

# The Realism of Islamic Economics: Abbas Mirakhor's Methodological Structure of Islamic Economics

Muhammad Sholihin<sup>a</sup> and Hafas Furqani<sup>b</sup>

<sup>a</sup>State Islamic Institute (IAIN) Curup, Rejang Lebong, Bengkulu-Indonesia

Email: [sholihin@iaincurup.ac.id](mailto:sholihin@iaincurup.ac.id)

<sup>b</sup>State Islamic University (UIN) Ar Raniry, Banda Aceh- Indonesia

Email: [hafas.furqani@ar-raniry.ac.id](mailto:hafas.furqani@ar-raniry.ac.id)

## ABSTRACT:

This article aims to explore and elaborate on the structure of the Islamic Economic methodology offered by Abbas Mirakhor. For this reason, this study applies an intertextual approach to some of Abbas Mirakhor's works which are closely related to the methodology of Islamic economics. In addition, *pairwise comparisons* with texts that elaborate on the methodology of economics were also carried out, hoping to see the genealogical structure of the methodology offered by Abbas Mirakhor. Thus, this article is able to identify the unique structure of the Islamic economic methodology introduced by Abbas Mirakhor which lies in two aspects. *First*, intensification of the use of hermeneutics to produce substantive postulates of Islamic economics from sources of Islamic metaframework. *Second*, making substantive postulates as the foundation in verifying or falsifying economic experience. Thus, it is no exaggeration if Abbas Mirakhor is considered as the bearer of Islamic economic realism.

**Keywords:** Islamic Economic Realism, Metaframeworks, Archetype Models, ultra-empiricism, Moderate Empiricism, and Extreme A priorism.

## 1. Introduction

Islamic economics thought offered by Islamic economics scholars, undoubtedly has a different epistemological building. This difference exists, not only as a product of *pairwise comparison* with conventional economics but also internally compared to Islamic economic thought itself. It is no exaggeration to believe that Islamic economic thought introduced by Muslim economists is also full of differences and differentiation. This is understandable, because every thinker inevitably has *world view* in a unique, paradigm and ideology of knowledge. It's just that the paradigm behind economic epistemology introduced by thinkers, will always be connected or *connected* to ideas outside of themselves (Macknight & Medvecky, 2020). This also applies to the contemporary Muslim economist, Abbas Mirakhor. Not only the form of thought, but practically the Islamic economic ideas he introduced showed that the building of the Islamic economic methodology behind the economic theory introduced by Abbas Mirakhor was a product of social interaction; his ideas and daily

life as an economist. It's just that, not many scholars who tried, and studied Abbas Mirakhor as an economist and put his Islamic economic theory and thought on the continuum of economic epistemological transmission. Because it examines the building methodology; as well as the genealogical methodology it offers, it is important to do. This study becomes important not only to recognize, but also to trace the roots and methodological traditions such as what is the foundation of Abbas Mirakhor's thought.

Abbas Mirakhor is an expert corroborating, and become the iconography of the New Institutional Approach (*New Institutional Economics*) in Islamic economics. Some studies show this by convincing this view. The grouping of Abbas Mirakhor as the bearer of the idea of *New Institutional Economics*, not without argumentation. He is of the view that Islamic economics must be strengthened with an institutional legal foundation, so that Islam can be comprehensively promoted in Islamic economics (Inayati, 2015). That is the basis of the argument why Abbas Mirakhor is categorized as a *New Institutional Economist*. The development of the Islamic finance industry, complete with the complexity of the products it offers, must stand on the foundation of Islam. Because of that institutional legality is needed for the product, so that the financial industry does not run solely based on market reason alone (Arafat, 2019).

The institutional aspects and legality of Islam towards the development and development of Islamic economics, made Abbas Mirakhor a consistent bearer of *New Institutional Economics* and introduced it through in-depth studies, and explained his support for the idea of implementing NIE (*new institutional economics*) in Islam. But there is another dimension that also stands out besides the bearer of the idea of *New Institutional Islamic Economics*, namely in the realm of methodology Abbas Mirakhor more often demonstrates philosophical work as a realist-economy. This is marked by the intensification using mathematics, and statistics in explaining the reality of Islamic economics - Islamic banking and finance.

The question then, why does Abbas Mirakhor precisely offer an approach to Economic realism to develop Islamic economic theory as a scientific discipline? What kind of intellectual setting is a pre-condition for his thinking? And in what traditions of epistemology does this thought build? This question is the main purpose of this article, while emphasizing the position of this article among other articles that examine Abbas Mirakhor as an Islamic economic thinker. The position of this article critically examines two things, namely: the structure of the methodology of Islamic economics offered by Abbas Mirakhor; and the epistemological tradition behind his thinking in Islamic Economics. How these two things were found and the answers formulated in this study. Then the literature study was chosen to find the methodological structure and epistemological tradition of Islamic economics as outlined by Abbas Mirakhor in his works. Along with that, intertextuality analysis is also applied as an instrument to understand the text and context of Abbas Mirakhor's work related to Islamic economic methodology.

## 2. Methodological Problems:

### Abbas Mirakhor in the Intertextuality Path

Understanding the thought of a character, like Abbas Mirakhor, must consider a thesis, that each idea does not stand alone. But it is connected, or *connected* with other ideas that are involved; or ideas that have come into contact with a character. Because ontologically, an idea and thought set forth in a text is a product of intense interaction between thinkers, philosophers of situations; needs; other goals and texts (Bazerman, 2003). This also applies to the text of Abbas Mirakhor's thought. Therefore, the intertextuality approach can be chosen to find the methodological structure and epistemological tradition behind the thought of Abbas Mirakhor as an Islamic economic thinker.

The approach of intertextuality itself is intended to examine the relation of the existing statistics in the text. How an idea and ideas are used and how they are positioned in relation to other ideas and ideas (Bazerman, 2003). This approach stands on the foundation of the thesis that the relationship of a thought expressed in the work, with tradition, culture and text must be broadly interpreted as synchronous and open the way for the assumption of quasi-intertextuality, that each writer has his own historical awareness in a distinctive tradition (Mevlûde Zegin, 2016). This framework allows efforts to examine the thoughts of Abbas Mirakhor carried out by stepping on the mechanism of intertextuality. By meaning, that the text of Abbas Mirakhor's thought is needed not as a single text and an autonomous idea. But his thinking is a product of epistemic relations which he has lived throughout his life as an economist. There is contiguity of ideas; social; and intellectuals that he did with other intellectual traditions. Thus, the style of thought offered by Abbas Mirakhor can be seen as an effort of 'falsification and verification', then leading to the synthesis of the building of Islamic economics. In this *locus*, NIE or New Institutional Economics; and Abbas Mirakhor's version of Islamic realism needs to be understood.

Abbas Mirakhor's thought in the field of Islamic economics seems feasible to be positioned in the rules of the intertextuality approach, namely: *First*, in essence a text contains various texts; *Second*, the study of intertextuality means analyzing the intrinsic and extrinsic elements of the text; *Third*, the study of intertextuality gives an equal perspective between the intrinsic and extrinsic elements of the text which are adjusted to the function of the text in society; *Fourth*, in terms of the author's creative process, the presence of a text is the result obtained from other texts (Fatkhayatus Su'adah, 2019). Referring to this principle of intertextuality, it is no exaggeration if the thought of Abbas Mirakhor is considered to have undergone a transformation (read: not exactly evolution) towards *New Institutional Islamic Economics*, which is mature and concrete. At least, there are several stages of transformation that occur in the thoughts of Abbas Mirakhor. This transformation itself is a product of the intimate contact and interaction of Abbas Mirakhor on economic ideas and ideas other than Islamic economics, for example the tradition of New Institutional

Economics as the foundation of resistance as well as the development of neo-classical economic traditions.

In understanding Abbas Mirakhor's contact with other traditions, it is necessary to identify Abbas Mirakhor's individual transformation as a thinker *genuine* of Islamic economics. *First*, the performative phase. This period is the growth period of an Abbas Mirakhor. He is a successful student getting a bachelor's degree; master and doctorate in economics at the Kansas State University, USA. The Abbas Mirakhor campus is famous as one of the oldest universities in Kansas, USA. In addition, the campus is also a university that has tradition in *applied-science*, consistently. *Second*, the period of *horizon melting*. This happened when Abbas Mirakhor joined the International Monetary Fund (1984-2008). It is well known that the IMF is a *think tank* of the economic neo-liberalism community (Harmen, 2011). *Third*, the abstraction phase of the concept of New Institutional Islamic Economics. This period occurred when Abbas Mirakhor left the IMF and later joined INCEIF in 2010 as *the First Holder of INCEIF's Chair in Islamic Finance*. These three phases that signify the transformation of Abbas Mirakhor's Islamic economic thought deserve to be interpreted as the *locus of ideas* and become a vehicle for thought that is formed from the inter-intellectual interaction carried out by Abbas Mirakhor. This can be identified from the style of work that was born, and the pattern of acceptance of intellectual authority which is used as a paradigmatic basis in his work and ideas.

Abbas Mirakhor is famous as an economist who is *concerned* with Islamic economics, since he worked as an academic and shortly after getting his Ph.D. Nevertheless, his intellectual career developed rapidly precisely when he joined the IMF or the International Monetary Fund. There were recorded 21 (twenty one) works by Abbas Mirakhor when he joined the International Monetary Fund, in book form; journals and *working papers*. In this period the most fundamental of the works he composed, is the *note on Islamic economics* published by IRTI-IDB. It is considered fundamental, because in this work, Abbas Mirakhor introduces his initial views related to the Islamic economic paradigm. The paradigm of Islamic economics it offers, is based on several propositions, namely: *First*, Islam has a view of how to organize political, social, and economic systems based on the building of ontology and epistemological propositions while considering their individual rights and collectivity.

*Second*, defining an economic system as a collection of institutions (e.g. norms and rules of behavior) related to production, exchange, distribution, redistribution and defining institutions as the interpretation of Douglas C. North as rules and norms. Islam offers a different system in various aspects when compared with other schools of thought related to how an economy is organized. *Third*, the *behavioral rules* and norms of a conclusive Islamic economic system; strict; articulative analytics in a method *intelligible* with economists—which can be empirically tested, and can also be a policy foundation or recommendation on the problems of modern society; *Fourth*, currently the most important function of Islamic

economics as a discipline is to build a precise language that brings to consensus among researchers by considering the meaning and function of terms, ideas, rules and norms (Abbas Mirakhor, 2015).

In his *a Note on Islamic Economics*, Abbas Mirakhor shows a paradigmatic relationship with other Muslim economists. This is marked by some recognition of *worldview*; axiom; and Islamic economic theory put forward by scholars and other Muslim economists. For example, Abbas Mirakhor accepted the term proposed by Umar Chapra, the hibernation of Islamic economics due to the increasing attention of scholars of science and humanities in the Muslim world. This is marked by the achievement of linearly coupled, thinking *interconnected* offered by Muslim scholars regarding Islamic economics. Of course this helps to make critical reasoning about the economic system that is rooted in the European tradition (Abbas Mirakhor, 2015). In this context then, the figure of Abbas Mirakhor must be understood. The economic thought which he introduced, certainly did not spontaneously compound. But through a long process of interaction of ideas and philosophical ideas and co-existence with other economists' ideas, both from the conventional economist tradition, more specifically with Muslim economists themselves. Thus, the intertextual approach is appropriate to be chosen so that the link between ideas between Abbas Mirakhor and other economists can be understood, and the final form is the identification of the epistemological structure of Abbas Mirakhor's economic thought, which can be formulated properly and accurately. To understand the slices of tradition and the structure of the Islamic economic methodology of Abbas Mirakhor, it seems important to parse the mainstream as a variant of the developing methodology in economics.

### **3. Methodology Variant in Economics**

Currently the Islamic economy is experiencing hibernation—a slowdown as knowledge. The slowdown became an economic discipline, due to the massive replication of positivistic economic traditions in the study of Islamic economics. In situations like this, consistent efforts are found; and reformulating the epistemology of Islamic economics is important. At least in responding to this, there are many scholars of Islamic economics who strive to offer various forms of epistemology of Islamic economics. This is understandable, because until now, there has been no consensus regarding the epistemological building of the Islamic economy itself. In this locus, it seems important to understand what and how the concept of an epistemology and how the structure that accompanies it. However, understanding the epistemological structure of economics also becomes an integral process in its relation when it comes to understanding the structure of the production process of science.

Refer to Ludwig von Mises, who believes that economics is part of a general theory of human behavior and actions (Mises, 2003). This interpretation emphasizes that economics exists as something empirical from human economic behavior and

actions. As a science, Uskali Mäki means that economics is a product of social processes (Mäki, 2005). He even believes that economics is *the queen of social science*, or the queen of social sciences (Mäki, 2005). This is understandable because economics is a product of the social processes carried out by humans, especially in relation to efforts to meet the needs of human life. In this *locus*, to understand the epistemological structure of economics, it seems important to understand epistemology in the meaning built by Robert Audi as a *theory of knowledge*; and *theory of justification* (Michael Huemer, 2002). In this realm then the structure of economics needs to be parsed, and elaborated.

Economics, in the *locus* of knowledge theory, has a very complex dimension. In this case, the history of the epistemology of economics tends to be attributed to John Stuart Mill, who, according to some of his beliefs, that: (i) the relationship of economics with empirical science such as physics, on the one hand, and other non-empiricist sciences such as geometry, is not easy completely parsed; (ii) epistemology, whether empirical or non-empirical science in general is always controversial to rely on; (iii) economics is more complex and difficult in the sense of epistemology, when morals and normatives also form the basis of economics (Paul T. Sagal, 1977). Nevertheless, the theory of knowledge and the justification theory of economics, can be stretched into three paradigms of long, deep discussion, namely: ultra-empiricism; moderate empiricism and *extreme a priorism*. Three paradigms of economics delivering economics into a science, which is recognized and then become *hard-science*.

In the process of producing economic theory, economists will always be on three paths of schools (e.g. *ultra empiricism; moderate empiricism; and extreme a priorism*). In the tradition of ultra empiricism, every human action is necessarily based on rational considerations (Machlup, 2009, p. 483). Then every conclusion of economics must be based on that philosophical dogma. In addition, all verification and verification mechanisms of economics are aimed at maintaining *politico-intellectual obscurantism*, which determines which tests will be chosen in proving economic theory. In praxis, ultra-empiricism requires testing prepositions using fundamental assumptions in a theoretical system (Machlup, 2009, p. 483). Understanding the framework of the tradition of ultra-empiricism, it is necessary to explore T.W. Hutchison's philosophical views. This will lead to mechanistic information, how ultra-empiricism works in the production of economic theory.

How ultra-empiricism works, T.W. Hutchison poured his answer into his work *The Significance and Basic Postulates of Economic Theory* (1938). According to him, economics should ideally start from *pure theory*. The framework is pure theory not in the mechanism of investigating the sources of preposition validity. However, it is precisely to clarify the relationship of the preposition with the assumptions or postulates from which it originates. It also includes clarifying the assumptions of *ceteris paribus*. The end of all this is to clarify the assumption itself by analyzing key concepts such as equilibrium; expectations; sensibilities; *rational conduct*; and

utilities (T.W. Hutchison, 1938, p. 3). Simply put, the tradition of ultra-empiricism driven by T.W. Hutchison seeks to put the production work of economic theory within the framework of *pure theory*, not in its function to validate prepositions. However, it does clarify the relationship between economic prepositions and economic reality. Of course this is different from the tradition of moderate-empiricism supported by Milton Friedman.

Uskali Mäki calls Milton Friedman as an economist who popularized the *ideology of science*, where ideology provides instructions on how to study economics and how to organize academic life in general (Mäki, 2009, p. Xvii). Based on this philosophical view, then Milton Friedman produced many works, and one of them was *the Methodology of Positive Economics*. In the production of economic theory, Milton Friedman introduced '*positive economics*', and this later became a tradition of studying economics, accompanying the tradition of ultra-empiricism. This tradition *positive economics* emphasizes the principle of independence from positions of ethical justification and particular norms (Mäki, 2009, p. 4). In John Neville Keynes's terms, positive economics is closely related to the 'what is'; not 'what ought to be' diction (Mäki, 2009, p. 4). This philosophical framework provides a system of generalization that can be used to formulate correct predictions related to the consequences of various changes in economic reality (Mäki, 2009, p. 4). This then aligns economics with physics, and becomes an objective science.

For Milton Friedman economics, in fact, is related to human and researcher interaction as the subject of study (Mäki, 2005, p. 5). This is certainly different from physics, between researchers and the subjects under study are different and have no interrelation. Thus, physics is more objective. Nevertheless, Milton Friedman carefully and confidently offers a tradition of *moderate-empiricism*, and is supported by the paradigm of *positive-economics*. In this case, Milton Friedman asserted that the ultimate goal of *positive economics* is to build valid theories or hypotheses and meaningful predictions related to phenomena that have not been observed (Mäki, 2009, p. 7). In this framework, the theory is valued as a substantive hypothesis, and it must be justified by the predictive power of various classes of phenomena to be explained (Mäki, 2009, p. 8). Simply put, the tradition of *moderate-empiricism*, which is supported by the paradigm of positivistic economics that seeks to make economic theory a more substantive hypothesis, and can confirm economic reality. As a rivalry, Ludwig von Mises and Lionel Robins introduce other methodological traditions, which are relatively different. They call it *extrem a priorism*. What is the philosophical view that underlies this tradition?

Another term from the apriorism methodology tradition is the *epistemological justification of the a priori element (s) of economic theory*, *epistemological justification of the a priori element of economic theory* or the. He laid the foundation of a priori economics (Scheall, 2017, p. 1). He began his methodology from a philosophical view that human action is behavior that has a purpose (Scheall, 2017, p. 4). Therefore, the procedure of economics is the application of the category of human

action. Because it is necessary deduction of praxeology to understand human behavior (Scheall, 2017, p. 4). He convinced economic scientists to base their economic analysis on a general theory of choices and preferences. In this case, he rejects the term *homo economicus*, and considers it a too narrow concept.

Understanding Ludwig von Mises's philosophical framework, it can be understood that economic problems or catalytic problems (read: Greek which means "exchange") are embodied in the sciences in general, and can no longer be demarcated from this connection. There is no solution to economic problems that can 'evade' the act of choosing. This is what is termed economic praxeology. So, what about the tradition of Islamic economic methodology in Islamic economics today? Are the three traditions (ultra-empiricism; moderate empiricism; and extreme apriorism) growing within the epistemological structure of Islamic economics that still continues today? Or rather, there is a leap so as to distinguish Islamic methodology from economics methodology. To understand this, several methodological concepts that are developing in the body of Islamic economics need to be addressed today. In addition to these three traditions, neo-classical methodology features also become an important model in producing economic theory.

Neo-classical economic practice is characterized by axioms-positivism, and is believed to be far from the formal methodology of Popper-Lakatos (Reuten, 1996, p. 39). In its development, neo-classical economics is based on mathematical axioms, where neo-classical economics takes the form of a nomological-deductive system (e.g. functioning assumptions as axioms) and functions of a deductive approach (eg mathematical and formal logic). In the practice of neo-classical economic research, the tradition of this school is broadly built and isolated from other scientific methodologies or in the philosophy of science (Reuten, 1996, p. 40). However, this neo-classical tradition is widely accepted, and used as a *rule model* in economic research. No exception in Islamic economics. So, what is the latest development of the variant of the Islamic economic methodology itself?

#### **4. The Late variance of Islamic Economic Methodology**

Islamic economy, admittedly, is indeed a process towards a scientific discipline. So, understandably, if there is no standard epistemological consensus regarding the production of theory in Islamic economics. Uniquely, the dynamics and contestation of Islamic economic methodology has actually strengthened and expanded in recent decades. This led to the birth of several variants of Islamic economic methodology. Based on the search of existing literature, it seems that variants of Islamic economic methodology can be categorized into several typologies. *First*, the tradition of *Islamization of economics based on the neo-classical paradigm*, or the Islamization of the economy based on the neo-classical economic paradigm.

Neo-classical economics became a patron in the Islamization of economics, because of the established methodology in the neo-classical tradition in producing theory. It is not surprising that the neo-classical tradition is very dominantly referred

to, and made a model by reviewers, especially the government (Arrow, 2016, p. 2). So that curriculum courses and economic education, research agendas, journals and massive publications are displayed in the neo-classical economic tradition. In connection with the Islamization of economics, the search for the influence of neo-classical traditions in Islamic economics scholars can be traced to two methods, namely: (1) looking at intrinsic values in the narrative of economic theory — does the theory put forward by Islamic economics scholars contain values neo classical intrinsic. This intrinsic value refers to the basic assumptions and axioms on which classical economic theory is built; (2) identify themes and assumptions associated with terms and assumptions that grow and develop in the neo-classical economic tradition (Arrow, 2016, p. 4). In addition, another characteristic of the neo-classical economic tradition, in relation to methodology, is the very intense use of the Imre Lakatos research methodology (Deborshi Brahmachari, 2016, p. 1). Referring to this indicator, the Islamization of economics carried out by Islamic economics scholars is also trapped in this neo-classical economic tradition.

Salman Ahmad Sheikh is a scholar who is *concerned* about integrating neo-classical economic traditions and Islamic economics. This is indicated by the application intensification and abstraction of mathematical models in explaining economic reality. In addition, his article *Examining Classical and Neo-Classical Theories of Development from Islamic Perspectives and Islamic Solutions to Contemporary Development Problems* (2013) serves as a sign that he is trying to critically integrate neo-classical economic traditions and Islamic economics. It's just that this integration process is carried out carefully and is very critical (Shaikh, 2013, p. 1). *Second*, the moral of Islamic economics and minimal relations with the neo-classical economic tradition. The second typology of the study of Islamic economics, marked by efforts to qualify Islamic economics based on moral economics, but still gives a minimal portion of the neo-classical economic tradition. One of the scholars of Islamic economics, who is *concerned* with tradition is Mehmet Asutay.

Through one of his articles, *Islamic Moral Economy as the Foundation of Islamic Finance* (2013), Mehmet Asutay laid down a system of Islamic moral economic philosophy, and this then became the foundation of Islamic finance. According to him *Islamic Moral Economy* (IME) is a response to the failure of economic development in Muslim countries - both by capitalists; socialist; nationalist. The solution to this failure is to return to the authentic source of Islam to build an economic model, and that is the Koran and the Sunnah (Valentino Cattelan, 2013, p. 56). Not only Mehmet Asutay, a scholar of Islamic economics such as Umar Chapra (1999, 2000); Siddiqi (1981); Al-Sadr (2000); Ahmad (1980; 1994; 2003) and Naqvi (1981; 1994; 2003) were also noted as laying the foundations of the Islamic moral economy in the modern era. They tried to articulate the initial theoretical building for Islamic economic morals, which later became the basis of the ethical-religious foundation for Islamic Banks and Finance (Valentino Cattelan, 2013, p. 55). This building then encouraged Mehmet Asutay to formulate a methodology of Islamic

moral economics, which was relatively different. It's just still considering the paradigm of mainstream economic methodology.

Mehmet Asutay offers several methodological postulates of Islamic moral economics, which include: (1) as a form of resistance to the methodology of individualism in conventional analysis, the *Islamic Moral Economy* assumes that humans are individuals *sociotropic*, which are not only *concerned* with the individualism value system but also have *social concern* as the main prerequisite; (2) As the foundation of behavioral postulates, the *Islamic Moral Economy* assumes the existence of a *God-conscious individual*, where individuals will: [a] try to meet their needs and self-interests while paying attention to social goodness, [b] carrying out economic activities in a rational manner by always referring on Islamic boundaries based on the social environment and the end-day, and [c] in an effort to satisfy the utility, the individual will indirectly pay attention to maximizing social welfare well because it is an important part of gaining happiness in the afterlife; (3) in relation to institutional assumptions; *Islamic Moral Economy* is in line with conventional analysis, especially in terms of accepting the doctrine that market mechanisms are an important component of the operation of *Islamic Moral Economy*. But the market mechanism must work on a moral foundation to produce a friendly environment system. This is avoided by the system of socialism; and *welfare state* with the aim of getting high economic incentives (Valentino Cattelan, 2013, p. 63). From this postulate, it seems that the relationship between neo-classical economic traditions and *Islamic Moral Economy* can be found, especially in terms of accepting the market mechanism as the best economic instrument.

The third variant is the methodological tradition developed by Abbas Mirakhor. Understanding the epistemological structure of Islamic economics offered by Abbas Mirakhor, a careful reading of his works and studies is needed. As a preliminary reading of the style of Islamic economic methodology offered by Abbas Mirakhor, it can be analyzed through the Islamic economic concept he formulated. According to Abbas Mirakhor, Islamic economics is a discipline that is *concerned* with issues, such as: *first, the behavioral structures (institutions) guided by Islam*, especially related to the allocation of economic resources, production, exchange, distribution and redistribution; *Second*, the economic implications of the operationalization of Islamic principles; *Third, the policy recommendations* to achieve an order that adheres to Islamic values, which lead to the actual economic convergence to an ideal economic system that is encouraged by Islamic values (Abbas Mirakhor, 2009, p. 32). To build a theory from this concept, it is necessary to base the analysis on a critical paradigm built from axioms, propositions, and *assertions* related to the relationship between important elements of the concept with economic reality (Abbas Mirakhor, 2009, p. 32). From this concept, it seems no exaggeration if Abbas Mirakhor is categorized as an advocate of Islamic economic realism. This thesis is certainly based on the philosophical views of Abbas Mirakhor as outlined in his intellectual project, related to the Islamic economy itself. Therefore,

it is necessary to uncover philosophical views, assumptions and propositions which form the foundation of the Islamic economic methodology offered by Abbas Mirakhor, carefully and deeply.

### **5. The Complexity of Abbas Mirakhor's Methodology**

Methodology is a specific part of a philosophy of science, which is often referred to as epistemology. However, in epistemology itself, what is intensively studied is knowledge theory; source of knowledge; application of knowledge and the scope of a science. Meanwhile, the methodology is more specifically related to how a theory is built and how to evaluate the theory produced (Haneef & Furqani, 2011, p. 3). Referring to this conception, the elaboration of the methodology of Islamic economics offered by Abbas Mirakhor, will focus on how the process of producing Islamic economic theory — from which a theory is built; In what way; and using what method the theory is explained.

Abbas Mirakhor, like other Islamic economics scholars, elaborates on the Islamic paradigm, beginning his efforts by carrying out Islamic economic abstractions. According to him, Islam is a guidance system that functions as a method that can be used by humans; and the community to achieve material and non-material progress that consistently refers to effective rules and institutions (Hossein Askari, Zamir Iqbal, & Abbas Mirakhor, 2015, p. 19). In this context, institutional *scaffolding* of the Islamic economic system is built through the order of behavior defined from the Koran. Thus, the content and *blueprint* of Islamic economics is formulated through: 1) extraction of rules which describe the ideal Islamic economy and its economic implications from the Koran and Sunnah; 2) examine the institution in contemporary economics and determine the *degree* and level of deviation between *institutional scaffolding* and the ideal Islamic economy; 3) offers policy recommendations that can bridge the gap between them (e.g. *institutional scaffolding* and *Islamic economic ideals*). From these three paradigms, it can be understood that Abbas Mirakhor formulated in advance the ideal form of Islamic economics derived from the two main sources of Islam, namely the Koran and the Sunnah (Hossein Askari et al., 2015, p. 19). Then, encourage the existence of institutions that can discuss the ideal form of the economy. In this context, the market is also interpreted by Abbas Mirakhor as important in the Islamic economy.

According to Abbas Mirakhor, the Islamic economic system is a market-based system, where the market must be seen as the most efficient and good mechanism for the allocation of economic resources such as production and consumption. But the efficiency of the market system should not be obscured by positioning the market as an ideology. To achieve market efficiency, the market itself does not deserve to be interpreted as the philosophy or foundation of the economic system, and is upheld as a supernatural in determining the efficiency of the economic system. However, market efficiency is only possible if the market is run based on rules that are fully intended to protect economic actors (workers;

producers; investors and consumers) and must be monitored by strict enforcement (Hossein Askari et al., 2015, p. 19 ).

These rules are built on the basis of the Koran; and Sunnah. In this case, the Koran and Sunnah are categorized by Abbas Mirakhor as a *meta-framework* and *archetype* of economic rules. Abbas Mirakhor believes that the source of all Islamic paradigms is the Koran (Hossein Askari et al., 2015, p. 31). The Koran provides a framework of Islamic economics. Likewise in relation to epistemology. The Koran and Sunnah are the main sources of Islamic economic theory. These two sources form the foundation and order of the economic reality of Islam. As such, these two sources are called *meta-frameworks* abstract, and they don't change. Whereas the archetypal model is an articulation of the universal principle of the *meta-framework* (Hossein Askari et al., 2015, p. 31). Important questions that are worth asking, what are the methodological concepts offered by Abbas Mirakhor when extracting axioms; the basic Islamic economic philosophy of the meta-framework (eg Koran and sunnah) and what instruments are used for the process?

Abbas Mirakhor introduces the use of the hermeneutic approach in formulating postulates, or Islamic economic axioms derived from metaframework — the Koran and the Sunnah. Not only that, according to Abbas Mirakhor hermeneutics is applied by classical scholars in understanding texts. In relation to Islamic economics, there are many illustrations of the application of Islamic economic hermeneutics by Muslim economists (Abbas Mirakhor, 2015, p. 19). For example, Umar Chapra through his book *The Future of Economics*, according to Abbas Mirakhor is full of illustrations of the application of economic hermeneutics. Likewise, Tajeddin when explaining the order of the Koran system. He applied analysis in an intergenerational framework; and intertemporal framework. Efforts to produce economic theories from an Islamic perspective such as building Islamic assumptions about rationality; self-interest and human behavior through hermeneutics are important (Abbas Mirakhor, 2015, p. 19). So, Abbas Mirakhor actually used the hermeneutic approach to capture the Islamic vision of the economy. Hermeneutics is not only addressed to Islamic metaframework, but can also be used in other Islamic texts in the form of *turats* classical written by Islamic mujtahids. In addition, hermeneutics helps Abbas Mirakhor to formulate economic postulates that refer comprehensively to Islamic metaframework.

Understanding Abbas Mirakhor from the concepts he built related to the sources of Islamic economic science; and its relationship with hermeneutics, it is rather difficult to define in the epistemological tradition as to what Abbas Mirakhor built the structural methodology of Islamic economics. This is normal, because Abbas Mirakhor is a complex figure. Therefore, it is necessary to understand Abbas Mirakhor through his work entitled *Introductory Mathematics and Statistics for Islamic Finance* (2014). This relatively new work, confirms its position as a Muslim economist who advocates the use of mathematics and statistics as *tools* in analyzing Islamic economics, especially in the study of Islamic finance. For him, in

understanding the ontology of Islamic finance, the reviewer must have sufficient ability to operate mathematical and statistical calculations (Abbas Mirakhor; Noureddine Krichene, 2014, p. ix). This recommendation is understandable, because Islamic finance activities like conventional finance are full of the use of *equations* to calculate *internal rates of return; replicating portfolios, structuring products; pricing assets; and calculate the cost or break-even points* (Abbas Mirakhor; Noureddine Krichene, 2014, p. 11). So, can the strict positivistic method be categorized that Abbas Mirakhor is an advocate of Islamic economic realism? Reading economic reality through numbers is a concrete form of realism. Explanation of the reality of Islamic economics through mathematical approaches, and statistics, may deliver Abbas Mirakhor as a Muslim-realist economist.

The complexity of an Abbas Mirakhor is also seen when he parses and offers the ideal concept of Islamic economics. He began his exploration by proposing the paradox of capitalism, to then offer the ideal concept of an economic system that refers deeply and revolutionarily to Islamic metaframework — the Koran and sunnah. By referring to the thesis put forward by Rima, where: "the paradigm of capitalism neo-liberalism cannot solve recurring economic crises, even the neo-liberalism reasoning is the part that triggers the crisis (Abbas Mirakhor; Hossein Askari, 2017, p. 93)." In *setting* this Abbas Mirakhor composed the epistemological system of Islamic economics, which was relatively different from other Islamic economics scholars. Illustratively and philosophically, Abbas Mirakhor explains the process of externalizing the Islamic economy as follows:

*"The fountainhead of all Islamic paradigms is the Koran. It provides the framework within which all relevant envisioned conceptions of reality find their source. This eternal source specifies the rules of behavior (institutions) applicable to all societies at all times. These rules are immutable temporally and spatially. The meta-framework specifies the immutable, abstract rules. The archetype model articulates the operational form of these rules and demonstrates how these rules are operationalized in a human community. The abstract became operational in the hands of the human being who was the one and only direct recipient of the source of the meta-framework, the Koran. Through the words and actions of this perfect human, the metaframework given by the Creator in the Koran was interpreted, articulated, and applied to the immediate human community of his time. The metaframework specifies general universal laws, rules of behavior. The archetype model provides universal-specific rules of behavior and the institutional structure needed for organizing a human society based on the immutable rules of the meta-framework (Hossein Askari et al., 2015, p. 31)."*

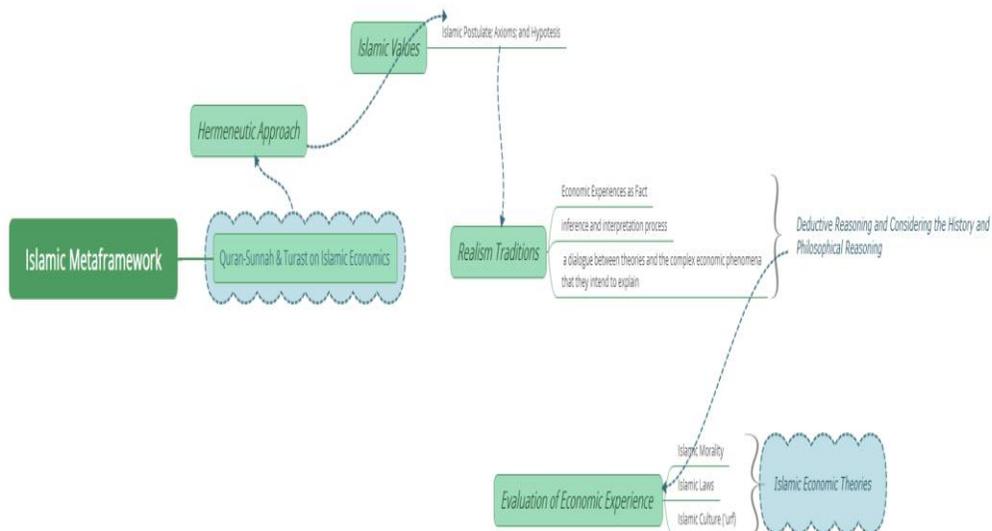
Simply put, the Koran and everything derived from it becomes *law for reality* an unchanging, and will be permanent and universally valid as an archetype and institutional fold for economic behavior. Therefore Islamic meta-frameworks - the

Koran and the Sunnah, should ideally be able to be converted into abstract andrules *immutable*. At this level two methodological processes are applied, namely hermeneutics as an effort to interpret and capture the Islamic value order; and economic realism as an effort to fabricate *law for reality*. This process naturally leads to the formulation of an archetypal model that articulates the operational form of the *law for reality* , and demonstrates how the rules are operated in the human community (Hossein Askari et al., 2015, p. 31). How is the structure of the Islamic Economic methodology offered by Abbas Mirakhor understood, and explained in terms of the epistemology of economics as social science? It seems necessary to consider the structure of the methodology in the philosophical narrative of the epistemology of economics. This is aimed at identifying which parts of the structure of Abbas Mirakhor's Islamic economic methodology, differ from the structure of conventional economic methodologies.

### 6. Abbas Mirakhor Purifies the Realism Economics

A thesis that can be offered when exploring economic thought and Islamic economic methodology offered by Abbas Mirakhor, namely: "Abbas Mirakhor is a Muslim economist who seeks to purify Economic realism, by incorporating a hermeneutic approach to the text, especially in his efforts formulate postulates; axioms and hypotheses related to Islamic economics. " This thesis certainly refers to the mosaic of Abbas Mirakhor's philosophical views on the building of Islamic economics as a scientific discipline. There is one methodological approach used to purify economic realism, namely: using hermeneutics to build Islamic economic postulates, which are then empirically tested with traditions of economic realism. Illustratively, the structure of Abbas Mirakhor's methodology can be illustrated as follows:

**Figure 1. Abbas Mirakhor's Methodology Structure**



Abbas Mirakhor began his thinking through efforts to position the Islamic metaframework — the Koran; Sunnah and *turats* Islamic economic. The *metaframework* is then understood and interpreted by the hermeneutic approach. The ultimate goal of applying this hermeneutic approach is to express Islamic values, and then become the foundation of Islamic economic postulates. Abbas Mirakhor illustrates this process through understanding the meaningful declaration of the Koran, 2: 276, regarding the meaning of *يُمَحِّقُ اللَّهُ الرِّبَا وَيُرِي الصَّدَقَاتِ*. Muslim economists actually apply the hermeneutic approach to this verse, paying attention philosophically to the meaning of the words *يُمَحِّقُ* and *يُرِي*. This is an indicator that distinguishes the impact of usury and alms on the economy, especially for economic actors who do these two things. The meaning of this hermeneutic, the economist can create a Keynesian model to calculate marginal propensities for usury and alms itself (Abbas Mirakhor, 2015, p. 19). From Abbas Mirakhor's explanation, it can be understood that hermeneutics serves as a catalyst for the postulates of Islamic economics from metaframework sources. Then, the postulate is again empirically examined in the tradition of economic realism.

The tradition of economic realism itself is identified through a concept that refers to Tony Lawson, where a realist economist will see two methodological efforts, namely: interpreting (*interpreting*) and differentiating (*distinguishing*). These two things will always be used as reasoning methodology for those who hold to the realm of economic realism (Lawson, 2003, p. 63). What was built by Abbas Mirakhor, certainly can be categorized in the two reasoning. At the level of the use of hermeneutics against the sources of *metaframework* Islamic, he is actually doing an interpretation. Meanwhile, when successfully building a postulate; and the Islamic economic model, Abbas Mirakhor is actually trying to give an emphasis that distinguishes Islamic economics from positivism economics. The model that is built from Islamic metaframework is positioned differently. Although still built in the Keynesian economic model. Abbas Mirakhor makes the model built on his interpretation of Islamic texts *prima-postulate*, and is not intended to be tested. Rather the model is positioned as the foundation of an evaluation of economic experience undertaken by economic actors. In this context, then Abbas Mirakhor can be categorized as an advocate of Islamic economic realism.

In addition, by including a hermeneutic approach, or an attempt to make a philosophical interpretation of the Islamic text, and then the results of that interpretation or *exegesis* used to evaluate the economic experience. This can be interpreted that Abbas Mirakhor tried to purify the tradition of Economic realism. Rather, he is trying to convince the economic community, in understanding reality, it is not enough to state that economic reality is one-fold, and only recognize the reality of economic experience. However, there is a supra-normative reality, and it is sourced from Islamic metaframeworks such as the Koran; Sunnah and *Turats* (e.g. intellectual works of muslim scholars).

As is done in the tradition of economic realism. There are two things that *concern to* identify by the realism-economic society, namely: awareness; and the structure of social reality (Lawson, 2003, p. 65). It's just that, in a different form, Abbas Mirakhor is also trying to find the intrinsic awareness (*Supra-Consciousness*) that is behind the Islamic text. To discover, and understand this, the hermeneutic approach was used by Abbas Mirakhor. So that the postulate, and the economic model that comes from the metaframework, can be the foundation of an evaluation of human economic experience. So that in the end, the substantive compounded model designation can be recognized as *archetype models* for Islamic economics, and can be institutionalized as a solution of economic problems.

Thus, the structure of Abbas Mirakhor's Islamic realism-economy differs from the tradition of *ultra-empiricism; moderate empiricism; and extrem a priorism*, which only recognizes empiricism as the foundation of Islamic economic methodology. Thus, the reality that is compounded by *common sense* is recognized as the main account of economic theory. Not so, in the meaning carried out by Abbas Mirakhor of reality. The ultimate reality is actually there are authoritative sources, or *wealth legacy* Islamic itself in the form of the Koran; Hadith; and *turats* (e.g. scholarly writing on fiqh; ethics; philosophy; history of Muslim society; and history of thought). This ultimate reality determines the process of Islamic economics into a scientific discipline (Abbas Mirakhor, 2015, p. 8). By considering philosophical reasoning; and the historicity of Islam in developing economic postulates, finally put Abbas Mirakhor as an Islamic Economic Realist who appeared to purify economic realism.

## 7. Conclusion

Abbas Mirakhor in the spectrum of Islamic economic thought, he is grouped as the initiator of the *New Institutional Islamic Economics*—an idea based on a philosophical view that to develop, and encourage the realization of an ideal Islamic economy, an institution is needed, both in terms of the Islamic value system; and *archetype models* that were born from *metaframework* Islamic. This is the basis of the argument of this study's thesis, that "NIE (*New Institutional Economics*) applied by Abbas Mirakhor is inseparable from his intellectual interaction with the NIE tradition in conventional economics. This also encourages Abbas Mirakhor to introduce the structure of the methodology of Islamic economics, which is more visible as *New Realism Islamic Economics*. " This is indicated by the number of approaches used by Abbas Mirakhor in developing and producing Islamic economic theory.

In practice, Abbas Mirakhor produced Islamic economic theory through reading; hermeneutic interpretation of the source of Islamic metaframework—the Koran; Hadith and *Turats*. This hermeneutic approach serves as an instrument in building and formulating postulates of Islamic economic theory, which functions in research as a theoretical evaluation principle for economic experience that can be observed empirically. This kind of methodology certainly needs development and institutionalization. In order to construct Islamic economic methodology, it does not

appear to be mere replication of positivism, and becomes a distinction that can distinguish processes; mechanism and procedure of Islamic economic research.[]

### References:

- Abbas Mirakhor; Hossein Askari. (2017). *Ideal Islamic Economy: an Introduction*. In *Palgrave MacMillan*. New York: Palgrave Mac Millan.
- Abbas Mirakhor; Noureddine Krichene. (2014). *Introductory Mathematics and Statistics for Islamic Finance*. Singapore: Wiley & Sons, Inc.
- Abbas Mirakhor. (2009). *Islamic Economics and Finance: An Institutional Perspective*. *IJUM Journal of Economics and Management*, Vol. 17(1), 31.
- Abbas Mirakhor. (2015). *a Note on Islamic Economics* (Vol. 3). Retrieved from <http://repositorio.unan.edu.ni/2986/1/5624.pdf>
- Arafah, M. (2019). *Islamic Financial System: A Theoretical Study*. *Al-Kharaj: Journal of Islamic Economic and Business*, Vol. 1(1), 1–8.
- Arrow, K. (2016). *What is Neoclassical Economics ?* (Jamie Morgan, ed.). New York: Routledge.
- Bazerman, C. (2003). *Intertextuality: How texts rely on other texts*. In *What Writing Does and How It Does It: An Introduction to Analyzing Texts and Textual Practices* (pp. 83–96). <https://doi.org/10.4324/9781410609526>
- Deborshi Brahmachari. (2016). *Neoclassical Economics as a Method of Scientific Research Program : A review of existing literature*. In *MPRA Paper No. 75738*. Retrieved from <https://mpra.ub.uni-muenchen.de/75738/>
- Fatkhuyatus Su'adah. (2019). *Qur'anic Intertextuality: Study of Youth Lifestyle in the Story of Two Owners of the Surat al-Kahfi Gardens*. Postgraduate of Sunan Ampel State Islamic University.
- Haneef, MA, & Furqani, H. (2011). *Methodology of Islamic Economics: Overview of Present State and Future Direction \**. *IJUM Journal of Economics and Management*, 19(1), 1–26.
- Harmen, R. (2011). *Analysis of the Role of the IMF (International Monetary Fund) in the Privatization of SOEs in Indonesia: Case Study of PT. Indosat, Tbk 1431 H / 2011 AD*. Syarif Hidayatullah State Islamic University, Jakarta.
- Hossein Askari, Zamir Iqbal, & Abbas Mirakhor. (2015). *Introduction to Islamic Economics*. Singapore: Wiley.
- Inayati, AA (2015). *Epistemology of Islamic Economics*. Yogyakarta: Reader One.
- Lawson, T. (2003). *Reorienting economics*. *Reorienting Economics*, pp. 1–383. <https://doi.org/10.4324/9780203929964>

- Machlup, F. (2009). Rejoinder to a Reluctant Ultra-Empiricist. *Southern Economic Journal*, 22(4), 483–493. Retrieved from <http://www.jstor.org/stable/1054537>
- Macknight, V., & Medvecky, F. (2020). (Google-) Knowing Economics. *Social Epistemology*, 00(00), 1–14. <https://doi.org/10.1080/02691728.2019.1702735>
- Mäki, U. (2005). Economic Epistemology: Hopes and Horrors. *Episteme*, 1(3), 211–222. <https://doi.org/10.3366/epi.2004.1.3.211>
- Mäki, U. (2009). *The Methodology of Positive Economics: Reflections on the Milton Friedman legacy*. New York: Cambridge University Press.
- Mevlüde Zegin. (2016). An Introduction to Intertextuality as A Literary Theory: Definitions, Axioms and The Originators. *Pamukkale Üniversitesi Sosyal Bilimler Enstitüsü Dergisi*, Vol. 25(1), 299–326. Retrieved from <http://dergipark.gov.tr/pausbed/issue/34754/384383>
- Michael Huemer. (2002). *Epistemology: Contemporary Reading*. London: Routledge.
- Mises, L. Von. (2003). *Epistemological Problem of Economics*. Canada: Ludwig von Mises Institute.
- Paul T. Sagal. (1977). Epistemology of Economics. *Zeitschrift Fiir Allgemeine Wissenschaftstheori*, VIII(1), 459–463.
- Reuten, G. (1996). A revision of the neoclassical economics methodology. *Journal of Economic Methodology*, 3(1), 39–68. <https://doi.org/10.1080/13501789600000002>
- Scheall, S. (2017). What is extreme about Mises's extreme apriorism? *Journal of Economic Methodology*, 24(3), 226–249. <https://doi.org/10.1080/1350178X.2017.1356439>
- Shaikh, SA (2013). Examining Classical and Neo-Classical Theories of Development from Islamic Perspectives and Islamic Solutions to Contemporary Development Problems. *The International Journal of Excellence in Islamic Banking and Finance*, 3(2), 1–15. <https://doi.org/10.12816/0001423>
- TW Hutchison. (1938). *The Significance and Basic Postulates of Economic Theory*. London: MacMillan.
- Valentino Cattelan. (2013). *Islamic Finance in Europe: Towards a Plural Financial System* (Valentino Cattelan, Ed.). UK: Edward Elgard.

