

Constituting an Islamic Social Welfare Function: An Exploration through Islamic Moral Economy

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Abstract

Purpose: This study aims to theoretically explore and examine the possibility of developing an Islamic Social Welfare Function (ISWF) within the Islamic Moral Economy (IME) frame by going beyond the traditional *fiqhi* approach. It focuses on issues of preference ordering and utility through the normative dimension of Islamic ontology, as expressed and articulated within the IME

Design/methodology/approach: Being a theoretical paper, a conceptual and critical discursive approach is utilised in this paper.

Findings: To establish an ISWF, a narrow juristic approach remains inadequate; there is a need to integrate the substantive morality to complement the juristic approach to achieve the *ihsani* process as the ultimate individual objective, which makes an ISWF possible. Since the scattered debate on the topic concentrates mainly on the juristic approach, the main contribution of this study is to present a model in which juristic and moralist positions endogenized and augmented to constitute ISWF.

Originality: Since there is a limited amount of research is available on the subject matter, this paper will be an important theoretical contribution. In addition, this study develops an IME approach rather than *fiqh* based approach utilised in the available research, which makes it novel.

Keywords: Social welfare function; Islamic moral economy; Islamic social welfare function; Islamic substantive morality; Islamic juristic approach

1. Introduction

The wealth generation and distribution related issues — such as shared prosperity, the sustainable development goals, environmental-social-governance (ESG), and participatory governance — have become an important part of the post-financial crisis debate by various circles including international development agencies. A fundamental aspect of shared prosperity—and other similar aspirations—goes beyond the economy and relates to the underlying social contract. The social contract practiced in each society is based on a particular conceptualization of social welfare that corresponds to the public policy choices in that society that define the possibility of shared prosperity and peace in society. The nature and construct of social welfare should be defined so that shared prosperity and sustainability issues can be articulated on a robust ground, beyond pragmatist attempts. An equitable, just, and human-centred world system, functioning both within and across generations, needs to be developed and embedded, either by the proper generation and inculcation of rules or through the facilitation of civil society, which requires a systemic and integrated political economy approach.

As regards to the prevailing paradigm of neoclassical economics, its assumptions does not allow actualisation of social welfare, as the methodological framework of neoclassical economics rests on a paradigm of human “egoism, rationality, self-interest and utility maximization” (Mueller 1989: 2). Accordingly, all institutions in society are operated with the explicit approval of the market system, which lets the price mechanism rule and decides how, when, and for whom to produce. Since the efficiency of the market is taken as given, prices are assumed to precisely reflect individuals’ desires and constrain their choices. No substantial morality is involved in the model—except voluntarily selected moral considerations—since all movements across institutions are left to the mercy of the price mechanism to be just, equal, and efficient. Therefore, a social welfare function (henceforth, SWF) designed within such a paradigm is not necessarily sufficient to provide a comprehensive understanding of social reality because of its value-free nature and over-emphasis on self-regulation and neutrality.

The conceptual definition of social welfare in conventional economics has its roots in some liberal value judgments; hence different concepts of social welfare statements have been derived from various liberal perspectives (among others *see*: Sugden, 1981; Rowley and Peacock, 1975; Nozick, 1974; and Rawls, 1972). The basic ones are “individualism, pluralism

of values, the importance of rights, and equality” (Sugden, 1981: 10-11). The liberal perspective, in this context, necessarily requires the maximization of the SWF through the tools of economics. In an expanded definition, the SWF “should be seen as a statistical ‘aggregator’ that turns a distribution into a single number that provides an overall judgment on that distribution and that forces us to think coherently about welfare and its distribution” (Deaton, 1997: 135).

In reflecting, the four types of SWFs, namely Bergson-Samuelson (1954), Harsanyi (1955), Arrow (1963), and Rawls (1972) under neoclassical economics, are all derived from the Western ontology; hence rationality, a liberal-secular world view, capitalistic ideals, unconstrained individual freedom, and self-maximizing behaviour constitute the epistemological bases of these SWFs. A paradigm shift is, therefore, needed to allow a well-functioning and just social welfare model. Therefore, an endogenization process is indispensable to include the interests of all stakeholders in such an equation. Conventional economics has not been able to embark on this process yet; contrarily, the consequences of the market economy keep continuing to undermine the moral fabric of society (Hirsch, 1976).

Public choice economists have endeavoured to answer the question, “how [can] political institutions and rules be designed in a manner which will direct the self-interest of political players to the furtherance of the general welfare” (Wagner and Gwartney, 2004: 14). Unlike the neoclassical creed, which favours the “market process” to explain and describe the behaviour of the so-called *homoeconomicus*, public choice economists prefer the “political process” to study this behaviour (Wagner and Gwartney, 2004: 5). The main distinction here is that neoclassical economists stress the importance of physical constraints of nature, which individuals and states are always subject to, while a public choice approach focuses on institutions that shape and occasionally constrain individuals’ choices and behaviour (Brennan and Buchanan, 2000). Although the latter approach incorporates nonmarket sources of individual behaviour into its model, its ontological and epistemological roots—which are in line with neoclassical postulates—do not permit a comprehensive understanding of the SWF.

In response to socioeconomic inequalities and injustices, religions have also cognitively instituted economic systems, which prevailed for many centuries before the modern era. The economic system developed through the cognitive knowledge system of Islam adopts the perspective of a moral economy to rectify the failures of the market economy. The Islamic

Moral Economy (henceforth IME), with its distinctive values and norms, evaluates economic activities primarily by way of reference to the tenets of the *Qur'ān* and *Sunnah*. By conforming to these tenets, people reach *falāḥ* (salvation) in this world and the *akhirah* (hereafter). The *falāḥ* process, enhanced with *iḥsāni* (equilibrium-oriented benevolence) social capital, can play a pivotal role in the construction of an Islamic SWF (henceforth ISWF); as *ihsan*, as a quality and attitude, provides the basis for sharing economy.

IME is guided by a multidimensional approach to welfare and development issues, which “regards individual and social welfare as complementary rather than competitive and antagonistic. It, therefore, encourages cooperation instead of competition and rivalry; and develops an intimate relationship between individuals” (ur-Rahman, 1974: 33). Thus, several normative and ethical foundational axioms are derived from IME in constructing ISWF. These extend beyond *fiqhī* (the Islamic legal and form-based) approach and constitute the operating tools of the *falāḥ* process. The main foundational axioms as the IME’s epistemological roots that form the *falāḥ* process are *tawhid* (unity), *al’adl wal iḥsān* (justice and equilibrium), *fard* (responsibility), and *ikhtiyār* (free will) (Naqvi, 1994: 26-29).

The precepts of the IME express the essence of the notion of shared prosperity, as well as incorporating various social and moral factors that determine economic and financial decisions. However, the practice in the Muslim world and the realm of Islamic finance in the past forty years has contrasted sharply with these precepts. Therefore, at least a theoretical attempt should be made to constitute the potential nature of an ISWF, define its underlying assumptions, and its expression in real-life. Without this, ‘shared prosperity’, ‘sustainability’, and ‘social well-being’ will not be possible, because the agents and the interactions needed to fulfil such functions would be absent in the analysis. Such undefined social welfare and ISWF should perhaps be considered as one of the reasons of social failure observed in Islamic banking.

This study, therefore, aims to theoretically explore and examine the possibility of developing an ISWF within the IME frame by going beyond the traditional *fiqhi* approach. It focuses on issues of preference ordering and utility through the normative dimension of Islamic ontology, as expressed and articulated within the IME. By considering Arrow’s impossibility theorem and debate around it, this study uses an Islamic public choice approach and Islamic axioms to construct a novel counterargument to add to the overall discourse. Currently, the scattered debate on SWF relating to the precepts of Islam remains rooted within the *fiqhī* approach. This

study aims to develop the moral aspects of the ISWF and synthesize them with the *fiqhī* approach, which distinguishes the contribution of this study.

The rest of the paper is organised as follows: Section 2 aims to construct ISWF by referring to its constituents, which locates it within IME, while Section 4 provides a discussion and conclusion.

2. The Conceptualization of Social Welfare Function through Islamic Moral Economy

As expressions of neoclassical economics and neoliberal policies, market economies have fallen short in their attempt to meet expectations about improving people's well-being, reducing inequality and poverty, and increasing social welfare and economic development (*see* among others: Sen, 1999; Etzioni, 1988). The current imbalance of wealth around the world reflects this shortcoming; 70 percent of the world's total income is concentrated in 20 percent of the world's population (Cummins and Ortiz, 2011: viii). One of the main reasons for this poor performance is the denial of any 'existential' role for morality in the market economy, which has been claimed to be a value-free and ethics-free zone. However, "no human endeavour is value-free, which implies that reality, including economic reality, is socially constructed" (Asutay, 2007: 3).

A counterargument proposes that classical economists incorporated ethical concerns into their economic understanding. Thus, neoclassicists should follow classical economists in bringing ethicality (considerations of morals or principles of morality) into their models (*see*: Sen, 1982; Putnam 2002). Classical economists did emphasize ethicality as part of the voluntarily selected economic activities—in contrast to the concept of morality, which necessitates norms and values to be embedded in the economic system not as an optional activity but as a "right" (Asutay, 2012). The "normative economy" is a kind of economy where moral values and norms are the driving forces of the whole economy (*see*: Thompson, 1971; Scott, 1976; Etzioni, 1988; Arnold, 2001; Sayer, 2007). Sayer (2007: 262) defines the scope of the moral economy as "moral norms and sentiments ... structur[ing] and influenc[ing] economic practices, both formal and informal."

Polanyi (1944) lucidly argues that moral economies were present in economies and societies in the era before self-regulated markets. The market exchange was not the sole determinant of economic activities; economic and financial activities were also embedded within the norms

and values of the society and, also, determined by noneconomic factors such as the normative world of their respective societies. In addition, traditional economies and societies were also based on cooperation, mutuality, reciprocity, and distribution rather than competition in access to resources (Polanyi, 1944). However, capitalist societies have spawned a new breed of commercial or self-regulated market design in which fictitious commodities have been created through commoditization. Thus, there is a need, according to Polanyi (1944), to “re-embed economy in society” and to “de-commodificate labour, land and money.”

The IME is considered as another aspect of the Polanyian countermovement to re-embed the economy to ensure the dignity and interest of all stakeholders and the fair distribution of resources so that *ihsān* (beneficence) can prevail in defining a good society. The substantive morality suggested by Islam goes beyond the narrow definition of “efficiency-oriented economics”. This broadening of scope highlights the distinction between Islamic economics and the IME.¹

In sharp contrast to the neoclassical value-free notion of economics, which is bounded with the behavioural postulate of *homoeconomicus*, the IME posits *homoIslamicus*, an individual whose behavioural norms remain the same as a Muslim regardless of the political, economic, and social spheres. That is, *homoIslamicus* lives a life without dichotomy, in which there is no separation in the form of divine and non-divine or profane and sacred. This non-dichotomous fusion also considers the life here and the hereafter as part of the same sphere (Reda, 2013), implying that utility and SWFs are continuous. The IME sees *homo Islamicus* as a “socio-tropic, God-conscious and hereafter concerned” individual, who seeks to employ “intra-and intergenerational social justice...with the aim of forming an authentic Muslim identity as opposed to global dominance of capitalism” (Asutay, 2007: 3). By doing so, the individual utility function aims to reach *falāḥ*² in this world and *akhirah* in the next and optimize social welfare by expanding *ihsān* in society.

¹ Since the term, economics, is already a neoclassical construct that has been subjected to serious backlashes by Islamic scholars, concatenating “Islam” and “economics” -as “Islamic economics” suggests- produces a conceptual inconsistency with Islamic teachings since Islamic economic model would seem otherwise as one of the variants of Western economics. Therefore, it is more convenient to use IME in responding to the aspirational socioeconomic goals of Islam in line with ‘*iqtisad*’ conceptualisation (Al-Hasani, 2003).

² The importance of the process of *falāḥ* can be appreciated by looking at the words of the *adhan*, the call to prayer. One of the calls in the *adhan*, “Hasten to *falāḥ* (real success/salvation)” is repeated five times a day to invite individuals to *falāḥ*.

The overriding objective of the IME is to develop a *falāḥ* process through *iḥsāni* social capital, which is primarily concerned with upgrading the level of well-being of every member of society. Within such a process, “distributive justice” (Naqvi, 1981), harmonious growth (*tazkiyah*), and human *falah* is achieved, as Islamic norms and values harmonize the actions and behaviour of all agents in the society.

2.1. Theoretical foundation

In an IME, wealth is generated through cooperation and mutuality (El-Gamal, 2007), in contrast to the capitalist perspective that necessitates competition and rivalry for the creation and sustenance of wealth. Islam disapproves of the accumulation of wealth in the hands of a few, which results mainly from capitalist desires; instead, it concentrates primarily on the refinement of the “least privileged group in society” (ur-Rahman, 1974: 8). Under this operational framework, “wealth keeps on circulating continuously among the people and does not unnecessarily accumulate at any particular point” (ur-Rahman, 1974: 9).

The whole objective of generating a fair distribution of wealth is to reach *falāḥ* (salvation) in this world and the *akhirah* (hereafter). The *falāḥ* process requires the maximization of *iḥsāni* (benevolent) social capital in society. *Iḥsān* oriented behaviour promotes the well-being of each member of society, which, in return, leads to social welfare. The objective of ISWF is thus to maximize *iḥsān* among people.

One of the distinct features of Islamic social welfare is that “the Divine Law emphasizes primarily the right (*i.e.* just) distribution of the benefits of collective action rather than the maximization of the flow of such benefits through whatever means” (Naqvi, 1983: 21). This contrasts with the conventional economic paradigm in the sense that the exclusive goal of economics is “maximization”, irrespective of the righteousness of the means for achieving its welfare statement. Islam, however, monitors how wealth is acquired and for which purpose it is used, concerning itself with the legitimacy of both means and ends (Pramanaik, 1993: 35).

The preference ordering of Islam is determined not merely by economic variables; noneconomic variables also play a substantial role in shaping this ordering (Choudhury 1986: 112). The vital concept of *akhirah*, for instance, affects individuals’ preference orderings by requiring them to examine their noneconomic choices. Welfare is conceptualized concerning both this world and the hereafter.

Zarqa (1980) develops an SWF by including non-economic variables such as *taqwá* (God Consciousness) and *akhirah*, which has two components. The first is the attainment of what Al-Ghazali, and later Al-Shatibi set out as the three objectives, which are “necessities, conveniences, and refinements”. The second is providing “a set of rules of precedence which helps to resolve conflicts among different social objectives. The two components together make up the SWF” (Zarqa, 1980: 13-15).

Islam, thus, supports a social welfare model that aims at improving individuals’ material well-being, while leading them to the attainment of “spiritual uplift” (Chapra, 1979: 9). As the latter aims at emancipating and empowering individuals to become ‘doing’ and ‘functional’ in the way of ‘becoming *ihسانی*’ (Asutay, 2007, 2012, 2018) or *tab’ay* (embedded) individual as defined by Arif (1989). Therefore, as in Zarqa’s understanding of human welfare-oriented Islamic economics emerged, in a Polanyian (1944) sense, to rescue human, land, labour, capital, environment, and other stakeholders so that human welfare should be achieved along with and in line with the welfare of other stakeholders as the *tazkiyah* and *rububiyah* axioms of IME suggests.

2.2. Articulating Islamic moral economy

Islam suggests an axiomatic approach for its economic model. The foundational axioms “[turn] an unwieldy catalogue of ethical values [of Islam] into a countable number of axioms, which then form an ethical system” (Naqvi, 2003: 149). The axioms articulate the moral obligations of the institutions of the IME. This ethics-based approach sets Islamic economics apart from conventional economics.

Some leading scholars, such as Naqvi (1981, 1983, 1994, 2003), Chapra (1992), and Ahmad (1994) have proposed constituting axioms of Islamic economics, and Asutay (2012, 2013) has developed and extended them. These demonstrate the distinctive nature of the ISWF within the IME paradigm, which are explored as follows:

Tawhid (complementarity and unitarity; the Oneness and Unity of Allah): This axiom clarifies “the rules of [the] God-man and man-man relationship” (Ahmad, 1994: 12) and encompasses the “vertical dimension” of Islamic ethicality (Naqvi, 1981: 48). *Tawhid* indicates that Allah has created the universe for human beings as an opportunity for spiritual accountability, to examine whether their actions conform to the *Qur’ānic* teachings, leading to *akhirah*. Thus,

individuals do not have absolute freedom in their choices. Instead, with the limited information they have, the cognitive limitations of their minds, and the finite amount of time they have to make a decision (bounded rationality), they are guided to choose the option that is in line with Islamic norms and values, until then they reach *falāḥ* in this world and *akhirah* in the hereafter. Importantly, this axiom suggests that individuals are equal in their distance to Allah, regardless of their gender, nationality, race, wealth, or other identifiers. Therefore, they have equal access to the resources created by Allah for them and interest of all the stakeholders should be considered equal (Asutay, 2018). Their equality in the sight of the Creator, and their complementarity and unity of purpose in the *falāḥ* process, have important ramifications for the nature of the social contract that underlies social justice and social welfare. Hence, *tawhid* provides the mainframe both ontologically and in terms of policy for the ISWF.

Al'adl wal ihsān (justice and excellence) reflects the “horizontal dimension of equity” (Sirageldin, 1995: 464). Recognizing the ascendancy of Allah, it eschews any system that engenders a hierarchical classification among individuals. *Taqwá* is the only distinguishing feature that differentiates people in the *akhirah*. In line with these considerations, Islam encourages people to establish justice in society. This equilibrium is achieved not only through arrangements at the institutional level but also by introducing *ihsāni* social capital, which encourages and spreads beneficence so that an equilibrium can be maintained in the society through sharing economy. In so doing, “high levels of good life (*hayyat-al-tayyebah*), both individual and collective” are achieved (Ahmad, 2003: 193).

The existence of *al'adl* necessitates an environment where all human beings have equal opportunities in terms of accessing and acquiring material and nonmaterial goods (Asutay, 2018). However, this particular definition of justice does not contradict the practical fact of the diversity of individuals' initial levels of well-being and capabilities; Allah tests every individual in this world with some deprivation of resources and capabilities to entitle them to get an eternal life in the *akhirah*—where no deprivation and incapability exist, and where individuals are rewarded as promised and articulated in the *Qur'ān*.

It should also be noted that the Islamic concept of social justice suggests two directions for an individual's attitudes, “forming a unity whose spiritual aspirations cannot be separated from his bodily desires, and whose spiritual needs cannot be divorced from his material needs” (Qutb, 1976: 126).

Another constituting axiom is *tazkiyah* (purification plus growth), which refers to the growth and purification of attitudes and relationships—with Allah, with other fellow individuals, with the natural environment, with society, and with the state (Asutay, 2007, 2012), which all are considered stakeholders, working together for common ends. What makes *tazkiyah* distinct from conventional growth is that *tazkiyah* requires harmonious growth in all institutions (political, economic, social) so that an improvement in one sector of society does not lead to the violation of another. Therefore, the IME aims at sustainable and inclusive growth to eliminate imbalances in society; it does not allow non-harmonious development.

Rububiyah (directing things for their perfection), as an axiom, reiterates that everything in the world is created with perfection as part of its *fitrah* (law of nature). Therefore, each person in society should be given the opportunity to pursue his or her respective path to develop in accordance with the *fitrah* process. In terms of sustainability, this axiom suggests enabling individuals, society, and the natural environment so that they can reach their perfection. Thus, the aim of the ISWF is to integrate the expected opportunity space of each stakeholder.

As for *ikhtiyār* (free will), Islamic philosophy attaches partial freedom to an individual in his/her choices, as opposed to the absolute freedom of Western philosophy. Islam allows individuals any alternative or any path to follow, but the consequences of choosing the right or wrong path are also the individual's responsibility (Chapra, 1979). Individuals, as *khulafa'* (plural for *khalīfah*) in this world, know that only Allah has perfect knowledge, so when making choices, they acknowledge that they need Allah's guidance to choose the best alternative. Thus, individuals should decide accordingly, even if their personal views are in conflict with the resulting situation.

Amanah (trust) emphasizes that everything belongs to Allah; no individual has absolute ownership. Individuals, as *khulafa'* in this world, act as trustees and use the trust of Allah (*amanah*) to reconstruct institutions that do not conform to the Objectives of Islam. The appropriate use of trust contributes to both self-development and social development. This insight also differs from the conventional view of private ownership, which bestows absolute possession over goods (Chapra, 1992: 207).

With regards to *khalīfah* (vicegerency), conventional economics treats human nature as if “human beings are ... passive and helpless; they have no mission for life” (Chapra 1992: 204). However, Islam has expectations for individuals to revitalize existing institutions concerning

the objectives of Islam. Therefore, every Muslim, as part of the *ummah*, has the chief responsibility to develop these institutions both for his or her own well-being as well as social welfare. While doing so, he or she pursues *amanah* as Allah's representative on earth (Asutay, 2012, 2013) and endeavours to inculcate distributive justice. Thus, this axiom suggests solidarity among people through social accountability, in their role as vicegerents of Allah.

Ukhuwah (solidarity) axiom can best be summarized by the following hadith or the saying of the Prophet Muhammad: "The Believers, in their mutual love, mercy, and compassion, are like one body: if one organ complained, the rest of the body develops a fever" (Sahih Al-Bukhari, Sahih Al-Muslim). Islam directs its adherents to work together to build a social fabric to fashion an authentic Muslim identity. Every member of the Muslim *ummah* acts with solidarity, irrespective of gender, race, wealth, and so on. Acting with solidarity, in an Islamic sense, generates cooperation and guarantees the safety of other's well-being. *Ihsān* is considered an essential aspect of the individual objective function in the sense that individuals striving for *falāḥ* should also aim at helping others attain *falāḥ*; this results in the creation of *ihsāni* social capital. IME suggests that achieving human well-being can be possible by expanding *ihsān* as social capital.

In summary, individuals' initial level of well-being is not the primary concern; instead, establishing fairness and equity of distribution among individuals must be prioritized to locate social justice at the centre of an individual's behaviour and societal relations. The question of whether "absolute" justice can be achieved through equitable distribution is irrelevant because the establishment of absolute justice can be attributed only to Allah, who treats and reciprocates individual human beings with absolute justice as an outcome of everyone's actions in this world. For this reason, everyday life requires a never-ending search for betterment ("becoming"), irrespective of considering whether this betterment can be achieved (Asutay, 2018). However, this search for betterment does not place individuals in a passive position concerning social justice; rather, it requires every individual, one by one, to become an active leader (*khalīfah*) of it. Thus, the strengthening of social justice hinges entirely on individuals' recognition and fulfilment of their *khalīfah* role (Asutay, 2013, 2018). By doing so, they expect to be rewarded in the *akhirah* or reach *falāḥ* in this world and the hereafter.

2.3. Islamic social welfare function: *Fiqhī* construct and frame

The epistemological basis of the ISWF is two pronged: *fiqhī* construction is concerned with the form, and the moral construction is concerned with the substance. The nine axioms described are the foundations of the moral construct. These two approaches complement each other; a failure in the fulfilment of any aspect of either one necessarily makes the ISWF incomplete.

This section first explores the *fiqhī* construction because this has been the main approach covered in the literature. It makes a special reference to Hallaq's (2002) work. It then concentrates on how the axioms should play a pivotal role in the moral construction to complete the ISWF. The discussion presents a novel attempt to demonstrate the possibility of establishing an ISWF through well-functioned axioms by endogenizing the moral dynamics of the IME.

The IME gives strength to the establishment of an ISWF within which Muslims as *khulafa* and trustees of Allah can rejuvenate the world in the light of Islamic goals. A proper ISWF that fulfils this objective is not treated as the end itself, but rather as the means to achieve *falāḥ*. This intermediary role constitutes the main characteristic that differentiates it from other types of SWFs.

The construction of an ISWF requires the following question to be answered: Can a social preference ordering be produced in which an individual's preferences and values are reflected? As explained, Arrow (1963) addressed this objective by concluding that there is no way to amalgamate individual preferences to produce a social preference ordering that satisfies all four of his axioms. However, an ISWF, with its moral axioms and *fiqhī* form, can claim the possibility of making such an augmentation by definition.

The *fiqhī* tool plays an important role since it pins down the boundaries for the individual behavioral norm. In this sense, it functions like bounded rationality in the IME framework. An ISWF that puts the individual at its center must construct a *fiqhī* basis together with the moral aspect to produce the maximization of social welfare that is acceptable to Islam. Hallaq (2002: 104) attempts such a construct through a *fiqhī* approach that classifies individual actions according to five ordinances:

- (i) *wajib* (W) – Mandatory – ‘must do’;
- (ii) *mandub* (M_a) – Recommended – ‘should do’;

- (iii) *mubāḥ* (M_u) – Permissible – ‘may do’;
- (iv) *makrūh* (M) – Undesirable – ‘should not do’;
- (v) *harām* (H) – Prohibited – ‘must not do’.

Accordingly, the available set of alternatives for an individual to choose from is:

$$U=U(W, M, M_a, M_u, H),$$

where U stands for a universal set.

Hallaq (2002: 104) restricts individual choices to three options: M_a , M_u , and M . Because, he thinks that Islam attributes no choice for the remaining actions, which are either prohibited (H) or mandatory (W). He further suggests that recommended (M_a) and undesirable (M) actions are also bounded, in the sense that in certain circumstances, they can be replaced with mandatory (W) and prohibited (H) actions. In sum, four of the five categories are bounded actions. Therefore, the only *mubāḥ* remains as a set. Hallaḳ (2002: 104) considers this set unbounded because it “is the only part of the domain that individuals can choose freely.”

With this premise, Hallaḳ (2002: 112) concludes that the Arrowian condition of unrestricted domains still does not hold in constructing an ISWF because the feasible sets of actions are restricted to three sets, initially, and then finally to one. He prefers concentrating on only the set of potentially permissible (*mubāḥ*) actions. Thus, there is no longer a restricted domain.

In this way, Hallaḳ (2002) suggests a reconciliation that brings the domain into conformity with Arrow’s unrestricted domain assumption. While appreciating the fact that Arrow’s axioms are not the ultimate conditions for establishing an ISWF, it is nevertheless noteworthy that Muslims *do* have a choice even concerning *wajib* and *ḥarām* activities, contrary to Hallaḳ’s views. Although Islam suggests the right path to follow, individuals are allowed to make their own choices, as the axiom *ikhtiyār* indicates. Allah tests every individual in this world. People must comply with this test in return for taking responsibility for the consequences of their choices. What is impermissible for Muslims does not mean it is also not feasible for them. Consequently, according to Hallaḳ (2002), the ISWF does not hold the restricted domain assumption.

Hallaḳ (2002: 112) attempted to reformulate Arrow’s conditions by introducing the ‘Islamically imposed axiom’, which he interprets as adherence to the Islamic tradition, who assumes that this axiom could preclude what Arrow refers to as the dictatorial solution because

“the compromises in a public issue in a Muslim community would be easier, since therein behaviour is governed by certain values and religious beliefs, such that individuals do not consider themselves an isolated unit of the community” (Hallaq, 2002: 122). However, even the addition of this assumption is not seen as sufficient for the construction of an ISWF based on Arrow’s postulates. Hallaq (2002) therefore prefers approaching the problem along the lines of Buchanan (1954), arguing that for a Muslim society, “it is more important to focus on the process by which the community is willing to reach a social choice that is consistent with Islamic values, more than worrying about the nature of the function itself” (Hallaq, 2002: 114). This paper argues that such a process can be achieved only by completing the system with ethical norms through IME, as discussed in the following sections.

2.4. The moral complementary of the *fiqhī* construction of the Islamic SWF

Hallaq (2002) argues for the possibility of an ISWF through the satisfaction of Arrow’s conditions. He approaches the problem with a *fiqhī* method by constructing five ordinances for the basis of an ISWF. He does not deal with the moral aspect but gradually introduces the Islamically imposed axiom as the reflection of the moral dimension. Since the available *fiqhī* construct does not explicitly state that it is also morally acceptable—although it does determine the behavioural norms—there is a need to reconsider the five ordinances as the layers of preferences. Otherwise, the problem could degrade merely to the individual level and lack consideration of the societal implications; this would produce a partial solution concerning the construction of ISWF.

Looking carefully at the five layers of preferences, it should first be acknowledged that *mandub* (M_a), *mubāh* (M_u), or *makrūh* (M) activities do not have an absolute priority over another concerning the ordering of preferences. Even *harām* (H) and *wajib* (W) sets are subject to differing preferences during their ordering process. The determinations as to which sets are incorporated into the social preference ordering first and which are disregarded depend upon the conformity of the chosen set to the aspirations of the IME, which are subject to differ with context and time-space factors. Therefore, as Batabyal (2012: 375) refers Binder (2010) stresses, “individual preferences can be both context-dependent and time-varying”, which give rise to ordering social preference by accounting for these factors, rather than stereotyping a certain ordering.

An Islamic social preference ordering should, therefore, be established by prioritizing some sets over others through the application of moral filtering. This filtering system might not necessarily deduce an ordering in line with the *fiqhī* ordering of these five layers since, in some circumstances, M_u activities may be preferred to M_a activities, or M activities to M_u activities, or any such combination that results in a better social welfare position.

At this point, the choice of one set over another for the construction of social preference ordering must address the *maṣlahah* (general welfare) criterion, which goes beyond the form-based understanding of the *Qur'ān*. According to this criterion, the layers are ordered and prioritized by considering their benefits to society and their avoidance of *mafsadah* (harm). However, it should also be noted that there is no room for *maṣlahah* in the explicit commands of the *Qur'ān* (*nass*). The general view of Islam, in this respect, is that “everything that lapses out from justice into injustice, and from mercy into its opposite, and from *maṣlahah* to *mafsadah*, and from wisdom into the frivolous, does not belong to *shari'ah*, even if it is inducted into it by interpretation (*ta'wil*)”, as Ibn al-Qayyim states (quoted in Siddiqi 2007: 6). The application of a form-based approach to the *Qur'ān*, in this respect, comprises a partial solution for the social preference ordering.

The adaption of consequentialism (the doctrine that the morality of an action is to be judged by its consequences as well as its intentional limits) suggested by the IME adds an orientation toward substance for the ISWF. Thus, a behavioural norm that is compliant with the form and process nature of *Shari'ah* cannot, at the same time, guarantee its rightfulness unless consequences of this behaviour are included in the analysis. The moral aspect, as a parameter for rightfulness, complements the *fiqhī* base with an examination of the entire decision-making process. Many examples abound in the real world. The Islamic finance industry, for instance, has many operations that are not in conflict with the textual understanding of economic verses of *Qur'ān*. However, these operations, including *tawarruq*, *murābahah*, and *ijārah*, although *ḥalāl* (permissible), by definition, do not conform well to the spirit of Islam in terms of their substance and consequences. Therefore, something that is *ḥalāl* from the *fiqhī* standpoint may not be put into the social preference ordering or should not be preferred to another activity that is more in the spirit of Islam. In a similar vein, the integration of morality with *fiqh* requires equal treatment to two different situations that are equally harmful. In this context, the IME understanding must respond in the same way to a *ribawi* (interest-based) contract as to a non-

ribawi contract if the latter has the same harmful effects as the former in society, even it satisfies the formal aspect of *Qur'ān*.

To give a contemporary example in illustrating why the *fiqhī* approach needs to be explicated and enhanced by the moral approach, fast food consumption or smoking can be mentioned. Although there is no unanimous agreement on whether fast food and cigarettes³ are *harām* or unlawful in *fiqh*, they should not be included in the social welfare concept because their harmful effects—such as obesity and addiction—are directly observable. Therefore, activities like making the taste of fast food attractive or opening a fast-food buffet to trade in a *ḥalāl* way should not be introduced in the preference ordering, although they fulfil individual needs and tastes. At this point, the IME paradigm suggests considering the concept of *tayyeb* (pure and good) beyond *fiqhi* definition of lawfulness as a constraint in the preference ordering, since the *Qur'ān* (2: 168) strictly stresses pureness and goodness immediately after lawfulness. Such examples demonstrate the vitality of morality while making decisions or deriving a rule for the construction of an ISWF.

The essential filtering of morality, however, is inevitably linked to the Islamic concept of bounded rationality. Contrary to the conventional meaning of rationality, the IME emphasizes its bounded aspect by stating that any individual action must be in accordance with the *shari'ah*. Thus, the concept of rationality is both bounded and broadened by incorporating *akhirah* in the form of social accountability, as the construct of the Islamic conception of utility. Pursuing and amassing nonmonetary rewards become a part of rational behavior because “the act of sacrifice is itself seen as enhancing the individual’s expected welfare” (Naqvi, 1983: 31). This understanding is deduced by the *farḍ* (responsibility), *khalīfah*, and *ukhuwah* axioms, which necessitate individual, social, and spiritual accountability. Thus, rational behavior cannot be reduced to the principle of mere self-maximization (Naqvi, 1994: 56).

The Islamic concept of rationality, in the social welfare context, does not accept individual preferences as “supreme and feeding into the social choice” (Choudhury, 1991: 268). This is one of the main features that distinguishes the Islamic public choice construct from the Arrowian sense of rationality, which strictly bases the SWF on individual sovereignty.

Because the strength and priority of *shūrā* (consultation and deliberating consent) in the decision-making process is articulated in the *Qur'ān* (42:38), Islamic public choice, in constructing an ISWF, also adopts a “*Shūrātic* decision-making process through [the] *ijtihād* mechanism” (Choudhury, 1980: 9). The *shūrātic* process involves taking input from stakeholders on both sides of all economic transactions and transforming such interactions into opportunities to advance the economic, social, and spiritual welfare of the entire society—at least in theory.

The method of social choice, from this perspective, adheres to consensus, but Islamic public choice puts *ijtihād* into the process as well to derive the preference ordering. In this sense, Islamic public choice produces a deductive, imposed consensus because *shari‘ah* already determines the framework of *shūrātic* decision making (Mannan, 1982: 17). It aims to actualize the imposed consensus in everyday life. By contrast, the Buchananian framework requires an inductive process of engagement to establish consensus. Islamic public choice uses only a deductive method—namely *ijtihād* (legal reasoning)—in terms of deriving rules but uses an inductive method in providing the substance of the consensus, in the sense of the social contract within the derived rule.

The *shūrātic* model for social preference ordering requires representative decision-makers *khulafa’* who have the responsibility for the consequences of their decisions (Choudhury, 1991: 259). In deriving social choice in the IME, the representatives *khulafa’* act on behalf of individuals; thus, the averages of individual preferences are not taken to produce public choice. Also, contrary to the conventional form, Islamic public choice does not assign equal weights to the preferences, since “the least-privileged people need much priority for establishing distributive justice” (Naqvi, 1983: 34-35).

Arrow’s Pareto condition implies that efficiency is the exclusive condition for the preference ordering, irrespective of the concern for equity and justice. These moral considerations are left to the market’s self-regulating capabilities; hence, the Pareto principle adopts a stance of neutrality about distributional concerns (Naqvi, 2002: 115). Therefore, in Paretian terms, “a society or an economy can be optimal ... even when some people are rolling in luxury and others are near starvation as long as the starvers cannot be made better off without cutting into the pleasures of the rich” (Sen 1970: 22).

By contrast, the IME, based on consequentialism, assumes that every social preference ordering must reveal “right outcomes as well as efficient solutions” (Mannan, 1982: 17). This implies that the priority of equality over efficiency is derived from the principle of socioeconomic justice or *al’adl wal ihsān* of the IME. Although the trade-off between efficiency and equality is an indispensable paradox for conventional economics, the IME attributes no conflict between them; rather, it points out the “simultaneity” of these two (Choudhury, 1991: 273).

In exploring and expanding the interaction within the Islamic social welfare framework, Choudhury (1991: 267) introduces the principle of “ethical endogeneity”, which is similar to Rawls’ (1972) notion of “reflective equilibrium”: working back and forth among our considered judgments as we reflect on and revise our beliefs about an area of inquiry, moral or amoral. This implies that: “there is an intrinsic two-way relationship between polity (policy variables) and the market system (state variables) in an ethicoeconomic order. In such interrelationships, both policy variables and state variables feedback upon each other in a dynamic labyrinth of social transformations. Such a property of the polity-market interaction generates locally, but not globally, stable solutions for state and policy variables in an ethicoeconomic general equilibrium system” (Choudhury, 1991: 267).

In the IME framework, socioeconomic justice requires an inclusive growth process (*tazkiyah*). Thus, polity-market interactions must be in harmony with one another. This makes Western-type SWF impossible, as can be seen in Arrow’s impossibility theorem. The failure of Western economic thought concerning explicit growth policies emanates from the lack of such endogeneity.

By contrast, through the endogeneity derived from the *tawhidi* framework—which determines the individual-individual, individual-environment, and individual-Allah relationships—individual preferences can be ordered, and these preferences can be amalgamated without contradiction. Individual-individual relations are determined by the *al’adl wal ihsān*, *ukhuwah*, and *khalīfah* axioms within the *tawhidi* paradigm and according to the *shūrātic* process, in which every individual promotes his/her well-being without a violation of others, and also aims to promote the well-being of others according to his/her constraints. Individual-environment relations are concerned with the development of both intra- and intergenerational justice and the *iṣlāḥ* (reform) of old institutions. This requires a “continuous reproduction [of resources]” in lieu of searching for an optimal resource allocation within a competitive environment

(Choudhury, 2009: 225). As for individual-Allah relations, the two-way relationship between Allah and the individual forms the ontological basis for an ISWF.

With this insight, individual consciously makes preference orderings in line with the *Qur'ānic* teachings, which necessitate the consideration for the *akhirah*, for individual's mission in this world through *khalīfah* and for individual's conscience of his role as trustee of Allah in the meaning of *amanah* within the *Tawhidi* paradigm and *shuratic* process. These three relationships under the umbrella of foundational axioms should be considered as the constituents of the ISWF; at the same time, they correspond to the implications of Hallaq's (2002) five ordinances. This correspondence addresses the moral complementary of the *fiqhī* construction of the ISWF.

The Pareto condition and unrestricted domain assumptions do not hold in the ISWF. The unrestricted domain assumption is needed because individual preferences are assigned "different weights, and some have zero weights" (Naqvi, 1994: 66). However, considered in terms of the five layers of individual preferences, there are no restrictions on the domain; instead, there is a filtering mechanism through the *shūratic* process.

The non-dictatorship assumption of Arrow, on the other hand, holds in the ISWF because the *al'adl wal ihsān* (horizontal equity) axiom rejects the enforcement of choice of any one individual on the rest. Historically, there has been an explicit tendency by adherents of neoclassicism to assume that the state is exogenous and a mostly neutral benevolent factor. Hence, from the neoclassical point of view, constructing an SWF implicitly necessitates the attribution of the state as an omniscient dictator. The impossibility of developing an SWF based on Arrow's assumptions can be circumvented only by introducing a benevolent state in which the social preference ordering is assumed to be established by state organs, and this ordering serves for the refinement of every individual. Muslim scholars, on the other hand, usually assume an endogenized benevolent state.

The IME approach rejects both these views. It suggests giving up this idealized view of state because the state is constituted by individuals, and individuals, by definition, have a normative way of approaching issues. This view is antagonistic to the understanding of the state as an organic entity. Thus, the IME's response to the state-oriented solution to Arrow's theorem should be that the impossibility can be removed only by considering the state, in Downs' (1957) terms, "as a working part of the economy, not a force external to it" (Orchard and Stretton,

1997: 410). By introducing morality as a parameter into the model, the ISWF requires that some conditions of the Arrowian SWF be modified or rejected.

3. Discussion and Conclusion

This paper explores the theoretical possibility of constituting an ISWF that does not necessarily have to fulfil Arrow's conditions by arguing for different ontological and epistemological base. In this regard, IME suggests an axiomatic approach through the norms, values, and principles of Islamic ontology, intending to create a human-centred development process. Achieving social justice and social good through the essentialisation of *ihsāni* process and the expansion of *ihsāni* social capital remains the essence of this paradigm. However, in the conventional economic understanding of social welfare, biases in the welfare maximization of different classes is a major problem. For instance, one of the rationales behind formulating SDGs mainly stems from the fact that short-run economic development strategies and policies successively pursued by developed nations in the post-war era have resulted in developmentalist failure in the long-run due to the temporality of these achievements and the temptation of short-run profit maximisation blurring the reality of slowing down of economy signalling a serious catastrophe in the future. Islamic social welfare conception, however, envisages *tazkiyah* understanding, which requires harmonious growth in all institutions (political, economic, social) so that an improvement in one sector of society does not lead to the violation of another. Thus, an SWF based on the IME has distinctive characteristics as compared to alternative SWFs based on the prevailing neoclassical postulates. It is important to note that the distinction put forward by this paper is based on the articulation of IME as opposed to the traditional treatment of the subject through a *fiqhi* approach developed by Islamic economics.

The concept of *ihsān* plays a substantial role in the construction of SWF and individual well-being within the IME frame. The ultimate goal of all human beings that is, the ultimate objective of the utility function is to achieve Allah's consent. Efforts to attain this goal must encompass the *falāḥ* process through the accumulation of *ihsāni* social capital. Self-interested motives, rationality, and "egoistic welfare-maximizing calculus as the ideal type of economic behavior" (Naqvi, 1983: 29) do not contribute to the accumulation of *ihsāni* social capital. Islam, therefore, strongly recommends taking responsibilities (*farḍ*) and becoming vicegerents (*khalifa*) of Allah to embed *ihsān* among members of society. This is considered to be the only

way for human beings to achieve *falāḥ* in this world and the *akhirah*. The pursuit of the ISWF, in this sense, is an important means for human beings to complete the *falāḥ* process.

The foundational axioms aim to create an individual type (*homo Islamicus*) to revive the old institutions. But the critical point is that Muslims are in a state of “becoming”; they are not compelled to reach the *homo Islamicus* or most correctly *tab’ay* (embedded or surrendered) individual (Arif, 1989) state as an individual as long as they struggle in the process to attain this state. Thus, in the process sense, Islam does not adhere to a consequentialist approach. However, in terms of content, consequentialism is essential to ensure the substance of the process; it is content that ensures that the process of “becoming” is robust.

Within the Islamic framework, the Islamic *fiqhī* method of categorization embodies all possible ordinances with which individuals may construct their preference orderings. Each individual’s ordering of preferences within the universal set, however, is not definite; each ordinance can have superiority over another in certain circumstances. The moral filtering is determined by the axiomatic approach of the IME through *shūrātic* decision making, the *falāḥ* process, and the *maṣlahah* criterion. The application of such a filtering process allows for each preference ordering to comply in terms of both substance and consequence with the aspirations of the IME—which, in turn, enables a social preference ordering based on an IME to be produced. The standard *fiqhī* preference ordering—without the moral filtering that determines a certain position for each ordinance in the universal set—may lead to a situation where a social preference ordering is impossible to construct, except in the dictatorial solution addressed in the Arrowian notion.

The amalgamation of individual preferences into a social preference ordering becomes possible because, with the assumption of *homo Islamicus*, the application of moral filtering eliminates the heterogeneity of individuals’ orderings. This creates an environment where differences in individual orderings are minimized and every ordering does not contradict the others—as happens in a zero-sum game. As a result, both the individual preference orderings and the subsequent social preference ordering work in harmony with the understanding of the Islam moral economy.

The conventional economic system creates inconsistencies in the process of social preference ordering as long as it insists on its assumption of being value-free. In responding, a moral economy approach contributes to the establishment of a social preference ordering by

embedding individual values. The IME, at this point, can contribute to SWF related debate by introducing its distinctive features, norms, and values within an Islamic public choice approach. This process would embed *ihsān* as part of the substantive morality (beyond *fiqhī*-based instrumental morality). The result would be a different social contract, which would require a distinct SWF, in the form of an ISWF. Only then can a “balanced and integrated individual [well-being] and social welfare” (Mannan, 1982: 25) be achieved.

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