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Islamic Economics and Economics as a System of Power

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Abstract: Islamic economics emerged in the post-colonial period as a novel and independent approach to political and economic discourse. It sought an ideal economic system that could encompass interest-free commercial relations, moral behavioral norms that eschewed self-interest, and the pursuit of social justice and welfare. After some time, however, Islamic economics was perceived as having failed to meet these expectations, or even to create an original methodology. This saw it become subject to harsh criticisms regarding incompatibility between its theory and practice. Such observations are not unique to Islamic economics; various heterodox schools of economics have made similar critiques of mainstream neoclassical economics. The latter, however, has hereto overcome such criticisms by offering technical analysis backed by institutional power. In their application to Islamic economics, however, such criticisms generally ignore the fact that economics is a "power system" or "issue of power" -an issue with significant implications for the application of any economic school of thought. Notably, the United States of America's post-1945 assumption of global dominance in terms of political power and economic wealth led to the emergence of a robust mainstream international theory of economics. This saw mainstream neoclassical economics become intertwined with the experience of the post-1945 hegemonic state. The consistency and validity of this theory was thus directly related to political power and institutionalization. Islamic economics today exhibits theoretical disorganization because it needs an institutional center like that of mainstream neoclassical economics. It is in this context that this study examines the relationship between institutional power and economic theory from the perspective of Islamic economics.

Keywords: Mainstream economics, neoclassicism, Islamic economics, power system, institutionalization.

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Introduction

Islamic economics emerged in the mid-20th century, emphasizing an independent political and economic discourse in a post-colonial world. It seeks an economic system separate from capitalism and socialism that is more successful and just than these paradigms. The Islamic economic system's goals include interest-free commercial relations, zakat, social justice, welfare and moral behavioral norms that are not founded on self-interest.

Sometime after its emergence, Islamic economics was subjected to severe criticism for failing to meet expectations and being incompatible in its theory and practice. Such criticisms can be synthesized as follows: Islamic economics has not developed a unique set of values (Mohemedy, 2016) and, therefore, cannot solve current economic problems (Tahir, 2017); even if Islamic economics develops values based on some behavioral norms, it is not easy to apply them to today's large modern societies (Kuran, 1983); and Islamic economists have not thought enough about alternative methodologies (Khan, 2018). It has also been asserted that the cultural aspect of Islamic economics is more dominant than its economic aspect. Meanwhile, others have suggested that Islamic economics is primarily normative and loses much of its Islamic character when efforts are made to give it analytical power (Kuran, 2004).

Islamic economics has, of course, also been subject to various other critiques. All criticism should be addressed to the extent that it emphasizes an incompatibility between the discourse and practice of Islamic economics from its early years to the present day. However, such criticisms start to lose their meaning when one considers that they generally overlook the fact that economics is a "power system" or "power issue" (Samuels, 1973). Indeed, criticisms of Islamic economics apply equally to mainstream (orthodox) neoclassical economics.[1] For example, heterodox schools of economics criticize mainstream neoclassical economics as *pseudoscience* for its detachment from reality and failure to anticipate crises. However, even though mainstream neoclassical economics also receives such criticisms, it continues to exist as a definitive and decisive social science today. Furthermore, it pervades to influence the general course of

1 In Islamic economics, conventional economics is generally preferred over neoclassical economics. However, this study follows the international literature, using neoclassical economics and treating it as mainstream (orthodox). Studies in the literature show that neoclassical economics, the mainstream and orthodoxy are not the same thing (Dequech, 2007). This study will nevertheless use neoclassical theory as mainstream (orthodox) economics. This is because, while certain studies argue the opposite, and some even claim that neoclassical economics is dead (Colander, 2000), the mathematical reasoning of neoclassicism still dominates the economics discipline (Dow, 2008).

other social sciences, such as sociology, law, political science, and history.[2] The dominance of mainstream neoclassical economics and its expansionist influence are related to its institutionalization[3] and advancement as a power system.

Mainstream economics emerged as a project concerned with defending the functioning of the current economic system, which has been systematized by mainstream economics as an ideology. Although the term ideology is rarely defined, it carries the connotation of a theory adopted regardless of its method or level of justification, but rather, because of the purpose it serves (Lawson, 2006). The power grab of mainstream neoclassical economics and the criticisms of heterodox schools of economics offer new horizons for discussions on Islamic economics.

This paper claims that economics is a system of power and that Islamic economics, like mainstream neoclassical economics, can be considered a coherent social science only when it has seized power; here, the coherence and validity of the theory are directly related to political power and institutionalization. The institutionalization of mainstream neoclassical economics in the United States after 1945 exemplifies this. The present study articulates the relationship between power and mainstream neoclassicism in two ways. It first analyses how, in the social sciences, the scientific construction process includes a political dimension that broadly guides scientific activity. Secondly, it posits that in a capitalist society, the dominant class cannot remain indifferent to the type of social science that develops in that society (De Vroey, 1975). These two features are evident in the experience of mainstream neoclassical economics in the United States: for example, the rise of the US as a hegemonic state after 1945 expresses the political dimension in the formation of the theory, while mainstream economists' development of analytical techniques suited to this hegemonic power points to the link between power and the development of social science.

2 This expansionism of mainstream neoclassical economics is known as methodological imperialism. See Lazear (2000).

3 The institutionalization of neoclassicism refers to its professionalization. Professionalization can be interpreted as the collective struggle of members of a profession to define their working conditions and methods, to control "the production of producers" and establish a cognitive basis and legitimacy for their professional autonomy. There are two aspects to professionalization: the first is the formation of formal education and legitimacy on a cognitive foundation produced by university specialists; the second is a growth and development of professional networks encompassing organizations, where new models spread rapidly. Universities and professional training institutions are key centers for developing organizational norms. These mechanisms create a pool of nearly interchangeable individuals possessing a similar tendency and tendency similarity in positions in various organizations, which can override differences in tradition and control. This can shape institutional behavior (DiMaggio & Powell, 1983). By professionalizing, neoclassicism has made it impossible for the discipline of economics to exist without it because of the mathematical models/techniques it has produced.

In support of this claim, this study will proceed as follows: its will explain the institutionalization and dominance of mainstream neoclassical economics after 1945 as the Americanization of the discipline. It will then evaluate the theoretical fragmentation of Islamic economics by reference to its lack of an institutional center like that of mainstream neoclassical economics. Finally, it will show that analyzing economics as a power system can provide new insights for those who think about the nature of Islamic economics.

Americanization and the Institutionalization of Mainstream Economics

Institutionalization is both a process and a property variable (Tolbert & Zucker, 1996). The institutionalization of mainstream neoclassical economics also includes the professionalization of the discipline. Two pivotal periods can be identified in the formation of mainstream neoclassical economics: the first is the marginalist revolution of the 1870s; the second, the establishment of the United States as the new center of gravity for economics after 1945. While the first had a significant role in transforming political economy into economics, the second moved the discipline from Europe to the United States. It transformed it into a science where models predominate. Mainstream economics emerged as a product of these two pivotal shifts.[4]

Political economy existed as a social discipline before the above two shifts, but remained unsuitable as a formal science, despite its ability to describe the real world. It presented as a political philosophy or social theory with broad boundaries (Cardoso, 2004). By contrast, neoclassical economics, which developed after the marginalist revolution, produced a scientific discourse by creating rationality and models. The acceleration of the foundations of formalism and quantitative approaches to economics in the 1930s and 1940s, and the process of establishing the micro-foundations of macroeconomics in the 1950s, highlight the construction of today's mainstream neoclassical economics (Becchio & Leghissa, 2017). Starting in the late 19th century with Leon Walras and culminating in the 1960s and 1970s with the Arrow-Hahn-Debreu model, the general competitive equilibrium toolkit

4 Also, when looking at the history of economics, five distinct periods of intellectual divergence stand out. The first is the transition from classical to neoclassical economics in 19th-century Britain. The second is the Methodenstreit between the German Historical School and the early Austrians. The third is Cambridge's multiple approaches to labour and monetary economics after Marshall. The fourth is the interwar competition between institutional and neoclassical economics in the United States. The last is the debate in the 1970s between the proponents of monetary and fiscal policy within the IS-LM framework (Davis, 2008).

trumped Adam Smith's political economy with its "invisible hand" metaphor due to its mathematical certainty (Boettke, 2010). Tony Lawson (2013) asserts that it is a mistake to define neoclassical economics as possessing certain essential characteristics, however. This is because it attempts to create precise mathematical deductive models by using closed systems of isolated atoms. It does so by founding its theory on "laws" that neoclassical economists claim is universally valid. As such, economists who advocate for certainty effectively defend their beliefs as accepted fact. Here, economists' "certainty demonstration" becomes a harmful belief (Lawson, 1987).

Model-driven mathematical reasoning[5] did not suddenly come to dominate economic analysis in the 1940s. Its foundations were laid in the late 19th century. The reasoning on which the discipline of political economy relied raised issues of uncertainty surrounding the use of specific words to mean different things or different words to mean the same thing. This could allow certain assumptions to remain hidden, enabling moral intuitions to enter an analysis, thus undermining its scientific nature. It was believed this could be avoided by putting arguments into mathematical forms. Formal presentation of such formula required all assumptions to be explicitly addressed and definitions to be precise. Paul Samuelson emphasized the need for such precision in the 1940s. Samuelson's reasoning is simple: Ambiguity in thinking arises when we use exact words to mean different things or different words to mean the same thing. By forcing economic arguments to be expressed in a common formal language, certain assumptions must apply, thus avoiding uncertainty (Boettke, 2021, 2010). By avoiding uncertainty, the scientific goal has been to achieve certainty. It is assumed that certain knowledge is acquired through measurable tools. Science is now measurement, and if science is to be done, the tools used must fulfil this objective (Boettke, 2010). According to this interpretation, economics can be defined in one of two ways: first, economics is a social science that seeks to understand how the economy works; second, economics focuses on methods, and is a style of doing social science that uses particular tools.

5 A broad chronology can be outlined for the historical development of modelling in economics over the last 200 years. There are three critical periods in modelling. To begin with, a few isolated examples of models can be found in the late 18th and early 19th century. Then, in the late 19th century, we find the first generation of modelers, a few economists who regularly made and used such research approaches. The second generation of modelers, the actual developers of the model method, appeared in the interwar period. Modelling became widespread in economics only after the mid-20th century (Morgan, 2012). According to Lawson (2013), mathematical modelling dominates modern mainstream economics. This is deductivism. Deductivism is the doctrine that all explanations should be expressed in terms of "laws" or "regularities" that are interpreted as patterns of events.

When viewed as a way to practice social science using specific tools, economics becomes associated with a toolbox of formal models and statistical analyses (Rodrik, 2015). After 1945, this second meaning of economics rose in importance to dominate the discipline.

Post-World War II economics in the United States saw a shift from economics explained with words to economics explained by models. From the mid-20th century, economists tried to combine theory and evidence through mathematical formalism. This transition from words to models, is best illustrated in a debate at the University of Chicago between 1948 and 1954 (Emmett, 2016). At the center of this debate was the question of what makes economics a science. On one side of the argument was Tjalling Koopman (research director of the Cowles Commission for Economic Research), on the other, Milton Friedman and Simon Kuznets, respectively (Backhouse, 2010). While the debate focused on the relationship between theory and empirical evidence, all sides recognized the primacy of theory. They disagreed however on which theory was essential for policy analysis and whether econometric analysis focuses on estimating model parameters or testing model results. The Koopmans-Friedman-Kuznets spat was the first example of an economic debate driven overwhelmingly by economic models, with all participants being model builders (Emmett, 2016).

The model-based approach to the discipline of economics and its formalization, Americanization and internationalization, after 1945 were processes went hand in hand. They aligned economics as a universal science characterized by the growing importance of pure mathematical economics and the widespread use of modern statistical and econometric techniques in applied research (Backhouse, 2010). The emergence of the US economy after the Second World War reflects the country's leading political and economic role, as well as the pragmatic and technological orientation of its citizens. Here, the model-based approach resulted from a national style of economic research characterized by a high degree of specialization and a greater emphasis on technique in applied work. The emergence of highly developed graduate education programs in research-oriented universities played a decisive role in this process. Graduate students' mastery of the necessary mathematical and econometric tools has been decisive in the American economy. With the rise of the US' international leadership, these features of the American economy became defining features for modern economics more broadly, increasingly influencing the development of economics internationally. In the first two decades after World War II, the strengthening and expansion of the graduate education system in American universities was driven by the contributions of scholars fleeing totalitarian dictatorship in Europe. The enormous change brought about by this brain drain contributed significantly to the superiority of the United States (Hagemann, 2011).

World War II put the United States, and with it, the American economy, in a dominant global position. Germany, an essential economic center until the 1930s, had been weakened, with most chairs of economics filled by members of the Nazi party who had no significant academic reputation. French economists turned inward because of the economic problems facing post-war France; Britain, being an island, was in a different position to the extent that it had not suffered from the war as much as continental Europe (Backhouse, 2010).

By contrast, the American economy emerged from the Second World War stronger than before, proliferating in size in the late 1940s and 1950s. The war had created great opportunities for American economists, and many were recruited into government agencies like the Office of Price Administration, the War Production Board, the Bureau of Agricultural Economics and the Treasury. Many worked on mobilizing the American economy as extensions of agencies established under the New Deal. Economists were also recruited by the Office of Strategic Services, the forerunner to the Central Intelligence Agency (CIA), which employed about fifty economists at the Research and Analysis Division of Harvard economist Edward Mason. These professionals were employed alongside physicists and other scientists on missions where economics was imperceptibly mixed with statistics and engineering. They were valued as general problem solvers, analyzing intelligence and solving problems related to military tactics and strategy. Economic science thus emerged from the war with a greatly enhanced reputation for contributing to the American economy and military activities (Backhouse, 2010).

It is within this broader context that Samuelson and Friedman explicitly asserted the need to move away from physics to economics to establish economic analysis as a science (Becchio & Leghissa, 2017). From the 1940s to the 1970s, the entire discipline of economics was transformed into an instrument of social control due to models and analytical techniques. Methods that did not fit the purpose of prediction and control were rejected as relics of a bygone era, less scientific than the modern era (Boettke, 2010).

In short, from the mid-20th century economics in the United States was characterized by experiences of technicalization and internationalization. US economic science —pluralistic before 1945 (Morgan & Rutherford, 1998)— became a standardized and vital mainstream doctrine.[6] After 1945, despite the continuation of theoretical debates, different views and non-technical research methods, the only valid scientific theories were deemed to be those that used a model-based approach. Coalescence between the powerful institutional center of the United States and influential economists of the period played a significant role in this; an defined international theory emerged only after the United States had gained political and economic hegemony. Theoretical fragmentation disappeared and mainstream neoclassical economics emerged as a definitive social science. Here, economic approaches other than mainstream neoclassical economics were not deemed sufficiently scientific because they lacked a similar state experience and modelling. The underlying rationale for their rejection as scientific was not so much their theoretical inadequacies as their lack of institutionalization, which has been mixed with hegemonic state power.

One reason why economic theories outside the mainstream are seen as unscientific and thus excluded is that they do not rely on a dominant class to produce social science. This highlights how the construction of social science has a political dimension.

Knowledge is not formed by a search for neutral truth; it is biased. Specifically, economic theory and, more broadly, social science theories, contain a political dimension arising from the societal vision on which they are based. This vision affects the selection of analytical units and the objects they choose to focus on or ignore. Once an analytical framework has been established, science develops according to its internal logic. However, the political consequences of scientific expression mean that its development is socially controlled by the dominant classes. This has seen the promotion of technical theories like neoclassicism and deterred those who criticize the existing social and economic order (De Vroey, 1975). This is one aspect of mainstream neoclassicism's dominance in economics: while claiming to construct economic reality with neutral models, it legitimizes the current social and economic order.

Crucially, the successful application of mathematical tools by economists requires the existence of certain event regularities.[7] Systems in which event regularities occur can be described as closed. Deductivism is the doctrine that all explanations should

6 For economic pluralism in the interwar United States of America (Yonay, 1998).

7 A concept of probability theory, event regularities are when random events exhibit regularity when repeated enough times or enough sufficiently similar random events exhibit regularity. For more details (Lawson, 2013).

be expressed with reference to these closed-event regularities. The ontology of closed systems thus presents an atomistic worldview; it is this social ontology that guarantees isolated atoms (that is, a unit of anything, regardless of the context). Formulations allow for the inference and prediction of events based on expressed factors. Mainstream ontology is therefore a system composed of isolated atoms believed to be universally present. Assumptions about individuals following fixed rules are common in such systems (Lawson, 2013). These factors allow for the suggestion that despite claiming a neutral status (and thus greater claim to scientific accuracy), mainstream neoclassicism bakes into its theories certain assumptions about human behavior that are not in fact universal but rely on a specific political status quo for their validity. This is how they appear to overcome the seeming failings that their proponents would seek to level at other approaches to economics.

Why Does Islamic Economics Present a Disorganized Picture?

The strong post-war institutionalization of neoclassical economics in the United States and its placement at the center of the discipline, saw various schools of economic thought such as Marxist, institutional, feminist and post-Keynesian economics, pushed to the periphery. These schools were considered to fall within the category of heterodox economics. Islamic economics, by contrast, naturally remained on the periphery of the discipline due to its emergence in a different geography at a time when mainstream neoclassical economics dominated the discipline, as well as because it was based on religious principles. Moreover, Islamic economics carries a different ontology from mainstream neoclassicism to the extent that the epistemology on which its economic system is based relies on religious texts (the Qur'an and Hadith). Here, economic activities can lose or gain legitimacy by being filtered through these texts. The efforts and contributions of Muslim scholars are also significant in grounding Islamic economic activities on a solid foundation. Indeed, while religious texts determine the general framework of Islamic economics, the remaining content is revealed through the works of Muslim thinkers (Kahf, 2014).

The philosophical foundations for Islamic economics are *tawhid*, justice, *ihsan*, free will (free choice) and responsibility. *Tawhid*, especially, which denotes the unity and sovereignty of Allah (or Oneness of God), is based on an Islamic worldview, and forms the ontology of Islamic economics. This highlights the vertical dimension of Islam, which relates imperfect and finite social institutions to a Perfect and Infinite Being. This vertical dimension is manifest in the inner equality represented by each individual's proximity to Allah. *Tawhid* is thus the essence of Islam, with everything in Islamic economics deriving from this ontologically defining concept. *Tawhid* therefore embodies both the vertical dimension and equality of the Islamic ethical system, manifesting itself through the inherent equality of each individual as represented by their parallel proximity to God. *Tawhid*, the foundation of Islamic economics, provides for freedom of movement and sees each individual as an inseparable part of the whole (Asutay, 2007). *Tawhid* is also an important principle for Islamic financial institutions, like banks. Islamic banks function as systems that connect socio-economic and socio-institutional structures (Choudhury, 2007).

As Muslim-majority countries gained political independence in the mid-20th century, there was a renewed interest in the economic teachings of Islam. Scholars such as Abu'l Ala al-Mawdudi and Muhammad Baqr al-Sadr shaped the early terminology of Islamic economics. In the following period, figures like Nejatullah Siddiqi, Khurshid Ahmed, and Umer Chapra, saw Islamic economics become more widely used (Khan, 2018). Thinkers like Sayyid Qutb, Hifzurrehman Sweharvi, Muhammad Yusufuddin, Syed Haider Nawab Naqvi, and Muhammad Hamidullah started redefining modern economic thought systems in accordance with Islamic principles. They contributed significantly to the emergence of the structure of Islamic economics as we know it today (Ayub, 2007). Second and third-generation Islamic economists discussed many issues of modern economics: market; production; distribution; consumption; resource allocation; efficiency; scarcity; choice and opportunity cost; the role of money; the relationship between the individual, society and the state; and welfare economics. In addition to their contributions on modern economics, some of these names have also produced serious studies on interest-free banking, interest-free investment, financial policy, zakat, auditing and banking regulations. (Ayub, 2007).

Despite the emergence of literature on Islamic economics, it has yet to be recognized as a social science (Khan, 2019). It has been observed that Islamic economists' methodologies still need to reach a deeper level of development or maturity (Siddiqiu, 2019). In this context, when we look at the various definitions used by Islamic economics scholars in their works, it is clear that different thoughts and interpretations come to the fore.

Some approaches relate Islamic economics to ethics and link moral economy to Islamic principles, goals and practices. The first of these expresses the relationship between Islamic economics and ethics through political economy. The foundations of the relationship between ethics and economics are derived from Islamic law, whose main objective is to establish social justice through objective goals such as distributive equity and economic efficiency (Choudhury & Malik, 1992). Mehmet Asutay (2013) offers a different interpretation of Islamic economics in suggesting that Islamic moral economy includes social justice and social benefit, and is thus more inclined towards these objectives than direct Islamic economics. Moreover, Sabri Orman (2014) asserts the need for greater clarity around the term denoting an Islamic approach to economics, which he believes should be called "Islam economics" instead of "Islamic economics".

Some thinkers studying Islamic economics have evaluated it within mainstream (orthodox) and heterodox economic debates. Muhammad Akram Khan (2019) states that if Islamic economists wish to be part of the global academic community, they must work within existing mainstream neoclassical economics. Here, instead of seeking to change mainstream neoclassical economics, they can meet the mainstream by incorporating topics that do not currently form part of its focus. Muhammad Umar Chapra (2000) believes it is significant that Islamic and mainstream neoclassical economics both allocate scarce resources to infinite uses in a manner that is virtually the same. He states that the subject matter of the two disciplines is thus comparable, and that it is rather their underlying worldviews that differ. Shamim Ahmad Siddiqui (2011), by contrast, sees Islamic economics as being among those heterodox economic schools of thought to offer a critique of orthodox (mainstream) economics.

In short, the main focus of Islamic economics has yet to be clarified and a coherent theory still to be formed. A lack of welfare and income distribution theories in Islamic economics serve to justify assertions that it does not constitute a coherent discipline. Indeed, numerous developments cause Islamic economics to appear theoretically disorganized. They include the unclear conditions of its emergence (Philipp, 1990), the fact that it appears as a reaction movement, the fact that its cultural facets predominate its economic aspect (Kuran, 2004), uncertainty surrounding behavioral norms, a lack of consensus between economists conducting Islamic economics studies, and its inability to achieve sufficient theoretical deepening through the development of the field of finance. For these various reasons, Islamic economics is unlikely to offer an alternative to mainstream neoclassical economics in the short term. However, the central claim of this study is that the core reason for this failure to provide a serious alternative does not, in fact, lie in these points. While the above deficits are significant and must, of course, be resolved, Islamic economics' current theoretical disorganization and inability to offer a robust alternative to the mainstream lies rather in the fact that it lacks an institutional center and economic-political power base.

The Problem of Institutionalizing Islamic Economics

The power of neoclassicism lies in its ability to present itself as the only valid and accurate economic doctrine. According to Philip Selznick, institutionalization involves the infusion of a value beyond the technical requirements of a task (Portes, 2010). Neoclassicism's success is its ability to institutionalize itself in a way that makes economics impossible without it. Despite being heavily criticized and debated, neoclassicism has spread and professionalized this value worldwide since 1945.

The concept of institutions and institutionalization has many definitions. Although institutions inevitably involve normative obligations,[8] they often enter social life in the form of facts that actors must primarily consider. Institutionalization involves the acquisition by certain social processes, obligations or realities of a rule-like status in social thought and action. For example, the social status of a doctor is a highly institutionalized rule for managing illness (both normative and cognitive), representing a social role made up of certain behaviors, relationships and expectations. Likewise, research and development (R&D) is a category of institutionalized organizational activity that holds meaning and value in many sectors of society, as well as encompassing the actual research and development activities themselves (Meyer & Rowan, 1977).

North (1995) distinguishes institutions from organizations[9] on the premise that, while institutions (conceptualized as human-designed constraints) are the rules of the game in society, organizations are in fact the players. Although this distinction is important, it has been criticized for conflating sociological norms, values and roles with institutions. Sociologically, it is argued that values influence

8 Douglass C. North (1990, 1991) defined institutions as the rules of the game in a society. Institutions are human-designed constraints that structure political, economic, and social interactions. They consist of informal constraints, such as sanctions, taboos, traditions, customs, and behavioral rules, and formal rules, such as constitutions, laws, and property rights. Institutions reduce uncertainty by providing structure to everyday life. In other words, throughout history, humans have designed institutions to create order and reduce uncertainty in the face of change.

9 According to North (1995), institutions should be distinguished from organizations. While institutions are the rules of the game in society, organizations are the players. Organizations are groups of individuals who are united by a common goal to achieve specific objectives. Examples include political bodies such as political parties, the Senate, city councils, and regulatory bodies; economic bodies such as firms, trade unions, family farms, and cooperatives; social bodies like churches, clubs, and sports associations; and educational bodies such as schools, colleges, and vocational training centers.

norms, and norms affect roles, which in turn shape institutions. Norms operate as constraints. While values represent general moral principles, norms provide concrete directives for action (Portes, 2010). Therefore, more generally, institutions are based on the idea that lasting regularities generated by human action are structured by rules, norms and shared strategies. Rules, norms and shared strategies are frequently created through human interactions in recurring situations (Crawford & Ostrom, 1995).

In institutional literature, society is considered to be a network of interconnected institutions. An institution can be defined in two ways. First, it is an organized pattern of roles enforced through positive and negative sanctions. Second, it consists of habitual thought patterns learned by individuals who perform these roles. Institutions, like these two patterns, are clustered around general functions. Each functional cluster is dependent on the dominant cluster. In the case of the United States, economic institutions are dominant. The United States is a monetary civilization. Here, corporations and labour unions are primary institutions within the economic cluster. However, as organized labour has begun to represent an increasingly smaller workforce, the corporation has become the most important institution, further organizing the American institutional structure by binding other institutional clusters to it (Dugger, 1980).

According to North (1978), the legal structure of American society, which emerged in the mid-19th century, clearly reflected the same efficiency criteria as neoclassical theory. American institutions have become intertwined with neoclassicism.[10] However, neoclassical theory has shaped American institutions and provided a disciplined, logical, and analytical framework that has made economics the leading social science. Thus, under North's distinction, neoclassical theory represents the rules of the game, while neoclassical economists and the associations of neoclassical economists are its players. The result is that economic theories that do not include neoclassicism are seen as lacking ground rules, fragmented and unscientific. In short, after 1945, neoclassical economics completed its institutionalization process and became firmly embedded at the center of economics as a discipline.

Unlike modern mainstream neoclassicism, Islamic economics had not gained institutional experience by the early 20th century, though various institutionalization efforts were visible. For example, as institutions established their structures,

10 For the course of neoclassicism in the late 19th century and early 20th century in America (Persky, 2000).

economic works were being translated from English to Urdu and from English to French to Arabic. Efforts were also being made to organize and publish traditional Islamic literature on socio-economic issues. Writers born in this period aimed to revive and reform the Ummah's past status, prestige and grandeur. Many of their works were written in a traditional style without a conscious effort to create Islamic economic literature. This period nevertheless laid the foundations for a new generation of conscious Islamic economics writers. The period after this earlier preparatory phase spans from 1926 to 1950 (known as the 'first generation'). Primary studies on Islamic economics began to be conducted during this time, and terms like Islamic economics and the Islamic economic system were used. This period laid the groundwork for the institutionalization of Islamic economics. Factors contributing to its emergence included challenges from the West, the translation of Western economic writings and the publication of relevant Islamic classical works. The 'second generation' period, between 1951 and 1975, saw the emergence of pioneering Islamic economists specializing in the field, as well as an increase in the volume of work produced on Islamic economics.

Certain significant developments accelerated the institutionalization of Islamic economics during this time. The First International Islamic Economics Conference, held by King Abdulaziz University in 1976, became an important turning point for scholars in the field, allowing them to exchange ideas, evaluate existing literature, and identify the challenges they faced. This event led to increased research in Islamic economics, the development of curricula, and the establishment of research centers and financial institutions. It also significantly boosted the Islamic finance movement, ushering in a new era in Islamic economic thought. The second generation was led by economists who were knowledgeable of both traditional economics and Islamic sciences. These economists conducted their work in an analytical and modern style, mentored PhD scholars in Islamic economics, and began teaching economics students. The third generation, spanning 1976 to 2000, continued the methodology of these pioneering second generation figures, following through on the work they had begun. During this period, Islamic economics gained wider recognition. Factors accelerating the institutionalization of Islamic economics during this time included the organization of conferences, seminars and discussion forums; the publication of professional journals and establishment of academic departments. Research centers, banking and financial institutions were developed, awards were announced, and non-Muslims interested in Islamic economics emerged. The fourth generation emerged in the early 21st century with a modern academic background, standing out from their predecessors for having graduated from Western institutions. However, this situation also led to problems. The gap between Islamic economics theorists and practitioners widened, culminating expressions of dissatisfaction in relevant circles regarding a reduced adherence to classical Islamic sources, lack of originality in internet-based research, and criticisms of Sharia Boards. At the same time, the use of financial engineering, legal strategies and econometric models became more widespread, and specialization in areas like *waqf,* finance and insurance increased (Islahi, 2014).

Islamic economics has not yet been fully institutionalized despite the efforts of these earlier periods. Notwithstanding nearly seventy years of experience in Islamic economics, institutionalization in theory and practice has progressed very slowly, and Islamic economics still needs to achieve a complete institutional identity (Cebeci, 2019). There may be many reasons why the institutionalization of Islamic economics has been slow and remains, as yet, unrealized. Uncertainties over how Islamic economics can be an alternative to existing economic systems and how its theory will operate in practice are obstacles to institutionalization. Moreover, the widespread prevalence of financialization[11] as an important facet of economics after 1980 has further presented an obstacle. Mainstream neoclassical economics has been heavily influenced by the dominance of financial markets in the economy. The theory and practice of Islamic economics has also been affected —manifest in an increase in the number of Islamic finance institutions, the dominance of theoretical Islamic economics studies in Islamic finance, and the intensive focus of programs and organizations on Islamic finance (Orhan et al., 2017).

Whilst it started in Pakistan with Mawdudi, the study of Islamic economics went on to reach India, the Middle East, and Southeast Asia. After the 2000s, it spread to some European countries, including the UK. During the first half of the 20th century, studies on Islamic economics formed only a part of the corpus of works produced by Muslim scholars, and there was no independent journal or platform for such studies. Certain post-1970 developments, however, became important turning points for studies in this field, including the First International Conference on Islamic Economics (1976) and the establishment of the Islamic Economics Research Centre at King Abdulaziz University in Jeddah (1977) (Khan, 2018; Durmuş et al., 2015). Indeed, the former event, held in Mecca, saw the par-

11 Financialization, a model of accumulation where profits primarily accumulate through financial channels rather than trade and commodity production, has been efficient in capitalist economies in recent decades. It has also significantly influenced Islamic economics, which has been trying to offer an alternative to capitalism (Asutay & Yilmaz, 2025).

ticipation of over two hundred scholars. Before 1980, however, the concentration centers of copyrighted works were mainly on the Indian subcontinent and in Arab countries. After 1980, this center of gravity shifted to South Asian countries, such as Indonesia and Malaysia (Durmuş et al., 2015). In many countries, institutes, research centers and departments have been established for the study of Islamic economics and finance, and master's and doctoral studies are now being carried out in departments with the same name.

Some bibliometric analyses have been conducted to investigate the general trend of studies in Islamic economics and finance, though different results have been reached. For example, 1,120 studies spanning 1975 to 2019 and available on the Web of Science (WOS) database were analyzed in 2021 (Yenice et al., 2022). This study found that Malaysia ranked first in terms of publications on Islamic Economics as a discipline, and held this ranking in relation to both publications based on country and institution. The same study likewise noted that the general course of such works has shifted towards Islamic finance institutions and concepts. Despite ranking first by number of publications among countries with the discipline of Islamic economics, Malaysian academic institutions do not rank highly on global educational indexes. Some critics suggest that the country's existing educational programs should thus be improved. One core criticism is that the Malaysian institutions that provide postgraduate academic education programs encompassing Islamic economics are diverse, have a compiled structure, and are temporary. Moreover, this education covers issues of belief and interpretation, and scope for discussion and diversity of thought is limited (Hasan, 2009). Indeed, analyses of Islamic economics literature from Asian, European and Middle Eastern universities that offer Islamic finance and banking courses, has allowed for the identification of certain problems. The most critical of these has been the non-standardized curricula, lack of resources (teaching staff or human resources, textbooks, research articles, etc.), and lower emphasis on the practical aspects of Islamic economics that such courses evince (Kasri, 2010). Again, looking at the general paradigm in Islamic finance and banking, despite their new orientation, more scientific knowledge is required to support this orientation. As such, there is currently no theory capable of providing a unifying link between existing positions on different issues; this is a major obstacle in Islamic finance education (Tahir, 2009).

It is difficult to claim that Islamic economics has experienced as significant an institutionalization in Türkiye as it has in other Islamic countries. When analyzing institutional developments in Islamic economics and finance in Türkiye, it becomes clear that these developments have occurred in sectoral and academic fields. While sectoral development is mainly evaluated through financial structures such as banking, insurance and participation pensions, academic development (Durmuş et al., 2015) is evaluated through scientific meetings such as symposiums, workshops, congresses, etc. More recently, some universities have contributed to the field via scholarly meetings and publications, as well as by providing undergraduate, graduate and doctoral education. These efforts are insufficient for sustainable institution building, however (Cebeci, 2019). Whilst they present an improvement on previous years, it is thus difficult to say that the institutionalization experience has been fully realized in Türkiye.

As a result, the criticisms of Islamic economics for its weakness and lack of institutionalization have also been directed at mainstream neoclassical economics by heterodox schools of economics. However, mainstream neoclassical economics has easily overcome these criticisms by virtue of its technical analysis and institutional power. The United States' holding of hegemonic power and existence as the scientific center of economics are mutually supportive, rendering the post-1945 hegemonic state experience and mainstream neoclassical economics deeply intertwined. Since Islamic economics lacks the institutional center of mainstream neoclassical economics, it exhibits theoretical fragmentation. Were Islamic economics to possess a center that wields power like mainstream neoclassical economics, the debate would be considerably different. Although economics is a social science that explains the functioning of the market, the process of market functioning is not neutral (Galbraith, 1985). There are numerous forces that drive the market and have developed a symbiotic relationship with the state (Galbraith, 2001). As such, the notion that economics is a system of power is an approach that has already begun to emerge independently.

Economics as a System of Power

Influential institutional economists Warren J. Samuels and John Kenneth Galbraith view economics as a system of power. In the world of institutional economics, power is a central component of economic relations (Bartlett, 2006). As such, institutional economists view the economy's functioning and wealth creation as state power, seeing economics as part of broader social and political life.

According to Samuels (1972), economic science is composed of two traditions: economic theory and economic policy theory. Economic theory solves three economic problems: resource allocation, income distribution and the determination of total income. Economic policy theory, by contrast, addresses the organization of the economic system and, ultimately, the distribution of power. The overall context with which economic policy is concerned is broader than the market system as it deals with the structure of economic decision-making. The market is only one part of the broader economic system and economic life must be connected to social life and policy. Economic policy theory, therefore, consists of various subsystems and processes. This is how it has historically been constructed. Samuels argues that economic policy theory has yet to be systematized and developed in economics, as it is concerned with the organization and control of the economic system, and essentially with the distribution of power. Adam Smith's work is consistent with economic policy theory (Samuels, 1973), having analyzed the simple system of natural freedom and the role of the invisible hand of competition in allocating resources in the market and controlling market power. However, Smith also treated the economy as a broader system of power operating through the competitive market. In this broader analysis of power and mutual coercion, Smith saw governance as an economic variable (Samuels, 1973). Samuels builds on Smith's reasoning by arguing that state power plays a vital role in economic decision-making. Samuels posits that the economic system consists of three levels: (1) institutional organization and power structures, including the structure of property, rules of conduct and organization, as well as the structure of dominant economic-political groups; (2) the productive attitudes and behaviors of psychological and knowledge combinations; and (3) the market mechanism as a unifying and regulating process (Samuels, 1972). The most critical of these three pillars is power structure and institutional organization. The most critical of these three pillars is power structure and institutional organization. This is because the economic system cannot be analyzed in isolation as a unit but rather constitutes an indivisible whole, as is evident in the United States (Galbraith, 2001).

Like Samuels, Galbraith too approaches economics from a power system perspective. His analysis of power (1967) is presented as the process by which large corporations took over politics and the economy after 1945. According to Galbraith, the activities of large corporations must be analyzed to grasp the realities of the modern era; to ignore the power of corporations is to fail to read the age correctly.

The most pervasive feature of mainstream neoclassical economics is that it generates assumptions that remove power, and thus political content, from economic analysis. Under these assumptions, companies are simply subject to the dictates of the market and the state to the dictates of the citizen. The significance of power to economics, however, means that the opposite can often be true with both the market and the state being subject to the dictates of modern big business. By ignoring the issue of power, mainstream neoclassical economics renders economics a non-political subject, undermining its own relevance to the real world (Galbraith, 1973). Specifically, the exclusion of power from economics, restricts the discipline to only two endogenous issues: microeconomics and macroeconomics (Galbraith, 1973).

Economists cannot distinguish between economics and politics because power is so extensively deployed in such a large part of the economy. The modern corporation is a political instrument, different in form and degree but not different from the state when it acquires power over markets, society, the state and faith. To claim otherwise -to deny the political character of the modern corporation -is not only to avoid reality but to conceal it (Galbraith, 1973). Although mainstream neoclassical economics assumes consumer sovereignty, this notion does not reflect real life (where producer sovereignty reigns). Producer sovereignty is exercised by large and complex companies/organizations. The exercise of power seeks to serve the company's purposes. A corporation's ends include the security and growth of the organization, its comfort, prestige, commitment to technological mastery, and profit (Galbraith, 1970a). Additionally, corporations use the institutions that guide American society for their own purposes. American society consists of six institutional clusters: (1) economic institutions that produce and distribute goods; (2) educational institutions that produce and distribute knowledge; (3) military institutions that prepare for and manage war; (5) kinship institutions; (5) political institutions that make and enforce laws.; and (6) religious institutions. Each of these non-economic clusters, however, is ultimately connected to the dominant economic institution of the corporation through a means-end continuity. In other words, the corporation uses other institutions to achieve its objectives. This provides the first insight into the real source of power (Dugger, 1980).

Despite this, mainstream neoclassical economics ignores power (Bartlett, 2006, Bowles & Gintis, 1994).[12] By ignoring power, it has achieved dominance

12 Contrary to mainstream neoclassical economics, the emphasis on power is widespread in heterodox schools of economics. Among the most frequently referenced theories of power in the heterodox literature are those of Steven Lukes, Michel Foucault (power and knowledge, bio-power), Tony Lawson (social positioning), Anthony Giddens (transformative capacity), Samuel Bowles and Herbert Gintis (contested exchange), Antonio Gramsci (hegemony), and Pierre Bourdieu (symbolic power) (Rath et al., 2024).

based solely on models, distancing itself from real-world problems. It has even denied the existence of power, leaving it to the ‘neutral’ functioning of the market (Galbraith, 1985). However, power and individuality are so intricately intertwined that it is impossible to understand one without understanding the other. Each is rooted in the institutional structure of an ongoing society (Dugger, 1980). In fact, with the transformation of political economy into economics, neoclassicism has continued to play a distinctly political role by concealing the political dimension of economics (De Vroey, 1975). The famous economist Abba Lerner (1972) described this situation by drawing on the concept of consumer sovereignty in stating:

> *“What I want particularly to stress is that the solution is essentially the transformation of the conflict from a political problem to an economic transaction. An economic transaction is a solved political problem. Economics has gained the title of queen of the social sciences by choosing solved political problems as its domain.”*

Institutional economists such as Samuels and Galbraith insist that economics must be understood as a system of power. Here, power and theory are interrelated in that there is a mutual interaction between them; there is thus a close relationship between power and economic theory. Crucially, Samuels and Galbraith conclude that the United States’ experience in the second half of the 20th century played a significant role in the institutionalization of mainstream neoclassical economic theory. During the process of its institutionalization, mainstream neoclassical economic theory excluded the issue of power from economics as a discipline, rendering it increasingly technical. It even camouflaged the existence of power. Analyzing power, however, is crucial to understanding theory and economic phenomena.

At this stage, it is important to distinguish between individual and structural power. Individual power is apolitical, ahistorical, contentious and accidental. It exists in a world where there are free individual exchange relationships. Structural power, by contrast, is systematic, political and historical. It is reinforced by formal and informal institutions and institutional structures, and its existence continues so that, even if its forms change, the power itself persists. Individual power is often blind to context and institutions. While focusing on the free and autonomous individual, structural power concerns itself with political and historical context, as well as its own problematic institutions. Structural power focuses on the “embedded” individual and offers a lens through which to examine institutional structures via the norms and justifications given to the individual. However, these norms and justifications are not always within the scope of the individual’s actions (Rath et al., 2024). Although neoclassical theory overlooks power, its own position within the discipline exemplifies structural power. Over time, it has become the mainstream, establishing its institutions and hegemony within academic research via higher citation rates.

The power of neoclassical theory and its hegemony achieved via citation rates, is reminiscent of Max Weber's definition of power. Weber defines power as the ability of an actor to impose their will despite resistance, which is apt for the hegemony of neoclassical theory. Weber's definition emphasizes the compulsory and coercive nature of power as a fundamental element of social structure. For some actors and groups to hold power, others must be excluded. Naturally, elites who control power try to stabilize and maintain their positions by convincing others of the fairness of the status quo (Portes, 2010).

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Conclusion

Despite its 80-year pedigree, Islamic economics lacks consensus, coordination and organizational coherence. For this reason, it is said not to offer a robust alternative to mainstream neoclassical economics. It is also unlikely to offer an alternative give its current theoretical disorganization. These criticisms undoubtedly represent accurate observations of the reality. However, it should not be overlooked that the same intellectual dispute between mainstream neoclassical economics and heterodox schools of economics also affect contemporary schools of economic thought.

If this is the historical experience of economics as a discipline, how has neoclassical economics gained such dominance over the mainstream? There are many reasons: its success in constructing formal models, the spread of general equilibrium theory in the English-speaking world, the ability of a rational choice theory to explain human behavior, and the concentration of immigrant economists in one center. There is no doubt that all of these contributors to the rise of neoclassicism are valid. However, the centralization of mainstream neoclassical economics at the heart of the discipline is also related to the historical experience of the United States. The post-1945 rise of the American economy and its emergence as a center of power at the same time as the mainstreaming of neoclassical economics is no coincidence. Indeed, it is the acceptance of neoclassical theory by a powerful state, rather than its internal consistency, that has carried the theory into the mainstream. Neoclassical economics strengthened and institutionalized with the backing of American state power. The support American universities received from the American government during this period demonstrates this more broadly. Between 1950 and 1970, government spending on higher education increased from 2.2 billion dollars to 23.4 billion dollars, and to 31 billion dollars in 1991 (Bender, 1997). The American Economic Association (AEA), a professional organization of American economics established in 1885, became privileged and shaped, particularly by the federal government's need to allocate resources and consult experts after the war. Bureaucratic tendencies influenced the discipline's self-concept, the articulation of sub-disciplines and the establishment of multiple research agendas. Furthermore, the involvement of economists and the AEA in government affairs led to a consensus in professional views and the standardization of curricula (Bernstein, 2008). Islamic economics does not have such a state experience and institutionalization. If Islamic economics also had a strong state experience and institutional center, the currently valid criticisms of the theory are likely to become invalid.

Islamic economics has many theoretical problems. It must, of course, overcome these problems to become an influential school of economic thought. However, to overcome the relevant theoretical problems and become an influential social science worldwide, one needs experience mixed with institutional and political power. If Islamic economics were to gain such an experience, its current peripheral position could become temporary. To strengthen its position, Islamic economics must sharpen its claims and develop a robust theory. Whilst this is viewed only as something of a possibility in the current context, with the acquisition of institutional and political power, it is more likely to become a certainty.

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