

PHILOSOPHICAL STUDY OF ISLAMIC ECONOMICS: Theological and Empirical Perspectives

Sinollah¹, Hasan Bisri², Saed M Adam³

^{1,2}Universitas Islam Raden Rahmat Malang, Indonesia; ³Abubakar Tafawa
Balewa University, Nigeria

email: ¹sinollah@gmail.com, ²Silvylailiyah17@gmail.com,
³saeduma@atbu.edu.ng

ABSTRACT

This study explores the philosophical foundations of Islamic economics, contrasting it with capitalist and socialist ideologies. By integrating theological principles with empirical analysis, this research highlights the unique contributions of Islamic economics in addressing contemporary economic challenges. Key findings reveal that Islamic economics offers a balanced approach to wealth distribution and ethical financial practices. The implications of this study suggest the need for integrating Islamic economic principles into mainstream economic policies to foster sustainable and equitable development. This study employs a qualitative approach using a literature review methodology, analysing primary sources such as the Qur'an and Hadith, as well as relevant secondary sources. The analysis demonstrates that the theological foundation of Islamic economics, rooted in the principle of tawhid, provides a unique perspective that integrates spirituality with economic decision-making. To realise this potential, policymakers should establish stronger regulatory frameworks that support risk-sharing financial models, and financial institutions should prioritise ethical investment and social impact initiatives. Additionally, integrating Sustainable Development Goals (SDGs) into Islamic economic policies can ensure that financial activities promote environmental and social well-being

Keywords: *Islamic economics, theological foundation, economic justice, capitalism, socialism.*

ABSTRAK

Penelitian ini mengeksplorasi dasar-dasar filosofis ekonomi Islam, membandingkannya dengan ideologi kapitalis dan sosialis. Dengan mengintegrasikan prinsip-prinsip teologis dengan analisis empiris, penelitian ini menyoroti kontribusi unik ekonomi Islam dalam menjawab tantangan ekonomi kontemporer. Temuan utama mengungkapkan bahwa ekonomi Islam menawarkan pendekatan yang seimbang terhadap distribusi kekayaan dan praktik keuangan yang etis. Implikasi dari penelitian ini menunjukkan perlunya mengintegrasikan prinsip-prinsip ekonomi Islam ke dalam kebijakan ekonomi arus utama untuk mendorong pembangunan yang berkelanjutan dan berkeadilan. Penelitian ini menggunakan pendekatan kualitatif dengan menggunakan metodologi tinjauan literatur, menganalisis sumber-sumber primer seperti Al-Qur'an dan Hadits, serta sumber-sumber sekunder yang relevan. Hasil analisis menunjukkan bahwa landasan teologis ekonomi Islam, yang berakar pada prinsip tauhid, memberikan perspektif unik yang mengintegrasikan spiritualitas dengan pengambilan keputusan ekonomi. Untuk mewujudkan potensi ini, para pembuat kebijakan harus menetapkan kerangka kerja peraturan yang lebih kuat yang mendukung model keuangan berbagi risiko, dan lembaga-lembaga keuangan harus memprioritaskan investasi yang beretika dan inisiatif-inisiatif yang memberikan dampak sosial. Selain itu, mengintegrasikan Tujuan Pembangunan Berkelanjutan (SDGs) ke dalam kebijakan ekonomi Islam dapat memastikan bahwa kegiatan keuangan mempromosikan kesejahteraan lingkungan dan sosial.

Kata kunci: *Ekonomi Islam, landasan teologis, keadilan ekonomi, kapitalisme, sosialisme*

A. INTRODUCTION

The dominance of materialistic ideologies in modern economic systems has led to significant socio-economic disparities, environmental degradation, and ethical concerns. Capitalist economies, which emphasise individual profit maximisation, have been criticised for widening wealth gaps and fostering exploitative business practices (Piketty, 2014). Similarly, socialist economic models, despite advocating for equality, often struggle with inefficiency and lack of innovation (Hayek, 1944). In contrast, Islamic economics presents an alternative framework that integrates moral and ethical principles, ensuring social justice and sustainable economic development (Chapra, 2000).

Previous studies have explored various aspects of Islamic economics, particularly its theoretical foundation and practical applications. Chapra (2000) examined the compatibility of Islamic economic principles with modern financial systems, arguing that ethical considerations in economic policies can enhance social welfare. Similarly, Asutay (2012) analysed the role of Islamic finance in fostering sustainable development. However, these studies primarily focus on financial instruments rather than the philosophical foundations of Islamic economics as a holistic system.

Another significant contribution is made by Kahf (2003), who discussed the historical evolution of Islamic economic thought, highlighting the works of classical scholars such as Ibn Khaldun and Al-Ghazali. While his study provides valuable insights into traditional economic perspectives, it lacks a comprehensive analysis of how these principles can be adapted to contemporary economic challenges. Furthermore, Hasan (2011) explored the operational aspects of Islamic banking and finance but did not address the broader epistemological and ontological dimensions of Islamic economics.

Despite the extensive literature on Islamic finance, a gap remains in understanding the philosophical underpinnings that distinguish Islamic economics from capitalist and socialist models. Existing research often treats Islamic economics as either a subset of conventional economics or merely an alternative

financial system, rather than a distinct economic paradigm rooted in theological and ethical principles (Dusuki & Bouheraoua, 2011). This gap necessitates a deeper exploration of the foundational arguments that justify Islamic economics as a comprehensive economic system. To address this gap, this research undertakes a more thorough and comprehensive literature review, identifying its unique contributions to the existing body of knowledge, and highlighting the specific research gap it aims to fill.

This study aims to bridge this gap by analysing the theological and empirical justifications for Islamic economics. By examining its ontological, epistemological, and axiological dimensions, this research seeks to establish Islamic economics as a value-laden system that prioritises both material and spiritual well-being. The study also contrasts Islamic economic principles with conventional economic theories to highlight its unique contributions to contemporary economic thought.

By addressing these issues, this research contributes to the ongoing discourse on ethical economics and provides a theoretical framework for integrating Islamic economic principles into modern economic policies. The findings are expected to enhance the understanding of Islamic economics beyond its financial applications, positioning it as a viable alternative for achieving economic justice and sustainability.

B. METHOD

This study employs a qualitative research approach to examine the philosophical foundations of Islamic economics and its implications for contemporary economic thought. Qualitative research is appropriate for exploring complex, value-laden phenomena, as it allows for an in-depth understanding of theoretical constructs and their contextual applications (Creswell & Poth, 2018). Given that Islamic economics is deeply rooted in theology and ethical philosophy, this approach facilitates a comprehensive analysis of its ontological, epistemological, and axiological dimensions.

This study employs a literature review methodology, also known as library research. This approach involves the systematic examination and interpretation of primary and secondary sources. Literature review is essential in philosophical studies as it enables scholars to critically engage with existing literature, identify gaps, and propose new insights (Boote & Beile, 2005). The primary sources include classical Islamic texts such as the Qur'an, Hadith, and works of early Islamic scholars like Ibn Khaldun, Al-Ghazali, and Al-Mawardi. Secondary sources comprise academic books, journal articles, and research reports on Islamic economics, capitalism, socialism, and economic justice.

Data collection is conducted through document analysis, involving the systematic review and synthesis of information from relevant literature (Bowen, 2009). This method proves particularly useful in theoretical and conceptual research, aiding in the identification of key themes, patterns, and arguments related to Islamic economics. The analysis employs a thematic approach, categorising data into key themes such as theological foundations, economic justice, and epistemological perspectives (Braun & Clarke, 2006).

The framework of Islamic epistemology is employed to interpret findings, ensuring that the study remains grounded in Islamic philosophical traditions. This framework integrates divine revelation (wahy), reason ('aql), and empirical observation (tajriba) as sources of knowledge in Islamic thought (Kamali, 2003). Additionally, comparative analysis is used to contrast Islamic economic principles with capitalist and socialist frameworks, highlighting both their differences and potential areas of convergence.

To enhance the credibility and trustworthiness of this study, triangulation is employed by cross-referencing multiple sources, ensuring interpretations are consistent with established academic discourse (Lincoln & Guba, 1985). Furthermore, peer-reviewed sources are prioritised to maintain academic rigour. In qualitative research, validity is established through thick description, which provides detailed contextual explanations of Islamic economic concepts and their applications (Geertz, 1973).

As this is a non-empirical study, and therefore does not involve human participants, ethical concerns primarily relate to academic integrity and proper citation of sources. All references are acknowledged following the APA 7th edition guidelines to ensure proper attribution and avoid plagiarism (American Psychological Association, 2020)

C. RESULTS AND DISCUSSION

1. The Theological Foundation of Islamic Economics

Islamic economics is deeply rooted in the principle of *tawhid*, the oneness of God, which provides a comprehensive framework for economic activities. This divine paradigm integrates spiritual and material aspects, distinguishing it from secular economic models. Wealth and resources are viewed as a trust (*amanah*) from God, necessitating ethical management and equitable distribution (Ahmad & Hasan, 2021). The Qur'an emphasizes fair trade and prohibits exploitative practices, laying the ethical groundwork for Islamic economics (Khan, 2020).

A key distinction between Islamic and Western economic paradigms lies in their foundational principles. Western economic thought, particularly capitalism, often emphasizes rational self-interest and market efficiency. In contrast, Islamic economics prioritizes moral responsibility and social justice. The concept of *maslaha* (public interest) is pivotal in guiding economic policies, ensuring that financial decisions align with ethical standards and societal well-being (Asutay, 2021). This contrasts with utilitarian economic theories that may justify profit maximization at the expense of ethical considerations (Siddiqi, 2020).

Historically, Islamic economic principles were effectively implemented in early Islamic societies, notably during the Rashidun Caliphate. During this era, economic policies centered around *zakat* (obligatory almsgiving), *waqf* (endowments), and *sadaqah* (voluntary charity), fostering a system that minimized economic disparities and promoted collective welfare (Chapra, 2021). Classical scholars, such as Ibn Khaldun, emphasized the importance of ethical leadership in

economic governance, asserting that a just ruler is crucial for economic stability (Kahf, 2022).

Despite its robust theological foundation, contemporary applications of Islamic economics face challenges. Some scholars argue that modern Islamic banking and finance have deviated from their original ethical objectives, becoming increasingly profit-driven rather than community-oriented (Dusuki & Abdullah, 2020). This has led to criticism that Islamic financial institutions merely replicate conventional banking structures under a different label. The challenge remains in bridging the gap between theological ideals and economic realities (El-Gamal, 2021).

Debates persist regarding the role of Islamic economics in the modern financial landscape. Some scholars advocate for Islamic economics as a comprehensive framework that can replace capitalism and socialism (Obaidullah, 2022). Others suggest that Islamic economic principles can be integrated within existing economic systems to create hybrid models that balance profit motives with ethical considerations (Farooq, 2021). This discourse underscores the ongoing effort to define the role of Islamic economics today.

Future research should focus on strengthening the implementation of Islamic economic principles in financial institutions and policymaking. Empirical studies are needed to evaluate how Islamic economic models can address global economic challenges, such as income inequality, financial instability, and unsustainable growth (Hasan, 2023). By aligning economic practices with ethical and theological foundations, Islamic economics can offer viable solutions to contemporary issues.

In conclusion, the theological foundation of Islamic economics provides a unique perspective that integrates spirituality with economic decision-making. By emphasizing ethical management, social justice, and collective welfare, Islamic economics offers an alternative framework that contrasts with conventional economic models. The ongoing challenge lies in effectively applying these principles in the modern context to address pressing economic challenges.

2. Economic Justice and Wealth Distribution in Islamic Economics

Economic justice (*al-'adl*) and equitable wealth distribution are central tenets of Islamic economics. Unlike capitalist systems, which often justify wealth accumulation through free-market mechanisms, or socialist models that advocate state control over resources, Islamic economics promotes a balanced approach that ensures economic equity without eliminating individual incentives (Iqbal & Mirakhor, 2021). The Qur'an emphasizes social responsibility, stating that wealth should not circulate solely among the rich, highlighting the importance of redistributive mechanisms such as *zakat* and *waqf* (Kamali, 2022).

Islamic wealth distribution mechanisms are designed to prevent extreme disparities between social classes. The system of *zakat* ensures that a portion of wealth is allocated to the poor, creating a social safety net that supports financial inclusivity (Rahman, 2020). Additionally, Islamic inheritance laws mandate the equitable distribution of wealth among family members, contrasting with Western capitalist models that often allow unrestricted wealth accumulation (Hassan, 2023). These principles reflect the Islamic economic philosophy that prioritizes collective welfare over individualistic wealth maximization.

Comparative studies indicate that Islamic finance fosters more inclusive economic participation. For instance, Islamic banking systems in Malaysia and the Middle East promote financial inclusivity through risk-sharing contracts such as *mudarabah* (profit-sharing) and *musharakah* (joint ventures) (Ariff, 2021). These models contrast with Western interest-based financial systems, which have been criticized for exacerbating wealth inequality and financial instability (Chapra, 2020).

However, despite its theoretical strengths, Islamic wealth distribution faces challenges in practical implementation. Some scholars argue that modern Islamic finance has failed to fully realize its redistributive potential (Dusuki & Abdullah, 2020). The increasing commercialization of Islamic banking has shifted the focus from social welfare to profitability, limiting its ability to address economic disparities. This raises concerns about whether Islamic financial institutions are

truly fulfilling their ethical obligations or merely competing with conventional banks under Shari'ah-compliant branding (Khan, 2021).

One primary criticism against Islamic banking is that many financial products remain debt-based, resembling conventional credit models rather than genuine profit-sharing mechanisms. Some scholars propose reforms that would redirect Islamic finance towards more equity-based structures, such as venture capital, *waqf*-based investments, and microfinance initiatives (Hassan, 2023). These solutions could enhance Islamic finance's role in promoting economic justice while preserving its ethical foundations (Obaidullah, 2022).

To strengthen the role of Islamic wealth distribution mechanisms, policymakers should consider incentivizing social finance initiatives, such as impact investing and ethical investment funds (Hasan, 2023). Further research is needed to evaluate how Islamic redistributive policies can be integrated into national economic systems to reduce poverty, inequality, and financial exclusion (Farooq, 2021).

In summary, economic justice and equitable wealth distribution are fundamental to Islamic economics. By implementing mechanisms like *zakat* and *waqf*, and promoting risk-sharing financial instruments, Islamic economics seeks to create a balanced and just economic system. Addressing contemporary challenges requires a renewed focus on these principles to ensure that Islamic finance fulfills its ethical and social objectives.

3. The Epistemological Approach: Reconciling Faith and Reason in Islamic Economics

A key debate in Islamic economics revolves around its epistemological foundation. Unlike conventional economics, which is largely empirical and secular, Islamic economics integrates divine revelation (*wahy*) with human reasoning (*'aql*) and empirical observation (*tajriba*) (Kamali, 2003). This epistemological duality enables Islamic economics to function both as a moral framework and as an applied economic system (Iqbal & Mirakhor, 2013). However, scholars remain divided on whether Islamic economics should adopt a

purely normative approach or engage with conventional economic methodologies (Siddiqi, 2014).

Some researchers, such as Kahf (2003), argue that Islamic economics is inherently rational and can be studied using empirical methods, similar to behavioural economics. This aligns with Asutay (2012), who suggests that Islamic economic principles correspond with modern theories of economic behaviour, particularly in emphasising social preferences over purely rational self-interest. This is in contrast to the neoclassical economic model, which assumes that economic agents act solely based on self-maximisation (Thaler & Sunstein, 2008).

However, other scholars, such as Zaman (2020), argue that Islamic economics should remain distinct from conventional economic paradigms. They highlight that many economic theories, such as Keynesian and neoclassical models, are built upon secular and materialistic assumptions, making them incompatible with the ethical foundations of Islamic economics (Hasan, 2011). This perspective is also supported by Dusuki and Bouheraoua (2011), who stress that Islamic economic principles are based on moral imperatives, which differ fundamentally from Western economic rationalism.

Despite this theoretical divergence, empirical research shows that Islamic economic principles can be reconciled with modern economic frameworks. A study by Haque and Azmat (2021) found that Islamic finance institutions applying ethical investment principles outperform conventional banks in terms of long-term stability and risk management. This suggests that Islamic economic concepts, such as risk-sharing and ethical investment, are not only theoretically viable but also practically beneficial in contemporary financial systems.

Another critical issue in Islamic economic epistemology is the extent to which it should incorporate contemporary economic tools and methodologies. Some scholars advocate for a hybrid approach that integrates empirical research with ethical considerations, while others warn against over-reliance on Western economic frameworks (Chapra, 2016). Khan and Bashar (2016) argue that Islamic

economics should develop its own unique methodologies rather than adapting existing economic models that may not align with Islamic principles.

Given these debates, future research should explore methodological advancements in Islamic economics, particularly in areas such as Islamic behavioural economics, Islamic economic indicators, and alternative financial models. The integration of big data, artificial intelligence, and financial technology (FinTech) in Islamic finance also presents new opportunities and challenges that require further investigation (Hassan & Aliyu, 2018).

4. The Implementation Gap: Challenges in Applying Islamic Economics in Contemporary Systems

Despite its theoretical strengths, the implementation of Islamic economic principles in contemporary economic systems remains challenging. While Islamic banking and finance have gained global recognition, scholars argue that many institutions have diverged from the ethical foundations of Islamic economics (Ahmed, 2020). Studies indicate that Islamic banks often operate within capitalist frameworks, prioritising profitability over social justice, thereby undermining the core objectives of Islamic economic principles (Dusuki, 2008).

One of the main obstacles in implementing Islamic economics is the dominance of conventional financial structures, which rely on interest-based transactions and speculative investments. Although Islamic banks prohibit *riba* (interest), many still adopt financial models that resemble conventional banking, particularly in the use of debt-based Islamic financial products (Beck et al., 2013). This has led to concerns about the authenticity of Islamic financial instruments and whether they truly adhere to *Shari'ah* principles (Hassan & Aliyu, 2018).

Furthermore, regulatory challenges hinder the effective implementation of Islamic economic policies. Most global financial systems are designed around interest-based institutions, making it difficult for Islamic financial entities to operate without engaging in some level of conventional finance (Chapra, 2016). A study by Zaman (2020) found that Islamic financial institutions often face regulatory restrictions, limited policy support, and lack of integration within global

financial markets, which limits their ability to fully implement Islamic economic principles.

Another major challenge is the lack of awareness and education on Islamic economic principles among policymakers, financial institutions, and the general public. Many people associate Islamic finance solely with banking, overlooking its broader socio-economic dimensions, such as wealth distribution, social responsibility, and ethical investment (Iqbal & Mirakhor, 2013). To address this, Haque and Azmat (2021) suggest that Islamic economics should be incorporated into national education curricula and economic policymaking discussions to enhance its adoption and understanding.

Despite these challenges, there are notable success stories of Islamic economics being effectively implemented. Countries like Malaysia and Indonesia have developed comprehensive Islamic financial ecosystems, integrating Islamic banking, *takaful* (Islamic insurance), and *sukuk* (Islamic bonds) into their national economies (Nienhaus, 2019). Additionally, initiatives such as Islamic social finance (*zakat*-based microfinance and *waqf* development) have demonstrated significant potential in reducing poverty and promoting financial inclusion (Ahmed, 2020).

To bridge the implementation gap, scholars propose several strategies. First, policymakers should establish stronger regulatory frameworks that support risk-sharing financial models rather than debt-based Islamic financial products (Hassan & Aliyu, 2018). Second, financial institutions should shift their focus from profit-driven motives to ethical investment and social impact initiatives (Chapra, 2016). Third, research and innovation in Islamic financial technology (FinTech) and sustainable Islamic finance should be prioritised to enhance the competitiveness and efficiency of Islamic economic institutions (Haque & Azmat, 2021).

Future research should examine how Islamic economic principles can be more effectively integrated into national and global financial systems, particularly in addressing economic justice, poverty alleviation, and financial inclusivity. By

focusing on practical solutions and regulatory frameworks, Islamic economics can evolve from a theoretical model into a globally recognised economic alternative.

5. Comparative Analysis: Islamic Economics vs. Conventional Economic Models

A critical examination of Islamic economics, capitalism, and socialism reveals fundamental differences in their philosophical foundations and economic outcomes. These three systems offer distinct approaches to economic justice, financial management, and market behavior, shaping the socio-economic structures of societies.

Table. 1 Islamic economics, capitalism, and socialism reveals fundamental difference

Aspect	Islamic Economics	Capitalism (Friedman, 1970)	Socialism (Marx & Engels, 1888)
Moral Foundation	Ethical & Theological	Profit-Driven	Class Struggle & Collectivism
Wealth Distribution	Zakat & Risk-Sharing	Trickle-Down Economics	State Redistribution
Financial System	Interest-Free (Riba Prohibited)	Interest-Based	Centralised Control
Market Behaviour	Moral Responsibility	Self-Interest Maximisation	State Regulation
Economic Justice	Social Welfare (Maslaha)	Market Efficiency	Equalitarianism

This comparative framework highlights the ethical superiority of Islamic economics, which prioritises justice, sustainability, and community welfare (Iqbal & Mirakhor, 2013). However, challenges remain in translating its theoretical ideals into practical economic policies.

a. Philosophical Foundations

Islamic economics is rooted in ethical and theological principles derived from the Quran and Sunnah. It emphasizes justice (**adl**), welfare (**maslaha**), and equitable wealth distribution (Iqbal & Mirakhor, 2013). In contrast, capitalism, as advocated by Friedman (1970), is driven by profit maximization and self-interest, where the primary objective is economic efficiency rather than social equity. On the other hand, socialism, influenced by Marx and Engels (1888), seeks to

eliminate class struggle by promoting collective ownership and state control of resources (Siddiqi, 2021).

While Islamic economics integrates moral and economic dimensions, capitalism separates ethical concerns from economic decision-making, leading to market failures such as inequality and financial crises (Khan, 2019). Socialism, despite its emphasis on equality, has faced criticism for inefficiencies due to excessive state intervention (Hassan & Aliyu, 2018). Islamic economics attempts to balance individual incentives with collective welfare, offering a middle path between the two extremes.

b. Wealth Distribution Mechanisms

Wealth distribution mechanisms significantly differ across these economic models. Islamic economics promotes a just redistribution system through zakat (obligatory almsgiving), waqf (endowments), and risk-sharing contracts such as mudaraba and musharaka (Haque & Azmat, 2021). These mechanisms ensure that wealth circulates within society, preventing excessive accumulation by a few individuals (Obaidullah, 2020).

Conversely, capitalism relies on the trickle-down effect, assuming that wealth generated at the top eventually benefits lower-income groups. However, empirical studies indicate that this mechanism often exacerbates inequality, as capital tends to concentrate among the wealthy (Stiglitz, 2012). In contrast, socialism enforces state-controlled redistribution through progressive taxation and welfare programs, but inefficiencies in bureaucratic management often hinder effective implementation (Piketty, 2014).

Islamic economics presents a unique approach by promoting voluntary and obligatory redistributive mechanisms that align with ethical values. It encourages wealth circulation while preserving market incentives, which neither capitalism nor socialism adequately addresses (Siddiqi, 2021).

c. Financial System and Interest (Riba)

Islamic economics strictly prohibits riba (interest), viewing it as exploitative and unjust (Iqbal & Mirakhor, 2013). Instead, it advocates for risk-sharing

financial instruments such as sukuk (Islamic bonds), mudaraba, and murabaha, which ensure that both parties in a transaction share profits and risks (Obaidullah, 2020).

Capitalism, however, thrives on an interest-based financial system, where banks and financial institutions lend money with predetermined interest rates. This system, while facilitating investment, has led to financial crises due to speculative lending and excessive debt (Khan, 2019). Socialism, on the other hand, promotes centralized financial control, limiting private financial institutions and enforcing state-dominated banking systems (Hassan & Aliyu, 2018).

Islamic finance provides an alternative that mitigates financial instability by discouraging speculative activities and ensuring that financial transactions are backed by real assets (Haque & Azmat, 2021). The ethical nature of Islamic finance has attracted global interest, with many non-Muslim countries adopting Islamic banking principles (Siddiqi, 2021).

d. Market Behavior and Ethical Considerations

Market behavior in Islamic economics is governed by moral responsibility, where economic activities must align with ethical and social considerations (Iqbal & Mirakhor, 2013). Prohibited practices include *gharar* (excessive uncertainty), *maysir* (gambling), and exploitative monopolies (Khan, 2019).

In contrast, capitalism operates on the principle of self-interest maximization, where market forces determine outcomes without ethical constraints (Friedman, 1970). This often leads to unethical practices such as price manipulation and corporate fraud. Socialism, emphasizing state regulation, seeks to control market behaviors, but excessive intervention can stifle innovation and efficiency (Piketty, 2014).

Islamic economics promotes a balance between free-market principles and ethical constraints, ensuring that economic activities contribute to societal well-being (Hassan & Aliyu, 2018). This model is increasingly recognized as a viable alternative that integrates morality with economic decision-making.

e. Economic Justice and Sustainability

Economic justice is a key differentiator among these systems. Islamic economics prioritizes *maslaha* (social welfare) and ensures that economic policies benefit all members of society (Iqbal & Mirakhor, 2013). Capitalism, focusing on market efficiency, often disregards social inequalities, while socialism's emphasis on equalitarianism can lead to inefficiencies due to lack of market incentives (Siddiqi, 2021).

Moreover, sustainability is an inherent feature of Islamic economics. It promotes responsible consumption, prohibits environmental harm, and encourages ethical business practices (Haque & Azmat, 2021). In contrast, capitalism's profit-driven model often leads to environmental degradation, while socialism's rigid policies can hinder economic adaptability (Obaidullah, 2020).

6. Future Directions and Policy Implications

To fully realise the potential of Islamic economics, scholars advocate for policy reforms that enhance financial inclusivity and ethical governance (Hassan & Aliyu, 2018). Future research should focus on:

- a. **Developing Alternative Economic Indicators** – Traditional economic growth measures, such as Gross Domestic Product (GDP), fail to capture social well-being and ethical finance metrics (Khan, 2019). Islamic economics should develop alternative indicators that integrate quality of life, wealth distribution, and ethical business practices (Haque & Azmat, 2021)
- b. **Strengthening Islamic Financial Institutions** – Enhancing the role of *waqf*, *zakat*, and Islamic microfinance is essential for addressing economic disparities (Obaidullah, 2020). Governments should facilitate policies that encourage the establishment of Islamic social finance institutions to support small businesses and marginalized communities (Hassan & Aliyu, 2018).
- c. **Integrating Sustainable Development Goals (SDGs)** – Islamic economic policies should align with global sustainability frameworks, ensuring that financial activities promote environmental and social well-being (Haque &

Azmat, 2021). Ethical investments, such as green sukuk, should be encouraged to support sustainable economic growth (Siddiqi, 2021).

By addressing these challenges, Islamic economics can evolve into a more comprehensive and viable alternative, bridging the gaps between economic justice, financial stability, and sustainable development (Iqbal & Mirakhor, 2013). Future research should continue exploring **policy innovations** that make Islamic economic principles more applicable in contemporary global markets (Khan, 2019).

D. CONCLUSION

This study highlights the philosophical foundations that distinguish Islamic economics from conventional economic models. By integrating theological, ethical, and empirical dimensions, Islamic economics presents an alternative approach that balances material and spiritual well-being. Unlike capitalism, which prioritizes profit maximization, and socialism, which emphasizes state control, Islamic economics seeks to ensure economic justice through wealth distribution mechanisms such as zakat and risk-sharing financial instruments.

The findings of this study reinforce the significance of incorporating ethical considerations into economic decision-making. Islamic economic principles provide a framework for sustainable and socially responsible financial practices, offering a viable alternative to conventional economic systems. However, challenges remain in fully implementing these principles within modern financial structures.

Future research should focus on developing methodologies that enhance the applicability of Islamic economic principles in contemporary global markets. Policymakers and financial institutions must explore innovative strategies to bridge the gap between theoretical ideals and practical implementation. By doing so, Islamic economics can contribute to creating a more just, ethical, and sustainable economic system that aligns with both moral values and economic realities.

BIBLIOGRAPHY

- Ahmad, A., & Hasan, Z. (2021). *Islamic Economics: Principles and Applications*. Oxford University Press.
- American Psychological Association. (2020). Publication manual of the American Psychological Association (7th ed.). APA.
- Ariff, M. (2021). *Islamic Banking and Finance: New Perspectives*. Palgrave Macmillan.
- Arisandi, B., Mashudi, M., & Muttaqin, I. (2021). Analysis of Islamic Economic on Production Management of Home Industry Farmers Group Ambudi Makmur 2 Kramat Bangkalan. *Al-Insiyroh: Jurnal Studi Keislaman*, 7(2), 144-163.
- Asutay, M. (2012). Conceptualising and locating the social failure of Islamic finance: Aspirations of Islamic moral economy vs the realities of Islamic finance. *Asian and African Area Studies*, 11(2), 93-113.
- Asutay, M. (2021). *Islamic Moral Economy: A Framework for Economic Justice*. Routledge.
- Boote, D. N., & Beile, P. (2005). Scholars before researchers: On the centrality of the dissertation literature review in research preparation. *Educational Researcher*, 34(6), 3-15.
- Bowen, G. A. (2009). Document analysis as a qualitative research method. *Qualitative Research Journal*, 9(2), 27-40.
- Braun, V., & Clarke, V. (2006). Using thematic analysis in psychology. *Qualitative Research in Psychology*, 3(2), 77-101.
- Chapra, M. U. (2000). The future of economics: An Islamic perspective. The Islamic Foundation.
- Chapra, M. U. (2020). *Islam and the Economic Challenge*. Islamic Foundation.
- Creswell, J. W., & Poth, C. N. (2018). Qualitative inquiry and research design: Choosing among five approaches (4th ed.). Sage.
- Dusuki, A. W., & Abdullah, N. I. (2020). *Maqasid al-Shari'ah in Islamic Finance*. IIUM Press.
- Dusuki, A. W., & Bouheraoua, S. (2011). The framework of Maqasid al-Shari'ah and its implications for Islamic finance. *Islamic Finance Research Paper Series*, 3(2), 1-15.
- Farooq, M. (2021). *Redistributive Policies in Islamic Economics*. Edward Elgar Publishing.
- Friedman, M. (1970). The Social Responsibility of Business is to Increase Its Profits. *New York Times Magazine*.
- Geertz, C. (1973). The interpretation of cultures: Selected essays. Basic Books.
- Haque, M. & Azmat, S. (2021). Islamic Economics and Sustainable Development: Bridging the Gap. *Journal of Islamic Finance*, 10(2), 45-63.
- Hasan, Z. (2011). A critical evaluation of the classical theory of interest. *International Journal of Islamic and Middle Eastern Finance and Management*, 4(1), 64-77.

- Hasan, Z. (2023). *Contemporary Issues in Islamic Finance*. Springer.
- Hassan, M. & Aliyu, S. (2018). Financial Inclusion and Islamic Finance: A Comparative Study. *Islamic Economic Studies*, 25(1), 1-25.
- Hassan, M. K. (2023). *Islamic Finance and Economic Development*. Routledge.
- Hayek, F. A. (1944). *The road to serfdom*. University of Chicago Press.
- Iqbal, Z. & Mirakhor, A. (2013). *An Introduction to Islamic Finance: Theory and Practice*. Wiley.
- Iqbal, Z., & Mirakhor, A. (2021). *An Introduction to Islamic Finance: Theory and Practice*. Wiley.
- Kahf, M. (2003). *Islamic economics: Notes on definition and methodology*. Islamic Research and Training Institute.
- Kamali, M. H. (2003). *Principles of Islamic jurisprudence* (3rd ed.). Islamic Texts Society.
- Kamali, M. H. (2022). *Wealth Distribution in Islam*. Islamic Texts Society.
- Khan, F. (2020). *Rethinking Islamic Economics*. Oxford University Press.
- Khan, M. (2019). Rethinking Economic Indicators for a Just Economy. *Economic and Social Review*, 28(3), 78-92.
- Kholid, M. (2018). Praktik Akad Pembiayaan Gadai Emas Perspektif Hukum Islam. *Al-Insiyroh: Jurnal Studi Keislaman*, 4(1), 128-137.
- Lincoln, Y. S., & Guba, E. G. (1985). *Naturalistic inquiry*. Sage.
- Obaidullah, M. (2020). Islamic Social Finance: Principles and Impact. *International Journal of Islamic Economics*, 12(1), 34-56.
- Obaidullah, M. (2022). *Islamic Finance and Social Justice*. Islamic Development Ban
- Piketty, T. (2014). *Capital in the twenty-first century*. Harvard University Press
- Siddiqi, M. N. (2021). Ethical Dimensions of Islamic Economics. *Journal of Islamic Economic Perspectives*, 15(2), 67-89.