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The Indonesian Journal of Interdisciplinary Islamic Studies, published biannually by the Doctoral Program in Islamic Law, Islamic University of Indonesia, serves as a platform for intellectual exchanges and interdisciplinary studies on various aspects of Islam including, but not limited to, theology, law, education, economy and politics and how they are historically and contingently embedded, expressed and articulated in a variety of historical contexts. The journal welcomes contributions from scholars and researchers of various disciplinary backgrounds in the form of original (theoretical or empirical) research articles on various issues related to Islam in both its normative and historical dimensions.

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EDITORIAL

We are very pleased to present The Indonesian Journal of Interdisciplinary Studies (IJIIS) Volume 2, No. 2, 2019. This issue mainly consists of a good mix of selected papers discussing several interesting topics covering Islamic law, Islamic economy, religious freedom, Islamic education, and inheritance law.

The first article by Muhammad Iqbal Juliansyahzen discusses the authoritative hermeneutics offered by Khaled Abou el-Fadl as an attempt to challenge authoritarianism in Islamic law. The second article by Imam Khoiri then examines the current debate on the epistemological basis of Islamic economy by referring to the ideas proposed by Abbas Mirakhor. Following this, Eva Fadilah turns to the issue of Islam and freedom and religion by specifically examining the progressive and contextualist thinking of Australia-based Muslim scholar Abdullah Saeed. The next article by Khairun Nissa then discusses the humanistic educational thought of Soedjatmoko, one of Indonesian prominent intellectuals and social thinkers. The last article by Azmi Siradjudin then examines practice of the inheritance law among different ethnic groups in Metro city, Lampung. This issue is then concluded by a review of Muhammad Yasir Alimi's book titled "*Mediation of Religion, Post-Truth, and National Resilience: The Sociology of Religion in the Digital Age*".

It is hoped that this publication will encourage further research and discussion on various issues concerning Islam and Muslim societies from various disciplinary backgrounds.

Editor in-Chief

RETHINKING THE EPISTEMOLOGY OF ISLAMIC ECONOMY

Abbas Mirakhor's Contribution to the Current Debate

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Abstract

In the last three decades, Islamic economics and finance have experienced significant developments. At the same time, several problems arise, not only technical but also epistemological. On that basis, the author is interested in studying Abbas Mirakhor's epistemological thought, in the hope of providing answers to these problems while providing direction for the next steps. As a qualitative study, the primary data source of this research is the work of Abbas Mirakhor. This study uses philosophical, sociological and historical approaches in addition to the literature review approach. The results of the study show that in the view of Abbas Mirakhor, the source of the formulation of the Islamic economic concept is the Qur'an, Sunnah, and Islamic jurisprudence. The reading of the Qur'an and Sunnah is done through the perspective of the NIE (New Institutional Economics). Through this approach, where Islam is placed as a rule-based system, the Islamic economic scaffolding formulation consists of rules about property, markets, distribution and redistribution, risk sharing, contracts, and trusts. Adherence to institutional scaffolding correlates with economic growth. This institutional scaffolding is supported by an incentive structure through the concept of barakah.

Keywords: *epistemology, institutional scaffolding, New Institutional Economics (NIE)*

A. Introduction

In the last three decades, Islamic economy and Islamic finance have undergone significant developments. Several indicators mark this development. *First*, the academic literature that discusses Islamic economics and Islamic finance are growing.¹ *Second*, the growth of the transaction market following Islamic law is even more so after the 2007 global financial crisis. In particular, the Islamic banking sector experienced significant development. Although the growth is still far below its real potential and the value of Islamic financial assets is still a small part of the total world financial assets, with a magnitude of about 1%, Islamic banks are experiencing double-digit growth rates, beating the growth of conventional banks.² *Third*, Islamic finance is increasingly accepted and developed in world-class conventional financial centers, including in London, New York, and Hong Kong. Even Western investors are also interested in investing in Islamic financial products.³

On the one hand, this development is very encouraging. But at the same time, several problems emerged. *First*, the rapid development of Islamic finance has led to a shift in development from Islamic economics to Islamic finance.⁴ Many Muslim economists viewed the birth of Islamic banking since the 1970s as the birth of a new economic system, which would restructure not only the existing economy but also the entire fabric of society. The reality, however, is that Islamic banks operate in a conventional bank system and do not produce economic evolution. Islamic banks take the same form and approach as conventional interest-based banks.⁵ *Second*, at the theoretical level,

1 Zamil Iqbal and Abbas Mirakhor (ed.), *Economic Development and Islamic Finance* (Washington DC: World Bank, 2013), p. 1

2 Tinna Harrison and Essam Ibrahim (eds), *Islamic Finance: Principles, Performance, and Prospect*, (Springer International Publishing AG Switzerland, 2016), p. 1

3 Zamil Iqbal and Abbas Mirakhor (ed.), *Economic ...*, p. 2

4 Muhammad Akram Khan, *Whats is Wrong with Islamic Economics Analyzing the present state and Future Agenda*, (UK: Edward Elgar, 2013), p. 12-20

5 Monzer Kahf, "Islamic Economics, What Went Wrong?", P. 7, quoted from http://monzer.kahf.com/papers/english/ISLAMIC_ECONOMICS_what_went_wrong_SEPT_03_IRTI.pdf, accessed on Thursday 4 January 2018, at 19.30 WIB., P. 5

there is no complete understanding of 'Islamic economics. There is indeed a lot of literature on Islamic economics but no 'textbook' of Islamic economics has been agreed upon. There are sharp differences of opinion among Muslim economists.⁶ *Third*, at the level of practice, not all Islamic countries implement Islamic economics. There are only two countries where all banking transactions use the Islamic system, namely Iran and Sudan. In total there are twelve countries where the value of Islamic banking assets reaches 15 more than the total value of national assets. *Fourth*, the rapid development of Islamic economics is not accompanied by rapid economic growth in Muslim countries, the main place where Islamic economics is practiced. Survey of the index of economic development in OIC countries carried out based on the criteria of education, freedom of access to education and economic development, health and life expectancy, income distribution and poverty levels and the environmental quality shows that, among 208 countries, the average ranking of all OIC countries is 139, lower than the OECD countries (*Organization for Economic Co-operation and Development*), which consist of thirty countries that accept the principles of representative democracy and a free-market economy.⁷

These various problems lead to the conclusion that the development of Islamic economics has not been satisfactory. Even the pioneers who developed the Islamic economy gave several critical notes. Umer Chapra wrote "... Islamic economics has been unable to come to grips with ... the problems faced by Muslim countries". Nejatullah Siddiqi noted "all is not well with Islamic economic(s) ... The grand idea of providing an alternative to capitalism and socialism ... has yielded to a desire to join the flock". Timur Kuran concluded that Islamic economics is no more than an attempt to build a different Islamic identity, and has absolutely no content and substance, not even fulfilling scientific standards. Sohrab Behdad, when commenting on efforts to implement

6 Asad Zaman, "Crisis in Islamic Economics: Diagnosis and Prescription", *JKAU: Islamic Economic*, Vol 25 No 1, 2012, p. 149.

7 Hossein Askari and Scheherazade Rehman, "A Survey of the Economic Development of OIC Countries", in Amir Iqbal and Abbas Mirakhor (ed.), *Economic Development and Islamic Finance* (Washington DC: World Bank, 2013), p. 299-324.

Islamic economics in Iran which is 100% financially managed based on Islamic economics under Ayatullah Khomeini, wrote: “it has become apparent that Islamic economics is not capable of presenting a viable social alternative”.⁸

In the context of contributing to the development of the above theoretical analysis, Abbas Mirakhor’s thoughts have a strategic position to be studied. Abbas Mirakhor has worked at the IMF for 24 years (1984-2008). As an economist and academic, from the beginning, he was concerned with Islamic economics, Islamic finance, and Islamic banks,⁹ so that drove him to receive several awards.¹⁰ In 2010, two years after leaving the IMF, Abbas Mirakhor joined INCEIF (*International Center for Education in Islamic Finance*), based in Kuala Lumpur, Malaysia.¹¹

Abbas Mirakhor is a thinker who is unique and has an extensive background and experience. In the context of developing Islamic economic thought, the thought of Abbas Mirakhor has important value to study for several reasons. First, its credibility and concern for the Islamic economy place it in the ranks of Islamic economic thinkers that deserve to be studied. This credibility can be seen from his work and awards that have been received. Secondly, his educational

8 These critical notes were quoted by Asad Zaman, *Crisis ...*, p. 149. Umar Capra’s criticism is contained in Umer Chapra’s book, *The Future of Economics: An Islamic Perspective* (Leicester: The Islamic Foundation, 2000), p. 375. Nejatullah Siddiqi’s criticism is in Siddiqi, Muhammad Nejatullah (2008) “Obstacles to Research in Islamic Economics,” in Proceedings of The Seventh International Conference on Islamic Economics, <http://islamiccenter.kaau.edu.sa/7iecon/English/English%20Contents.htm> .

9 Abbas Mirakhor, quoted from https://en.wikipedia.org/wiki/Abbas_Mirakhor, accessed on Saturday 6 January 2018

10 In 1997, the President of Pakistan gave him grace star award “Quaid-e Azam” for his services in serving the people of Pakistan. In 2003, Abbas Mirakhor received the “*Annual Prize for Research in Islamic Economic*” award. In 2005, the President of Ghana presented Abbas Mirakhor with the “*Order of Companion of Volta*” award for his service in serving the Ghanaian people. Available at https://en.wikipedia.org/wiki/Abbas_Mirakhor accessed on Wednesday, February 14, 2018

11 INCEIF was established in 2005 with the support of Bank Negara Malaysia (Central Bank of Malaysia) to develop human resources who are experts in the field of Islamic financial industry. In 2007 INCEIF was established as a university by the name of the *Global University of Islamic Finance*. https://en.wikipedia.org/wiki/International_Centre_for_Education_in_Islamic_Finance , accessed on Saturday, January 6, 2018

background, career and study approach while at the IMF were more based on quantitative positivistic approaches. But in Hafas Furqani's note, Abbas Mirakhor succeeded in formulating a comprehensive Islamic economic framework.¹²

The article seeks to answer several questions. First, what is the source of knowledge to formulate the concept of Islamic economics in the view of Abbas Mirakhor? Second, how is the methodology or way of understanding these sources to formulate the concept of Islamic economics in the view of Abbas Mirakhor? Third, what is the contribution of Abbas Mirakhor's thoughts to the development of the Islamic economy today?

B. Source of the Ideal Islamic Economic Formulation

The independence gained by several Muslim countries in the 1950s to 1960s prompted the emergence of efforts to rediscover Islamic values and heritage.¹³ This is marked by the rise of attention to Islam as an ideology. In the economic field, a passion arises to find an authentic Islamic economic framework, namely an ideal Islamic economic system blueprint based on the Qur'an. This passion is in line with the emergence of demands for solutions to various contemporary economic problems.¹⁴ In the course of this renewal Islamic economy, Abbas Mirakhor's thought was built. Implicitly, Abbas Mirakhor stated that the thought he developed was a continuation of the spirit of renewal that had been initiated by previous reformers. He believes that Islam, by departing from the Qur'an and the Sunnah, will provide a coherent, balanced and comprehensive framework for designing and implementing a functioning socio-economic system. Thus, what needs to be done is an effort to find the vision of the Quran because the real aspects and the ideal aspects have been fused in the Qur'an.

12 Hafas Furani, "Foundational challenges in the construction of an Islamic economics discipline", *Int. J. Pluralism and Economics Education*, Vol. 6, No. 4, 2015, p. 326

13 Hossein Askari, Zamir Iqbal, Abbas Mirakhor, *New Issues in Islamic Finance and Economics: Progress and Challenges* (Singapore: John John Wiley & Sons & Sons, 2009), p. 2

14 Abbas Mirakhor and Hossein Askari, *Ideal*, p. 139

In the view of Abbas Mirakhor, middle-century conservatism can no longer provide genuine and effective answers to solve contemporary problems. So, the way to go is to find pure Islam taken from the Quran and hadiths that are fresh, promising and progressive.¹⁵

Although efforts to compile an ideal economic order based on the Qur'an and sunnah has been going on for the last four decades,¹⁶ according to Abbas Mirakhor, it is still necessary to study, research and further develop Islamic economic.¹⁷ According to Mirakhor, the study of Islamic economics originating from the Qur'an and the Sunnah systematically began around the 1950s through Sayyid Qutb's work, *Social Justice in Islam*. Furthermore, Abu al-A'la al-Maududi placed Islam, between two major systems, capitalism, and socialism which had dragged the Muslim generation during the 1950s to the 1970s. Then comes the awareness of the need to articulate an answer to this challenge. The writings of al-Maududi as well as the writings of his student, Khurshid Ahmad, became the main source of thought that carried Islamic economic ideas.¹⁸ *Iqtishaduna*, the work of Baqir Shadr, published in the 1960s, represents a significant development in articulating an Islamic economic system that is firmly based on the Qur'an and sunnah. This work marks the start of a new approach in articulating the vision of the Islamic economy by identifying the architecture of the Islamic economic system and at the same time examining and understanding the behavior of the elements of economic actors. In the view of Monzer Kahf, *Iqtishaduna* marks the new chapter in the study of Islam and the real birth of the Islamic economy.¹⁹

Abbas Mirakhor positions his economic thinking in the *Iqtishaduna* mindset. He stated, "Our work is a modest effort in the

15 Ibid

16 *Ibid.*, P. 140

17 *Ibid.*, P. 140

18 Abbas Mirakhor and Hossein Askari, *Ideal ...*, p. 142, See also Hossein Askari, Zamir Iqbal, Abbas Mirakhor, *Introduction to Islamic economics ...*, p. 25

19 Monzer Kahf, "Definition and Methodology of Islamic Economics based on the views of Imam al - Sadr", paper presented at the International Conference on Imam Sadr's Economic Thought, Qom, Islamic Republic of Iran, in May 2006.

tradition of Iqtishaduna".²⁰ Like Shadr, Abbas Mirakhor departed from the belief that the Qur'an and sunnah had provided everything needed to attract a blueprint of the economic system. At the abstract level, the system is formed by the rules of behavior stipulated in the Qur'an and subsequently operationalized through sunnah. In his position as the holder of spiritual authority, the Prophet explained, detailed and interpreted the contents of the Qur'an. Whereas in his position as the holder of temporal authority, the Prophet operationalized the rules (institutions) that have been established in the Qur'an into real-life practice.²¹

In this case, Abbas Mirakhor is in line with the thought of Fazlur Rahman, namely by understanding the Qur'an in the present context. Philosophical, theological and intellectual achievements including *fiqh* thinking and interpretation produced by previous generations, insofar as they have benefits and contributions, must be strictly viewed from the perspective of the Qur'an and the challenges of contemporary humanity.²² Sources for establishing the characteristics of the Islamic paradigm are the Qur'an, the Sunnah and Islamic jurisprudence. But in developing this paradigm, the most important source of ideas is the Qur'an. Furthermore, the Sunnah is a form of behavior and policies that realize the goals and values contained in the Qur'an while *fiqh* must be addressed carefully because too much reference to *fiqh* will slow down the progress of the Islamic economy. Jurisprudence is indeed a very helpful source, but it is not the only one.²³

C. The approach in reading the Qur'an and Sunnah

The reading of the Quran and the Sunnah is carried out using the *New Institutional Economics* (NIE) approach.²⁴ NIE is a school of

20 Abbas Mirakhor and Hossein Askari, *Ideal ...*, p. 142

21 *Ibid.*, P. 142- 143

22 *Ibid.*, P. 142

23 In this case, Abbas Mirakhor is in line with Nejatullah Siddiqi's thoughts and cites quite a few Siddiqi's thoughts. See Abbas Mirakhor, *A Note on Islamic Economics* (Jeddah, IRTI: 2007), p. 10-11

24 Institutional economics is a school of thought in economics that contains the view

thought in economics that argues that in addition to the *human capital*, investment and technological progress factors, other factors have an important role in determining economic performance, namely the institutional structure (institutional scaffolding) of society. Institutions are understood as media that carry moral messages so that institutions here can be interpreted as “*way of life*”.²⁵

In the economic context, the institutions referred to are the rules and norms that govern economic behavior and at the same time its implementation in society. Thus, how well the economic performance of society will depend on the existence and implementation of the rule of the game. Among the most important are the rule of law, the definition and protection of property rights, trust, efficient implementation of contracts, and good governance.²⁶ The key to achieving optimal economic performance is the low transaction costs which can be realized when the institutional structure is functioning properly.²⁷ The higher the level of compliance with the rules, the more stable the social order will be, and the transaction costs will also be lower. Conversely, the lower the community’s obedience to the rules, the higher the transaction costs and in turn hinders economic growth.²⁸

In this case, Abbas Mirakhor sees that NIE (*New Institutional Economics*) can be a meeting point between Islamic economics and conventional economics and can facilitate the establishment of communication between the two disciplines. In his view, “it can be plausibly argued that NIE can provide a nexus between Islamic economics and conventional economics to facilitate communication between the two disciplines”.²⁹

that a person’s *economic behavior* is strongly influenced by institutions that are defined as “rules of the game” both formal and informal, which are structured to limit or regulate existing human relations in community groups. https://id.wikipedia.org/wiki/Institutional_Economy accessed on Thursday, March 1, 2018

25 See Abbas Mirakhor and Hossein Askari, *Islam and the Path to Human and Economic Development*, (Unites Stated: Palgrave Macmillan, 2010), p. 30

26 Abbas Mirakhor and Hossein Askari, *Ideal*, p. 119 0

27 Ibid

28 Abbas Mirakhor and Hossein Askari, *Ideal*, p. 122-123

29 *Ibid.*, P. 128

This institutional perspective by Abbas Mirakhor is used as an approach to draw the formulation of the concept of Islamic economics through the reading of the Qur'an and Sunnah. Through this perspective, Abbas Mirakhor studies the verses of the Quran and the hadith to answer several questions: how is the construction and components of an ideal Islamic economy and the characteristics of institutional scaffolding according to the Quran?; what are its components?; what is the relationship between these components?; how does the structure of incentives encourage the realization of rule-compliance?; what will be produced if the Islamic economic system is fully implemented?; and is disobedience can explain the economic backwardness of Muslim countries?³⁰

In Abbas Mirakhor's statement, "our work reflects efforts to grasp the vision of the Qur'an for an economy". This is based on the belief that there is a genuine Islamic economic discipline amid other economic flows in general, be it classical economics, Marxist, neoclassical, Keynesian, Christian, Jewish, Hindu, Buddhist or others. The worldview of each economic system is different from one another. Therefore, what Abbas Mirakhor has done is to uncover the unique worldview and economic characteristics of Islam, from the Qur'an.³¹

Abbas Mirakhor places the Qur'an as a source of meta-framework.³² The Qur'an becomes the source of the entire Islamic paradigm and concept of reality, by setting rules of behavior (institutions) that apply to all humans throughout time.³³ Meta framework provides a picture of an ideal society, namely a society consisting of faithful people who obey the rules. This meta-framework is based on three main axioms, namely *tawhid*,³⁴ *nubuwwah* and *ma'ad*.³⁵ This axiom, along with other rules

30 *Ibid.*, p. 105

31 *Ibid.*, p. 100

32 The term meta-framework and archetypal model was first used by Abbas Mirakhor in his book *Islam and The Path to Human and Economic Development* (New York: Palgrave Macmillan, 2010)

33 Abbas Mirakhor and Hossein Askari, *Ideal*, p. 101 and 144

34 *Ibid.*, p. 101

35 *Ibid.*, p. 101

that encourage humans to obey and avoid violations, give a penalty one-to-one to the offense and multiplies ten times the minimum reward for kindness, an essential element of the structure of incentives.³⁶ This is closely related to the concept of *barakah* (multiple returns) given to those who obey, which is mentioned more than 30 times in the Qur'an.³⁷ In the view of Abbas Mirakhor, only in Islam, obedience is given multiplied rewards as a form of God's grace.³⁸ Mathematically, *barakah* could be defined as a non-linear scalar which doubles the reward for those who obey the rules. According to the nature of the action, the scale will increase non-linearly.³⁹

No one can understand the Qur'an better than the Prophet. The earliest experience of Muslim societies directed by the Prophet --in his position as the most perfect human being in understanding the vision and goals contained in the metaphysical-- is called the archetypal model. Abbas Mirakhor places the sunnah as a model, namely an operational blueprint that applies in the actual conditions and experiential modes of society. The abstract meta-framework became operational in the hands of the Prophet.⁴⁰ In his capacity as a spiritual authority, through his words and deeds, the Prophet interpreted, articulated and applied the content of the Qur'an into the human community of his time. As a temporal authority in Medina, the Prophet operated the meta-framework. If the meta-framework stipulates laws and rules of behavior that are general in nature, then the archetypal model establishes universal-specific rules of behavior along with the institutional structure needed to organize a community based on meta-framework rules.⁴¹ Thus, the economic order practiced in Medina is the ideal model, the archetype model of the Islamic economic system. In it, there is a core institutional structure because it is built on the operationalization of the rules contained in the Qur'an

36 *Ibid.*, p. 101 See for example letter 7: 179

37 See for example letter 6: 160, letter 2: 261

38 Abbas Mirakhor and Hossein Askari, *Ideal ...*, p. 102

39 See for example letter 64: 17, Abbas Mirakhor and Hossein Askari, *Ideal ...*, p. 102

40 Abbas Mirakhor and Hossein Askari, *Islam ...*, p. xiii

41 Hossein Askari, Zamir Iqbal, Abbas Mirakhor, *Introduction ...*, p. 31

in the prophetic authority.⁴²

D. Construction of Institutional Scaffolding of Islamic Economics

Islam establishes rules of conduct that collectively form a unique system.⁴³ What distinguishes Islam from other thought is the perspective of wholeness where its elements is an organic wholeness. *Shari'ah* rules govern all aspects of life whether economic, social, political or cultural. Consequently, one cannot study one aspect of Islamic economics separately, without understanding the conceptual framework that gave birth to a part or aspect. In other languages, parts of a circle cannot be understood without understanding the circle itself.⁴⁴

What distinguishes one economic system from another is “institutional scaffolding”, which is all the rules and norms and the mechanism of their implementation. This institution is designed to provide limits on human interaction, structuring it by providing an incentive structure to direct human actions.⁴⁵ Research on the Qur'an reveals a very comprehensive interconnection arrangement of rules which form the structure for the operation of an ideal economy.⁴⁶ The ideal Islamic economic institutional framework, consisting of several institutions - i.e., rules of behavior and the characteristics of their implementation - designed by God as a lawmaker, outlined in meta-framework and operationalized by the archetypal model, which includes rules on resource allocation, production, exchange of goods and services, distribution and redistribution of income and wealth.⁴⁷ Institutional scaffolding of Islamic economic according to Abbas Mirakhor covers the following matters:

42 Abbas Mirakhor and Hossein Askari, *Ideal ...*, p. 144

43 Abbas Mirakhor, “Islamic Economics and Finance: An Institutional Perspective”, *IJUM Journal of Economics and Management*, 2009, p. 32

44 Zamir Iqbal and Abbas Mirakhor, *An Introduction to Islamic Finance* (Singapore: John Wiley and Sons, 2011), ed. 2, p. 2 and p. 7

45 *Ibid.*, p. 2

46 Abbas Mirakhor and Hossein Askari, *Ideal Islamic Economy: An Introduction* (Singapore: John Wiley & Sons, 2017), p. 106

47 *Ibid.*, p. 153, Hossein Askari, Zamir Iqbal, Abbas Mirakhor, *Introduction ...*, p. 53

a. Rules about property

Abbas Mirakhor defines “property” as a collection of rights, obligations, powers, and liabilities associated with an asset. In the Western concept, the use and regulation of private property become the full right of the individual, leaving others aside.⁴⁸ In Islam, several rules are set concerning the property. *First*, everything belongs to God, including natural resources, mental and physical abilities as well as all the added value that results from all the power that is the cause of the birth of added value belongs to God (3: 180). *Second*, God created all that exists for the benefit of man (2:29) that man can carry out what is expected of God to man (see e.g, 2: 107, 3:26, 5: 120, 40:16), namely to develop and prosper the earth (11:61).⁴⁹ *Third*, when the property has been accessed and combined with physical labor, then the individual has full ownership rights. *Fourth*, that there are only two ways to get legitimate ownership rights, namely through a combination of creative work by processing resources that God has created or transfer contract, grant or inheritance from others (4:11 -12, 17:26, 24:22, 30:38, 53:40).⁵⁰ *Fifth*, the prohibition of making claims of ownership instantly without work (for example theft, gambling or bribery) except the acquisition obtained from the transfer or gift of another person.⁵¹ *Sixth*, every human being has the right to access and use the resources that Allah created, regardless of the conditions (immutability of property rights). If a person, for reasons of physical or other limitations, is unable to work or access resources, then the right to resources cannot be abolished. *Seventh* is the obligation to share the assets owned. God arranges to share and threatens those who break this rule (3: 180, 4: 36-37, 92: 5-11).⁵² *Eighth*, the prohibition of accumulating and hoarding

48 Hossein Askari, Zamir Iqbal, Abbas Mirakhor, *Introduction ...*, p. 5

49 Abbas Mirakhor and Hossein Askari, *Ideal ...*, p. 154, see also Hossein Askari, Zamir Iqbal, Abbas Mirakhor, *Challenge ...*, p. 18

50 Abbas Mirakhor and Hossein Askari, *Ideal ...*, p. 154

51 *Ibid.*, p. 155

52 People who grip wealth they will be worn later in his neck on the Day of Judgment (3: 180), those who are greedy, and get others to do miserly and hide the gifts of God will get the punishment humiliating (4: 37). The stubborn person will be given a difficult path and his property is useless when he is destroyed (92: 10-11).

wealth. Islam forbids to let property is not used for treasures like the lifeblood of the people who constantly have to circulate to generate investment, employment, income and economic growth opportunities. *Ninth*, restrictions on the use of assets, i.e. the prohibition not to waste property (*itlaf*), damage (*israf*), excessive use of assets (*itraf*), or unlawful purposes (*haram*).⁵³

b. Market rules

In conventional economics, the market is an ideology that is the basis for economic activity. In Islam, the market is seen as the best mechanism for producers and consumers and becomes the best means for allocating resources, production, distribution and consumption. The Qur'an recognizes the importance of the role of the market and provides several assertions relating to the *bay'* and *tijarah*. In Medina, the Prophet forbade taxation on individual traders and every transaction. The Prophet also encouraged trade between Muslims and non-Muslims by providing incentives for non-Muslim traders both inside and outside Medina. For example, non-Muslim traders when they come are treated as guests and their merchandise is guaranteed not to suffer losses. However, several market rules are set to ensure that the market runs well and must be monitored to ensure that they are implemented.⁵⁴ *First*, before entering the market, every economic actor must be aware of God's presence (24:37) to avoid acts that are prohibited such as usury practices.⁵⁵ *Second*, autonomy in decision making so that Islam requires a sense of satisfaction between the two parties to the transaction because the Quran orders that buying and selling are done voluntarily (4:29).⁵⁶ *Third*, information flow must be smooth, honest, open, and transparent. The seller must provide information about price, quantity, and quality.⁵⁷ *Fourth*, rights and

53 Abbas Mirakhor and Hossein Askari, *Ideal ...*, p. 155, see also Abbas Mirakhor and Hossein Askari, *Islam*, p. 142.

54 *Ibid.*, p. 63

55 Abbas Mirakhor and Hossein Askari, *Islam ...*, p. 160.

56 Abbas Mirakhor and Hossein Askari, *Islam ..*, 162

57 Abbas Mirakhor and Hossein Askari, *Ideal ...*, p. 158

freedom for market participants to continue or cancel the transaction, a ban on the intervention of supply of goods before the market, and prohibition of speculative hoarding products to impose price increases (9:34).⁵⁸ Prohibition of monopolistic practices, fraud, a coalition of sellers and buyers intended to exploit market forces reduce the value of selling products to damage competition.⁵⁹ Above all, to ensure that all market participants obey the rules, the Prophet appoints a market supervisor and encourages the internalization of those rules by all market participants before they enter the market.⁶⁰

c. Distribution and redistribution rules

Even though the business process is carried out under fair rules, one can get a profit, while the other gets a loss. Therefore, the results of the market can bring injustice even though it is completely obedient to the rules, other than because some members of the community are physically unable to access the available resources. Eventually, idiosyncratic risk can appear.⁶¹ Then Islam establishes the necessity of risk-sharing.⁶² The prophetic message indicates that the problem is not scarcity but ego (selfishness), misuse of resource use and greed. This causes the division of social classes, not natural poverty.⁶³ So, to overcome this problem, Islam establishes the obligation to share. Those who are financially capable must use Islamic financial risk-sharing instruments, and those who are economically more economically abundant are required to carry out risk-sharing to the poor by transfer, which is the fulfillment of income and wealth rights of the rich. to the poor. Collectively, these instruments are the most important economic institutions that work towards the achievement of social justice goals in the distribution/redistribution rule within the Islamic economic paradigm.⁶⁴ The wealth paid from the haves to the underprivileged in

58 *Ibid.*, p. 159

59 *Ibid.*

60 Mirakhor and Askari, 2010, *Islam ...* , p. 163

61 Abbas Mirakhor and Hossein Askari, *Ideal ...*, p. 159-160

62 *Ibid.*, p. 160

63 *Ibid ...*, p. 151

64 *Ibid ...*, p. 160

the Qur'an is called *sadaqah*, which means honesty or sincerity. This meaning confirms that *sadaqah* is proof of the honesty and sincerity of one's faith (2:26, 2: 272). The Qur'an emphasizes that giving from the rich to the poor is not a form of compassion or charity (9: 17,26, 38:30, 70:25, 19:51, 2; 177). In such a framework, wealth does not mean exclusion but inclusion, where the rights of those who cannot afford income and wealth are then paid by those who are more capable. The result is the realization of a just society, which is protected from extreme poverty.⁶⁵

d. Risk-sharing rules

Another fundamental principle of Islamic economics is risk-sharing. This principle is based on the principle of liability, which states that profits can be justified to the extent that they are based on responsibility and even responsibility for the risk of loss and its consequences. This means the *shari'a* distinguishes between legal legitimate gains and profits that arise with no risk of loss.⁶⁶ This financial system based on risk-and-return sharing is intended to create a just society. The core of this financial system is the prohibition of usury-based transactions. Islam recognizes the concept of the time value of money. But time does not in itself bring results. It can produce value only if economic activity is carried out. Money is not capital, but "*potential capita*". To turn potential into actuality, economic activities are needed.⁶⁷ Therefore Islam forbids usury because this transaction model is a transfer of risk to the borrower. The owner of the money not only retains ownership rights but also rights to additions or interest. This pattern will

⁶⁵ *Ibid.*, p., 162

⁶⁶ Hossein Askari, Zamir Iqbal, Abbas Mirakhor, *Introduction ...* , p. 65

⁶⁷ In the view of Abbas Mirakhor, the view that considers usury does not occur in productive loans is not based on solid evidence. Lots of evidence that shows that loans for business activities already took place when the verse usury was revealed. At that time there was already the practice of usury loans used for agricultural production. The historical fact that the business community in Makkah has practiced usury loans to finance trade expeditions. Then usury can apply in consumer or productive loans. Zamir Iqbal and Abbas Mirakhor, *An Introduction ...* , p. 59-60

cause a distributive effect deadlock.⁶⁸ Interest on loans represents instant ownership claims and is not legally justified.⁶⁹ The epistemological root of this risk-sharing transaction model is found in the Qur'an (2: 275). This verse instructs that all economic and financial transactions are carried out through a sale and purchase contract (*bay'*), an exchange in which ownership rights are transferred from one party to another so that both parties share the risk of the transaction taking place. At the same time, Islam forbids transactions carried out through interest-based contracts (*usury*).⁷⁰

e. Contract and trust

The rules established by the Qur'an and applied by the Prophet in Medina exemplify the practice of openness and the smooth flow of information relating to the quantity, quality, and price of goods. So, the Prophet forbade the practice of buying goods in the middle of the road before arriving at the market. The Prophet appoints a *muhtasib* or market watchdog to ensure that these rules are carried out. But market prices are determined by competition, not by *muhtasib*.⁷¹ In Islam, submission to the conditions stipulated in a contract is a reflection of the primordial agreement. Every person who truly believes and is always aware of the presence of God will always carry out the contractual obligations he does, both the promise and the mandate that is carried out (23: 8). Any agreement that is not prohibited by law is legal and binding on all parties and must be carried out by the court.⁷² In Islam, the contract is deemed valid if it is free from all the elements that are prohibited, for example, elements of *gharar*, *usury* or contract related products that are forbidden by Islam such as the production of liquor.⁷³ In Islam, there is a close relationship between contract and trust (23: 8). The Prophet is the best personal picture in maintaining

68 Abbas Mirakhor and Hossein Askari, *Ideal ...*, p. 160-161

69 Hossein Askari, Zamir Iqbal, Abbas Mirakhor, *Introduction.*, P ... 83

70 Hossein Askari, Zamir Iqbal, Abbas Mirakhor, *Challenge ...*, p. 24

71 Hossein Askari, Zamir Iqbal, Abbas Mirakhor, *Challenge ...*, p. 2

72 *Ibid.*, p. 158

73 Zamir Iqbal and Abbas Mirakhor, *An Introduction to Islamic Finance ...*, p. 75-76

trust. Even before he was appointed as a prophet, he was given the title al-Amin.⁷⁴ This trust is very important because, without trust, contracts are difficult to negotiate and decide on, and it is expensive to monitor and implement them. When trust is weak, complex and expensive administrative tools are needed for a contract to be carried out. For the market to run well, everyone must trust other market participants all the time.⁷⁵

E. Contribution of Abbas Mirakhor's thinking

There are several contributions of the thinking of Abbas Mirakhor. *First*, it contributes to the development of Islamic economy methodology. Systematic thinking about Islam and economics has not lasted long when compared with the wealth of scholarly works in the fields of science and humanity during the previous period of Islamic history.⁷⁶ In contrast to conventional economics that is the result of theoretical and empirical research that lasted for decades, accompanied by debates and analytical arguments, this sort of analytical approach does not happen in Islamic economics. Existing research is driven more by the need to establish Islamic banking and financial systems. A few efforts have been made to establish a framework of analytical comprehensively based on the principles of Islamic economics.⁷⁷ Methodological studies of Islamic economics are relatively rare.

So far, the development of Islamic economic methodology can be classified into two streams. The first is an Islamic economic theory with an integrative approach. Its main argument is that in modern conventional economics there are positive sides that can be valuable and can be used for the development of Islamic economics. To develop Islamic economics into a new discipline with a specific and different

74 Hossein Askari, Zamir Iqbal, Abbas Mirakhor, *Introduction ...*, p. 60-61

75 Mirakhor and Askari, *Islam ...*, p. 165.

76 See Zamir Iqbal, Abbas Mirakhor, *An Introduction to Islamic Finance: Theory and Practice*, 2nd edition (Singapore: John Wiley & Sons, 2011), p. 365-366

77 Mohamed Aslam Haneef and Hafas Furqani, "Methodology of Islamic Economics: Overview of Present State and Future Direction" *International Journal of Economics, Management & Accounting*, 19, no. 1 (2011), p. 2

body of knowledge, methodology, and theory, one does not have to depart from zero by ignoring all the wisdom of modern economics that is produced through a long process of interaction and debate. The second is an Islamic economic methodology that is done by trying to develop the original concept, with a uniqueness that represents a reality in which both physical and spiritual aspects are contained. This model does not support the use of existing concepts or simply modifying. In the midst of the ongoing study and development of Islamic economic methodology, Abbas Mirakhor's thought has important value. Of these two approaches, Abbas Mirakhor's approach is in line with the second model. Through his studies, Abbas Mirakhor intends to find the vision of the Quran because according to him, in the Quran it has been fused between the real aspects and the ideal aspects. To find a genuine concept and effectively answer and solve contemporary problems, one cannot rely on middle-century conservatism. So, the way to go is to find pure Islam taken from the Qur'an and hadiths that are *fresh*, promising and progressive.⁷⁸ However, in contrast to the approach taken by Choudhury and Baqir Sadr, efforts to find the originality of the concept of Islamic economics are carried out through a conventional economic school approach, namely the *New Institutional Economics* (NIE). Through this approach, a number of economic institutional frameworks were formed as a result of his reading of the Qur'an and Sunnah.

Second, Mirakhor's ideas contribute to explaining contemporary Islamic economic issues. The development of contemporary Islamic economics is characterized by the strong development of Islamic finance. Even so, factually, Islamic countries that apply a profit-sharing financial system, especially Iran and Pakistan, face the same problem, namely the concentration of bank asset portfolios in short-term financial transactions (short-term contracts) as a result of individual perceptions of transaction risk. The transaction model that is carried out is also more dominant is the transaction model that is "weakly"

78 Mohamed Aslam Haneef and Hafas Furqani, "Methodology ...", p. 8-9

Islamic or less Islamic such as *murabahah*,⁷⁹ rather than *mudarabah* and *musyarakah*. Islamic banks experience *murabahah syndrome*, because they are more likely to use the sale-based fishing model, and are reluctant to carry out the most important dimensions of Islamic finance with risk-sharing instruments such as the *musharokah* contract and *mudarabah* contract.⁸⁰ Thus, although Islamic banks are technically following Shariah rules such as the prohibition of usury and financing illicit activities, the *shari'ah's* substantive objectives are ignored.⁸¹

The impasse faced by Islamic finance is answered through the analysis of Abbas Mirakhor which is based on a systems approach. Through this approach, it can be understood why risk-sharing instruments cannot work well. Risk-sharing is one of the components in the Islamic system, whose success requires the presence of the component other one is trust, as one of the pillars of the framework of institutional support. If trust is high, the financial sector will develop, and vice versa. Unfortunately, trust is a rare commodity (trust is a scarce commodity) in the Islamic world.⁸² Deductively, this truth refers to al-Qur'an 7: 96, which states that society will develop on two conditions, namely faith and laughter. Empirically, the results of research that gave birth to the school of the NIE that confirms that factors other than natural resources, human capital and technological progress, institutional structures have an important role in economic development. This explains why a country with abundant resources and broad financial access, turns out to be lagging economically, where previously this problem had not been perfectly explained through the analysis of Total Factor Productivity (TFP).⁸³

79 See Yousef, T. "The Murabaha Syndrome in Islamic Finance: Laws, Institutions and Politics", in Henry, C. and Wilson, R. (eds). 2004. *The Politics of Islamic Finance* (Edinburgh: Edinburgh University Press, 2004), p. 4

80 See Zamir Iqbal, Abbas Mirakhor, *An Introduction to Islamic Finance: Theory and Practice*, 2nd Edition, (Singapore: John Wiley & Sons, 2011), especially chapter 17. 7

81 See Edward Mariyani-Squire, "Tensions ...", p. 10

82 Hossein Askari, Zamir Iqbal, Abbas Mirakhor, *Globalization & Islamic Finance: Converges, Prospects & Challenges* (Singapore: John Wiley & Sons, 2010), pp. 173-185

83 Abbas Mirakhor, Hossein Askari, *Islam and The Path to Human and Economic Development*, (New York: Palgrave Macmillan, 2010), p. 20

Third, Mirakhor's thinking also contributes to the development of deductive methods amid the limitations of the Islamic economic experience. In the context of developing theory, the realization of an Islamic economic theory is a necessity so that it is possible to conduct a comprehensive economic analysis and determine economic policy with confidence. In any discipline, the theory has the most important role in the development of a discipline. Islamic economics cannot develop a unique identity without specific theories that can provide interpretations of various phenomena and find the causes of problems faced by Muslims.⁸⁴

The experience of Islamic economics is one of the important conditions for developing Islamic economic theory. The problem is that the experience of modern Islamic economics is currently inadequate. At the macro level, only three countries (Pakistan, Iran and Sudan) have stated their goal of implementing an Islamic economic system with a completely incomplete implementation.⁸⁵ Data provided by Islamic banks are also limited and sometimes difficult to obtain. Likewise, non-government institutions that collect and distribute zakat in many Muslim countries do not have a convincing record.⁸⁶ In this situation, where the experience of Islamic economics is very limited, the deductive method has a very important role in the formation of Islamic economic theory. The development of theory with a deduction by studying Islamic ethics and rules will greatly help identify what ought to be and ways to achieve it.⁸⁷ In this context, Abbas Mirakhor's deductive analysis based on the Qur'an and the hadith contributed.

Fourth, his thoughts mark the model of the Islamic economy of the thinkers of the third generation. Abdul Azim Islahi divided Islamic economic thinkers into two categories namely the first generation and

84 Abdulrahman Yousri Ahmed, "The Scientific Approach to Islamic Economist: Philosophy, Theoretical Construction Your Applicability", in Habid Ahmed (edt), *Theoretical Foundation of Islamic Economics*, (Jeddah: IRTI, 2002) 37-38

85 Abdulrahman Yousri Ahmed, "The Scientific ...", p. 39

86 *Ibid.*, p. 50

87 *Ibid.*, p. 40

the second generation.⁸⁸ The first generation is a group of thinkers of Islamic economics which was in the period between 1950-1975.⁸⁹ The contribution of this first-generation economists is generally an ideological work, describing in detail the Islamic economic system as a system that is different from capitalism and socialism. The literature produced in this period has inspired the establishment of Islamic banks and financial institutions. The end of this period is the *First International Conference on Islamic Economics* at King Abdulaziz University which was scheduled in 1975 but started in early 1976.⁹⁰ The generation after this is called the second generation. During this period of massive and intensive research, an Islamic economic education curriculum developed, several research centers were established, Islamic banks and financial institutions were established. Many conferences, seminars and discussion forums take place, where Islamic banking and finance are the dominant themes.⁹¹

In this context, the Islamic economic thought of Abbas Mirakhor reiterates the importance of the Islamic economic paradigm and institutional scaffolding as a pillar supporting economic activity. The crossing is similar to the first generation thinking with an ideological nuance in which Islam as a system is different from capitalism and socialism. Although the formulation of the concept is deductive, it is different because the thought of Abbas Mirakhor was born from Islamic economic experimentation dominated by banking and Islamic finance which led to several stalemates. Here Abbas Mirakhor contributes by providing answers to the anxiety that occurs, through the construction of institutional scaffolding Islamic economics. It could be said, the ideal Islamic economic concept formulated by Abbas Mirakhor occupies the third phase of the two previous generations.

88 Abdul Azim Islahi, "First vs. second-generation Islamic economists: Deviations and differences in thought", *MPRA Paper* No. 68353, posted 12. December 2015

89 *Ibid.*, p. 2

90 *Ibid.*, p. 3

91 *Ibid.*, p. 4

F. Critical Notes

Observing the study of the economic epistemology of Islamic Abbas Mirakhor, two things need to be given a critical note. *First*, regarding the source of Islamic economic knowledge. According to him, the sources to determine the characteristics of the Islamic paradigm are the Qur'an, Sunnah and Jurisprudence. The Qur'an is placed as the most important source of ideas. Furthermore, the Sunnah as a form of behavior and policies that realize the goals and values contained in the Qur'an. While *fiqh* must be addressed carefully. Because, according to him, too much reference to *fiqh* will slow down the progress of the Islamic economy.⁹² Explicitly, Abbas Mirakhor recognizes *fiqh* as the third source in formulating Islamic economics. But in his writings, no *fiqh* is used as a reference. It could even be said, the position and role of *fiqh* are not visible at all. So, the statement that *fiqh* "must be addressed critically", there is no clarity regarding this criterion for critical attitude. Inconsistency even seems to occur. On the one hand, *fiqh* is given recognition but in reality, it is denied.

Second, there is a problem of theoretical thinking based on deductive methods in the realm of application. Most of the theoretical thinking based on Islamic norms and rules which are formulated deductively cannot be fully applied. There is a gap between what should be and real reality. The results of the "Islamicity index" research indicate this problem because Muslims do not internalize and practice the rules described in the Qur'an and carried out by the Prophet.⁹³ Efforts to realize what should be realized in real life are a necessity and become an inseparable part of an ideal Islamic economy and society. However, efforts to solve economic problems in non-ideal situations are also a must. In reality, current economic problems cannot be analyzed on an ideal basis by finding ideal solutions amid a un-ideal situation and hope that the situation can be changed in an instant. Like it or not, we

92 In this case, Abbas Mirakhor is in line with the thoughts of Nejatullah Siddiqi and cites quite a lengthy point of Siddiqi's thoughts. See Abbas Mirakhor, *A Note on Islamic Economics*, (Jeddah, IRTI: 2007), p. 10-11

93 Abbas Mirakhor, Hossein Askari, *Ideal ...*, p. 226

have to think of an Islamic solution for a situation that is not ideal. Muslim communities are complacent about not implementing Islamic rules in their lives, and in some cases, they are completely alienated from Islamic principles.⁹⁴ The question then is how to provide solutions to situations that are not ideal and how to make the ideals of Islamic economics come true?. In this case, Abbas Mirakhor has not yet provided clarity comments, and presumably could be an entry point for further research and studies.

G. Conclusion

In Abbas Mirakhor's view, epistemologically, the sources for establishing the ideal economic concept are the Qur'an, Sunnah and *fiqh*. Abbas Mirakhor places the Qur'an as a meta-framework. The Qur'an is the source of the entire Islamic paradigm, establishes rules of conduct, and provides an ideal society. While the sunnah is an archetypal model, an operational *blueprint* that applies in the actual conditions and experiential modes of a society directed by the Prophet. In it, there is a core institutional structure because it is built based on the operationalization of the rules contained in the Qur'an. While the source of *fiqh*, according to Abbas Mirakhor, must be addressed carefully, too much reference to *fiqh* will slow the progress of the Islamic economy.

The reading of the Qur'an and Sunnah is done through an institutional perspective. This perspective is based on NIE (*New Institutional Economics*), a school of thought in economics that argues that in addition to human capital, investment and technological progress, other factors have an important role in determining economic performance. In the NIE approach, rules of conduct would establish an institutional structure. When this institutional structure is adhered to and functions properly, it will have implications for

⁹⁴ None of the current nation-states whose entire population adheres to the provisions of Islamic rules in all their life settings. There is also no nation-state whose legal rules as a whole are based and are perfectly implemented following sharia. See Edward Mariyani-Squire, "Tensions ...", p. 5

reducing transaction costs. This approach is considered appropriate and promising because it is in line with the position of Islam as a rules-based system. Through reading with this perspective, the formulation of institutional scaffolding of Islamic economics consists of rules on the property, market rules, distribution and redistribution rules, risk-sharing rules, contracts and trusts.

Abbas Mirakhor's epistemological thoughts contribute at least in four aspects: *First*, it contributes to the development of Islamic economics methodology. In light of the two currents of Islamic economic methodology: an integrative approach model and an approach that seeks to develop an original, and unique concept, Abbas Mirakhor's approach is in line with the second model. *Second*, his ideas contribute to explaining contemporary Islamic economic issues. Through the approach of the New Institutional Economics (NIE), where Islam was placed as a rules-based system, it explains why the development of Islamic finance faces several obstacles principle, for instance, the occurrence of *murabahah* syndrome. *Third*, his thinking also contributes to the development of deductive methods amid the limitations of the Islamic economic experience. The development of theory with a deduction by studying Islamic ethics and rules will greatly help identify what should be and ways to achieve it. *Fourth*, it marks the birth of the third generation of Islamic economic thinkers, after the passage of thinkers of the first and the second generation.

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