islamic economic systems. Section five provides a critical assessment of the results and Section six concludes this article.

Capitalism: Features and Implications for Sustainable Development

Capitalism as a system is linked ideologically to neoliberalism that postulates that “human well-being can be best advanced by maximisation of entrepreneurial freedoms within an institutional framework characterised by private property rights, individual liberty, unencumbered markets, and free trade” (Harvey, 2007, p.22). While the origin of capitalism is linked to industrialisation (industrial capitalism) that relates to utilisation of physical capital, it evolved into financial capitalism, corporate capitalism and more recently into informational capitalism (see Dean and Kretschmer (2007)). Whatever the form, a fundamental element of capitalism is the notion of capital. Capital has the power to drive production of goods and services and determine the distribution of value created in the process. The capital owners in a capitalist economy are considered to be rational *homo economicus* who maximise profit and accumulate capital by producing goods and services in an uncertain environment.

Though capitalism is usually considered to be a socio-economic system, it is essentially a ‘legal ordering’ structured through laws (Grewal, 2014, p. 652). At its basic form, property and contract laws form the foundations of a market economy as property rights are determined and protected by the former, and exchange takes place in markets by using the latter. Given that the aim of most states is to promote economic growth, a key role of governments is to provide the legal framework under which markets can thrive and the economy can

grow. Other than the legal institutions of markets, the state also provides the legal structures for capital and corporations.

The legal perspective asserts that capital is legally constructed, whereby laws are used to code capital, which are backed and enforced by the state (Pistor, 2019, p. 15). Law defines, recognises and supports certain private property as capital (Kapczynski, 2020; Pistor, 2019). Levy (2017, p. 487) identifies capital to be ‘legal property assigned a pecuniary value in expectation of a likely future pecuniary income.’ In other words, capital can be viewed as legal rights of control and claims on its future income. An asset is converted into capital by using legal codes by using different laws such as property rights law, contract law, collateral law, bankruptcy law, trust law and corporate law (Pistor, 2019, p. 3). These laws are used to confer some important attributes to assets that convert them to capital.

A corporation is a legal entity created by using corporate law, which gives it the status of a legal person with limited liability. Unlike a natural person, a corporation, as a legal person, has no moral conscience created with the sole purpose of maximising shareholders’ value (Visser 2010). Company law creates a pattern of shareholders’ and creditors’ rights that limits liability to the organisation itself, thereby encouraging investments (Hansmann and Kraakman, 2000). Thus, shareholders are not liable for any transgressions committed by a corporation, which can include corporate violence.

Capitalism is often blamed for the climate crisis and the destruction of the environment (Jones, 2022). The destructive features of capitalism are inherent in its construction and constituents. In its extreme forms, capitalist ideology is viewed as ‘market as god’ (Skeggs, 2014, p. 4). The focus of this system is on ‘value’ determined in market exchanges that is devoid of (ethical) ‘values.’ Beyond labour and capital, capitalism depends on extensive use of energy and exploitation of natural resources to fuel production and continuously expand profits. The extensive use of energy and natural resources not only depletes natural capital but also produces externalities that adversely affect the environment and devastate lives and livelihoods.

Since corporations constitute key production units of capitalism, the destructive forces are discussed in the literature as ‘corporate violence.’ Corporate violence is the ‘violence motivated or caused by

material interest, profit seeking and economic expansion’ and is a result of corporate policies and actions that ‘expose living beings to harmful conditions, products, or substances’ (Chertkovskaya and Paulsson, 2021, p. 407). Wright and Nyberg (2015) warn that the long-term impact of the destructive forces of values-free production by profit-seeking corporations will transform capitalist economies from Schumpeter’s ‘creative destruction’ to ‘creative self-destruction.’

Legal and Ethical Foundations of Islamic Economic Systems

Contrary to the capitalist system that has origins in the Enlightenment and is independent of normative or religious orientations, the Islamic economic system is based on the Quranic worldview and embeds Sharī‘ah values and principles related to economics (Haneef and Furqani, 2009). The overall aim of Sharī‘ah is to promote the welfare or benefit (*maṣlahah*, pl. *maṣāliḥ*) of mankind and prevent harm (*mafsadah*) (Dien, 2004, p. 3; Kamali, 2008, pp. 32, 35). Sharī‘ah provides the legal rules and ethical values to achieve the *maṣlahah*. These Islamic teachings govern human behaviour and economic activities, which lay the foundations of a just and sustainable economic system. A brief overview of the legal principles and ethical values related to economics and finance is presented.

Legal Framework of Islamic Economies

The legal framework of commercial and economic activities is governed by the ‘principle of permissibility’ (*ibāḥah*), which asserts that all acts are permissible unless they are prohibited by Sharī‘ah texts (Kamali, 2000, p. 66).³ Other than forbidding some goods and activities such as wine, pork and gambling, two broad categories of prohibitions in economic transactions are *ribā* and *gharar*. *Ribā* (literally meaning increase or growth) is prohibited by *Sharī‘ah*. Although it is common to associate *ribā* with interest, it has much wider implications that can take different forms. The common premise is that *ribā* arises from unequal trade of values in exchange (Siddiqi, 2004). While *gharar* is usually referred to mean excessive uncertainty, it also signifies deception, ignorance, gambling and fraud (Al-Zuhayli, 2003, p. 82; ElGamal, 2001,

³ The principle of permissibility is derived from maxims such as ‘permissibility is the original rule of things’ or ‘the norm in transactions is that of permissibility’ (Laldin et al., 2013, p.10).

p. 32). *Gharar* relates to an asymmetric information problem arising in the object or terms of the contract. Whereas *gharar* in the object of sale exists when it is not clearly identified, does not exist or is not deliverable, *gharar* in the terms of the contract relates to the ambiguity in the stipulations and conditions that can lead to disputes.

Since interest-based loans are deemed to be *ribā* and prohibited, different types of permissible contracts are used to structure Islamic financial products. Islamic modes of financing can be broadly classified into debt, equity, and asset-based instruments (see Ayub (2007) and Usmani (1999)). Debt instruments arise from sale transactions in which one of the counter-values of the transaction is postponed to a future date. These fixed income financing instruments include cost-plus, or mark-up sale (*murābahah*), credit sale (*bay' mu'ajjal*) and object deferred sale or pre-paid sale (*istisnā' / salām*). Equity instruments are partnership contracts (*muḍārabah* and *mushārahah*) in which parties contribute capital and labour in a venture. In these contracts, while the profit is shared according to an agreed-upon ratio, loss is distributed according to the ratio of capital contribution on a pro-rata basis. Asset-based instruments include leasing (*ijārah*) contracts in which a durable asset is leased out for a period of time in return for rental payments.

Islamic Ethics: Framework and Values

Ethics in Islamic economics and finance is discussed from different perspectives and comes from different sources. The key sources of Islamic ethics are the Quran and Sunnah. There are many Quranic verses and Prophetic sayings (*ḥadīth*) that provide ethical and moral teachings related to various issues. Beyond the Sharī'ah texts, ethical values and principles also exist in *maqāṣid al-Sharī'ah* (hereafter *maqāṣid*; sing. *maqṣad*) and legal maxims (*qawā'id al-fiqhiyyah*). As indicated, a broad ethical principle guiding Sharī'ah is to maximise welfare (*maṣlahah*) and minimise harm (*mafsadah*). Both *maqāṣid* and maxims provide ethical guidance that promotes *maṣlahah*. Given the above, Islamic ethics related to economics can be presented in the following three perspectives.

1. *Human Behavioural Ethics*: The ethical axioms provide the ontological foundations and derive the moral values that guide human behaviour and actions in an Islamic economy (Iqbal and Mirakhor, 2020). The righteous behaviour conceptualised in *adab*

or *akhlāq* relates to moral integrity that guides humans in economic transactions (Al-Daghistani, 2022). The Islamic worldview and ethics change the nature of human behaviour from *homo economicus* to *homo islamicus* (Asutay, 2007; Haneef and Furqani, 2009). Instead of maximising utility, the objective of Muslims is to achieve *falāḥ*, which is success in this world and the hereafter. Accordingly, *homo islamicus* will be imbued with behavioural ethics such as respect for property rights, trust, honesty, transparency, cooperation, compassion, benevolence, etc., prescribed by Shari‘ah (Ahmad, 1992; Asutay, 2007; Aydin, 2020). A Muslim with means will engage in charitable acts such as *ṣadaqah* and create a *waqf* beyond paying the obligatory *zakāt*.

2. *Teleological Ethics (Maṣlahah and Maqāṣid)*: *Maqāṣid al-Shari‘ah* signifies the essential elements of *maṣlahah* that can achieve the best interests of humans and promote a good life (Ibn Ashur, 2006; Laldin, 2020). *Maqāṣid* provides the ‘ethical aspects of legal norms’ (Al-Daghistani, 2022, p. 63) and reflects the underlying normative wisdom of Islamic law and represent the permanent and universal goals of Shari‘ah (Kamali, 2006; 2011). *Maqāṣid* is related to the consequences of acts and neglecting them can lead to rules that deviate from Shari‘ah’s intent of enjoining good. Scholars identify the specific *maqāṣid* as the protection and enhancement of faith, self, intellect, posterity, and wealth (Hallaq, 2004; Kamali, 2003). Thus, *maqāṣid* implies guaranteeing a good quality of life by securing the religion, intellect and dignity of individuals and ensuring a minimum level of income or wealth for all in the society and protecting the interests of future generations. While these general *maqāṣid* relate to human welfare, there are specific *maqāṣid* identified by scholars that relate to economic transactions (Ibn Ashur, 2006). A key economic *maqṣad* is to ensure justice in transactions.
3. *Legal Maxims and Ethics*: Legal maxims (*qawā‘id al-fiqhiyyah*) form another important genre of Islamic methodological tools. The maxims are based on and derived from Shari‘ah texts reflecting the spirit or essence of Islamic law (Dien, 2004; Kamali, 2006). The *qawā‘id al-fiqhiyyah* (hereafter *qawā‘id*) can be used as a guide in law-making as they embody universal rules that can be applied to particular cases (Rabb, 2010; Musa, 2014). While some legal maxims have legal connotations, others have ethical overtones. For

example, the maxims of ‘if permissibility and prohibition coincide, prohibition prevails’ and ‘what is prohibited to take is also prohibited to give’ (Laldin et al., 2013, pp. 188, 194) fall under the legal category. Maxims with ethical undertones include ‘the fundamental requirement in every contact is justice’ (Laldin et al., 2013, p. 22). It should be noted that many principles governing *maṣlaḥah/maqāṣid* are reflected in the legal maxims such as ‘averting harm takes precedence over achieving benefit’ and ‘harm is to be eliminated’ (Laldin et al., 2013, pp. 110, 117).

Islamic Perspectives on Environment: Legal and Ethical Perspectives

Given the principle of permissibility, the legal requirements for the Islamic economy would be to avoid the prohibited sectors, such as alcohol and gambling and keep away from *ribā* and *gharar* in transactions. The latter would imply using Sharī‘ah-compliant contracts in transactions. However, there is nothing explicit that relates to the environment and sustainable development from the legal perspective. The ethical values provide guidelines that have implications for sustainability.

A fundamental element of Islamic teachings on the environment is that the universe is created by Allah and belongs to Him. Al-Qaradawi (2022, p. 45) asserts that a healthy and robust environment is necessary for achieving *maqāṣid al-Sharī‘ah* for all humans. He argues that the environment affects all the *maqāṣid* (religion, life, progeny, intellect and wealth) and hence should be preserved. He argues that a key religious belief of Islam is that humans are sent to earth as *khalīfah*, which entails the duty of stewardship. Humans are given the right to use the resources given by the ultimate Creator and Owner. However, as vicegerent, they have to abide by the universal natural laws that govern the environment and the Sharī‘ah rules and values related to their use as stewards (Al-Qaradawi, 2022, p. 47).

This role of *khalīfah* as environmental steward demands ethical values of trust (*amānah*), responsibility, accountability, modesty, moderation, conversation, avoiding greed, extravagance and overconsumption, waste and abuse, and dealing with Allah’s creation justly (Abdelzaher et al., 2019; Gada, 2014; Rizk, 2014). As God’s *khalīfah*, it is the responsibility of humans to ‘preserve this natural order or balance

between all creations’ (Abdelzaher et al., 2019, p. 631) and any action, such as pollution, overconsumption and wastefulness, that distorts this balance is considered corruption (Kula, 2001; Roughton, 2007). Acting as a steward also requires acknowledging the interdependence of humans, nonhumans and nature and treating all of Allah’s creations with respect (Abdelzaher et al., 2019, p. 635). A *khalifah* would not only consider the permissibility of goods and services, but also whether they are wholesome (*tayyib*).

Some legal maxims also provide principles that imply environmental preservation. The maxim ‘Harm is to be eliminated’ requires that harm caused to humans by humans or other causes needs to be removed (Majallah, 2001, p. 6; Laldin et al., 2013, p. 110). The maxim implies that any activity that adversely impacts the protection of the *maqṣad* of life needs to be avoided. A related maxim states that ‘Averting harms takes precedence over achieving benefit’, which means that when harm and benefits of an act are of similar magnitude, preventing harm should be given precedence and the act should be undertaken (Laldin et al., 2013, p. 117). The maxim implies that an act should be undertaken only when the benefits exceed the harms.

Economic Systems and Sustainable Development: An Evaluative Framework and Assessment

In this section, an evaluative framework is presented to understand the implications of the economic systems on sustainable development. The framework in which the impact of economic systems on the environment and sustainable development can be examined includes the following factors: objectives of capital owners or investors, capital, the production process, goods and services produced in the economy, and the social impact in terms of externalities, as shown in Figure 1. The features of these factors in different economic systems and implications for sustainable development are presented below.

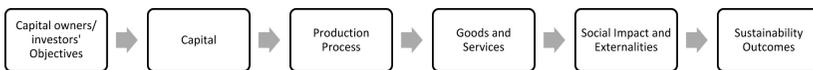


Figure 1: Economic System Factors affecting Sustainable Development

Islam recognises private property and economic activities that can general prosperity for individuals and society at large. Thus,

investments in productive activities that generate returns are permitted and encouraged. However, the Islamic economic system can be discussed from two conceptual standpoints depending on the perceived meanings of Sharī'ah. First, a narrow legalistic viewpoint applies the principle of permissibility and accordingly avoids the prohibited sectors, *ribā* and *gharar* in transactions and obligates the payment of *zakāt*. Second, the broader legal-ethical perspective would integrate ethical values and principles of *maqāṣid* and *qawā'id*, along with legal compliance in decision-making. The features of the factors identified in the framework in Figure 1 for a capitalist and Islamic economic systems based on two interpretations of Sharī'ah, and implications for sustainable development, are discussed below.

Capital Owners and Objectives

The capital owners in a capitalist economy are considered to be rational *homo economicus* whose main objective is to maximise profit by producing goods and services in an uncertain environment. In corporate capitalism, the capital owners hide behind the veil of a corporation that is created with the sole objective of increasing shareholders' value.

Although capital owners or investors in an Islamic economy are assumed to be *homo islamicus*, this needs qualification due to two conceptual framings of meanings and interpretations of Sharī'ah. Accordingly, we can distinguish *homo islami-legalus* and *homo islami-ethicus*, representing in a narrow legalistic and broader legal-ethical interpretations, respectively. Muslim capital owners who operate as *homo islami-legalus* concentrate on compliance with legal Sharī'ah rules, which mainly relate to avoiding a few prohibitions. Since Islam encourages business and trade, the objective of capital owners to engage in the production processes to maximise profits is legitimate. Without considering the ethics, however, the focus of *homo islami-legalus* will be on a single bottom line of profit.

Homo islami-ethicus investors would incorporate ethics in decision-making by considering the values of *maqāṣid* and *maqāṣid*. They take on the role of *khalīfah* to act as stewards to preserve the environment and also consider the interests of other stakeholders, including the impact on non-humans and the environment. As a *khalīfah*, they must ensure that their business does not create ecological imbalances in the pursuit of

profit. Thus, the business objectives of *homo islami-ethicus* would be balancing the interests of profit, people and planet.

Capital

Capital plays a fundamental role in capitalist economies as it enables production and value creation. In the capitalist system, capital is legally constructed without any consideration of ethical values. As indicated, capital is legally constructed, whereby laws are used to code capital, which are backed and enforced by the state (Pistor, 2019, p. 15). Thus, the laws determine which types of assets can be transformed into capital. While capital can be broadly classified as equity or debt, other forms of capital can also be structured. For example, the laws of many countries recognise derivatives and, more recently, cryptocurrencies as valid forms of investable assets.

The nature of capital from an Islamic perspective can be viewed in two ways: narrowly as legal compliance or broadly as legal-ethical compliance. The former constitutes Sharī'ah-compliant capital, which focuses on the means and relates to fulfilling the legal requirements and satisfying the contractual stipulations as required by Islamic law. This would mean using one of the Islamic contractual forms indicated above, such as *murābahah* or *muḍārabah*, to provide capital. However, Sharī'ah-compliant capital will focus on the legitimacy of the contracts and not be concerned with the impact of the transaction on the environment.

The implication of a legalistic approach to defining capital for capital markets would be to carry out Sharī'ah screening of stocks at two levels. First, certain sectors producing prohibited goods and services, such as alcohol, pork, casinos, etc., are excluded. Second, financial screenings are applied to identify Sharī'ah-compliant stocks (BinMahfouz and Ahmed, 2014; Rizaldy and Ahmed, 2019). Since the narrow legalistic Sharī'ah screening ignores the ethical principles of *maqāṣid* and *qawā'id* related to the environment, it does not consider the environmental, social and governance (ESG) statuses of companies. The implication is that under the narrow interpretation, an Islamic investor will be open to invest in a company that meets the legal screening criteria but is polluting the environment or not respecting the rights of workers.

The legal-ethical capital would be Sharī'ah-based as it considers the *maqāṣid* or outcomes of transactions (Ahmed, 2011a; 2011b). Sharī'ah-based capital satisfies the contractual principles of Islamic law and also realises the goals recommended in the *maqāṣid*, which include preserving the environment. Investors in capital markets with the broader legal-ethical interpretations of Sharī'ah would carry out both Sharī'ah screening and ESG screening of stocks that assess the impact of the companies on the environment.

Production processes

Key issues related to the production processes in a capitalist system are to increase efficiency and enhance productivity, which can enhance profits. As indicated, the capitalist production system uses capital, labour, energy and natural resources to fuel production and continuously expand profits. However, the focus on efficiency and the rampant profit-seeking goal by corporations without ethics can result in over-exploitation of natural resources that can adversely affect the environment.

In an Islamic economy with a narrow legalistic perspective, efficiency would be encouraged in the production process, as this would maximise profits. Since the legal perspective does not consider the *maqāṣid* and *qawā'id*, the adverse impact on the environment will not be considered in the decision-making of the production process.

Though efficiency can appear to be Sharī'ah-neutral, it has ethical connotations from an Islamic viewpoint. The ethics of Islamic teachings discourage waste and overburdening people with hardships. Citing the maxim of 'the removal of hardship,' Fadel (2017) claims that the goal of an Islamic economic system to enhance overall welfare (*maṣlahah*) can be achieved by attaining efficiency. Beyond efficiency, the ethics of *homo islami-ethicus* in their role of *khalīfah* also imply that the production processes must be sustainable. In particular, the ethics relevant to environmental preservation would influence the use of natural resources in the production processes. As a *khalīfah*, the capital owner must ensure that the production process does not destroy nature and the environment. Thus, sustainable production would mean not only reducing wastage through efficiency but also minimising the adverse impacts on the environment. To do this, the appropriate ideas and methods discussed in some contemporary approaches, such as green technologies and promoting the circular economy, can be utilised.

Goods and services

Goods and services produced in a capitalist system must be lawful. However, the legality of a good or service is defined by the law. Thus, the law can change the legality of a commodity from illegal to lawful and vice versa. For example, while the use of cryptocurrency is permitted in many countries, some countries, such as China, prohibit it. Similarly, whereas many countries prohibit drugs, it has been decriminalised in many other countries, such as Belgium, Chile, Germany, etc. (Eastwood et al., 2016). Beyond legality, some countries would also have regulatory oversight of some products that can potentially harm people.

From a narrow Islamic legal perspective, goods and services can be broadly classified as permissible (*ḥalāl*) and prohibited (*ḥarām*). The list of prohibited goods and activities is identified in the Shari'ah texts and includes pork, wine, gambling, etc. Beyond the prohibited goods and services, the legal perspective would not consider any other issues.

Under the broader legal-ethical perspective, some of the permissible goods can be further differentiated qualitatively as being *tayyib* or wholesome. *Tayyib* has been referred to in the Quran (2:168, 172; 23:51) and can mean pure, beneficial and not causing pain or harm to consumers (Arif and Sidek, 2015; Yunus et al., 2010). For example, while chicken is *ḥalāl* or permissible, it may not be *tayyib* if its production process and supply chain are not ethical in terms of mistreating the animals or feeding them with chemicalised feeds that fattens them artificially, or if they are processed or cooked in unhealthy ways. Though *tayyib* is usually used in reference to food items, it can also apply to other goods and services. For example, cosmetics containing harmful chemicals and ingredients that can cause damage to the skin would not be considered *tayyib* (Elasrag, 2016).

Externalities

The negative externalities arising from production processes can have social costs and adversely affect societal welfare. In a capitalist system, however, the notion of private property precludes viewing production processes from a societal perspective and ignores social costs (Winters, 1994). Corporate violence often takes place within the legal parameters, as the neoliberal state tolerates the unhinged operations of the corporate sector since it contributes to economic growth. One way to deal with

negative externalities in this case will be to introduce exogenous public policies and regulations that can mitigate the social harms.

In an Islamic economy framed in a legalistic perspective, the focus is on maximising profits using Sharī‘ah-compliant capital and producing ḥalāl goods and services. This approach precludes the impact of the production processes created by externalities. As in the case of the capitalist system, negative externalities can be mitigated exogenously by using public policies and regulations.

The operations of a firm based on legal-ethical values and principles will be guided by the *maqāṣid* and the relevant maxims related to minimising harm, such as ‘harm should neither be inflicted nor reciprocated’ and ‘averting harm takes precedence over achieving benefit’. Other than protecting the environment to achieve the *maqāṣid*, applying the maxims related to avoiding causing harm provides appropriate ethical guidelines to avoid or mitigate environmental harm. This can be done by internalising the social costs of production by using appropriate sustainable technologies and processes.

Economic Systems and Sustainable Development: A Critical Comparative Analysis

Table 1 summarises the features of different factors of capitalist and Islamic economic systems that are relevant for sustainable development. The results from the table highlight a few key issues related to the nature of an Islamic economic system in terms of promoting sustainable development. First, the interpretations and meanings of Sharī‘ah are a key determinant of how an Islamic economic system will be framed. The results indicate that applying the narrow legal perspective of Sharī‘ah will produce an economy that will be similar to a legally constructed capitalist system, except for the prohibitions (*ḥalāl* products/services and Sharī‘ah-compliant transactions). The similarities of the capitalist and an Islamic economy based on legalistic interpretations are highlighted in bold in Table 1. A broader interpretation of Sharī‘ah that includes ethical values significantly alters the factors affecting sustainable development and substantially changes the nature of the economy. The results imply that to have a positive impact on sustainable development would require applying the broader meanings of Sharī‘ah that include both legal and ethical aspects of Islamic teachings.

Table 1: Economic Systems and Factors Affecting Sustainable Development

Factors	Capitalism	Islamic (Legal)	Islamic (Legal & Ethical)
Investors/ Capital owners	Homo economicus	Homo islami-legalus	Homo islami-ethicus (Khalifah)
Capital	Legal compliance	Sharī'ah compliance	Sharī'ah based
Business objectives	Shareholders interest	Shareholders interest	Stakeholders interest
Production processes	Efficient	Efficient	Efficient and sustainable
Goods and services	Legitimate	Legitimate (Halal)	Wholesome (Halal & tayyib)
Dealing with Externalities	Exogenous (Policies/regulations)	Exogenous (Policies/regulations)	Endogenous (Mitigate & internalise social costs)

The second issue relates to the investors or capital owners. The main factor that will determine the sustainability outcomes in an Islamic economic system will depend on whether the investors are *homo islami-legalus* and *homo islami-ethicus*. The table shows that activities of *homo islami-legalus* following the narrow legalistic interpretations of Sharī'ah are similar to capitalist investors, with the difference that the former would avoid the few prohibitions identified by Sharī'ah. Specifically, *homo islami-legalus* will do business by producing *halāl* products, using Sharī'ah-compliant contracts in transactions and ensuring efficiency to enhance profits. They will not be concerned if the business operations harm the environment, as these are beyond the ambit of legal issues. *Homo islami-legalus* will also not be interested in ethical issues, such as whether products are *tayyib* and ignore matters such as considering fair and clean supply chains. Ignoring the *tayyib* impact of production on stakeholders and the environment is likely to have similar destructive impacts as capitalist producers.

Homo islami-ethicus will not only fulfil the legal requirements but will also be guided by ethical values of *maqāṣid* and *qawā'id*, and act

as *khalifah*. Specifically, *homo islami-ethicus* will be concerned about other stakeholders, use Sharī‘ah-based capital, consider sustainability issues along with efficiency in production processes and produce *tayyib* goods and services. This approach will preserve the environment and promote sustainable development.

The final issue points out a key difference in the focus of the analysis in the discourses of the capitalist economic system and different Islamic economic models. The capitalist economies postulate the primacy of capital in having the power to determine the production process and value creation. The objective of the profit-maximising *homo economicus* is realised by investing in capital (shares) of a corporation, which then uses its production processes to maximise the shareholders’ value. As indicated, the results in Table 1 indicate that an Islamic economic system applying a legalistic framework has the same outcomes as the capitalist system. The focus of *homo Islami-legalus* is to use Sharī‘ah-compliant capital to serve their interests of maximising profits by employing an efficient production process to produce *halāl* products. The issues related to the impact on the environment and sustainable development are not considered, as these are not legally required. Given the similarities of outcomes with the capitalist system, the legalistic Islamic economic system can be identified as an *Islamic capitalist system*.

The Islamic economic system, considering both legal and ethical values and principles, emphasises the agency of *homo Islami-ethicus* to make decisions about the utilisation of Sharī‘ah-based capital to produce *tayyib* products by using efficient and sustainable production processes to generate profit. As both Sharī‘ah-based capital and *tayyib* products are embedded with the ethical values of *maqāṣid* and relevant *qawā‘id*, this system will minimise the harm to the environment and contribute to sustainable development. Since the focus of the system is on the agency of *homo Islami-ethicus* as a *khalifah*, and the production process attempts to fulfil the *maqāṣid* of all humans, which can be achieved through sustainable development, this system can be called *insanism* (Islamic humanism) that will produce an *insāniyyah economy* (*al-iqtisād al-insāniyyah*).

A crucial difference in Islamic capitalism and *insanism* is that while in the former the key input is capital and the outcome is measured by the profit generated to further accumulate capital, in the latter the main input

is human agency (*homo Islami-eticus*) and the outcomes are measured by both profit and the impact on *maqāṣid* linked human-welfare that includes preservation of the environment.

Conclusion

This article examines the issues related to sustainable development from an economic systems perspective by focusing on the roles of capital and human agency in production processes and the impact this has on the environment. The capitalist system is based on the premise of primacy of capital in the production process, which requires increasing profits and continuous economic growth by employing capital, labour, natural resources and energy. Capitalist production can become destructive to the environment in the hands of corporations with the rationality of *homo economicus* focused on maximising profits and capital accumulation. There is a realisation that to reduce their adverse impacts on climate change and environmental degradation, the production processes need to change.

Given the above backdrop, this article examined the role that an Islamic economic system can play in promoting sustainable development. It showed that the type of Islamic economic system will depend on the meaning of Sharī'ah and how it is interpreted. A narrow legalistic interpretation of Sharī'ah would produce an Islamic capitalist system in which *homo islami-legalus* would use Sharī'ah-compliant capital and efficient production processes to produce *halal* products to maximise profits. Since ethical values of *maqāṣid* and *qawā'id* are not incorporated in decision-making, the economy will have similar outcomes to a capitalist economy and not be able to contribute to sustainable development. A broader meaning of Sharī'ah that includes legal and ethical values and principles reflected in *maqāṣid* and *qawā'id* would result in *insanism*. This economic system will entail *homo islami-eticus* who would use Sharī'ah-based capital and efficient and sustainable production processes to produce *tayyib* products to earn profit. *Insanism* will consider impacts on the environment and contribute positively to sustainable development.

This article highlights a few conceptual notions related to developing a *maqāṣid*-based *insanism* that can promote sustainable development. First, this article shows that 'meanings' are fundamental to the framing of economic systems. For Islamic economics, meanings

are classified broadly as narrow legalistic interpretations or broader legal-ethical perspectives. Second, applying legalistic interpretations would result in an Islamic capitalist system that would have similar outcomes as the conventional capitalist system in terms of sustainable development. Finally, applying the legal-ethical meanings of Shari‘ah significantly changes the framing of economic systems from capitalism/ Islamic capitalism to *insanism*. In the latter, the power of controlling production processes moves from capital to the owners of capital. Ethical capital owners in the form of *homo islami-eticus* would act as *khalīfah* and guide production processes to achieve the *maqāsid*, which will promote sustainable development. The central message of this article is that the Islamic economic system that can achieve sustainable development would not be legalistic Islamic capitalism, but *insanism* that is embedded with ethics.

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In-text:

Chapra (2002)

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Chapra, M. U. (2002). Islam and the international debt problem. *Journal of Islamic Studies*, 10, 214-232.

The Qur'ān

In-text:

(i) direct quotation, write as 30:36

(ii) indirect quotation, write as Qur'ān, 30:36

Reference:

The glorious Qur'ān. Translation and commentary by A. Yusuf Ali (1977). US: American Trust Publications.

Ḥadīth

In-text:

(i) Al-Bukhārī, 88:204 (where 88 is the book number, 204 is the ḥadīth number)

(ii) Ibn Hanbal, vol. 1, p. 1

Reference:

(i) Al-Bukhārī, M. (1981). *Ṣaḥīḥ al-Bukhārī*. Beirut: Dār al-Fikr.

(ii) Ibn Ḥanbal, A. (1982). *Musnad Aḥmad Ibn Ḥanbal*. Istanbul: Cagri Yayinlari.

The Bible

In-text:

Matthew 12:31-32

Reference:

The new Oxford annotated Bible. (2007). Oxford: Oxford University Press.

Transliteration of Arabic words should follow the style indicated in ROTAS Transliteration Kit as detailed on its website (http://rotas.iium.edu.my/?Table_of_Transliteration), which is a slight modification of ALA-LC (Library of Congress and the American Library Association) transliteration scheme. Transliteration of Persian, Urdu, Turkish and other scripts should follow ALA-LC scheme.

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ISSN 0128-4878 (Print)

ISSN 2289-5639 (Online)

