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Review Paper

Revisiting Rationality: From *Homo economicus* to *Homo Islamicus* in the Pursuit of Sustainable Well-Being

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Abstract

Purpose: This study examines the limitations of conventional economic rationality, as represented by *Homo economicus*, in addressing contemporary global challenges such as rising inequality, environmental degradation, and recurring financial crises. It proposes *Homo Islamicus*, grounded in the maqāṣid al-Sharīʿah framework, as a prescriptive model of value-based rationality that prioritises God-consciousness (taqwa), justice (adl), and the collective good (maslahah) to achieve sustainable well-being.

Methodology: The study employs a comparative conceptual analysis and multidisciplinary literature review to examine the philosophical foundations of conventional and Islamic economic rationality. It draws on secondary qualitative data from theoretical and philosophical literature, documentary evidence, contemporary conceptual frameworks, and relevant case studies to contrast the ontological assumptions and implications of both paradigms.

Results: The findings indicate that conventional economic rationality treats sustainability as an *ex post* adjustment, whereas the Islamic paradigm embeds sustainability as an *ex ante* criterion for rational decision-making. The analysis further reveals that the transition towards a *Homo Islamicus*-based framework is constrained by 'maqāṣid-washing,' the use of ethical rhetoric without substantive implementation, and by an overemphasis on procedural Sharīʿah compliance at the expense of measurable social impact.

Novelty and Contribution: The study advances Islamic economics by framing welfare-enhancing decisions through *maqāṣid al-Sharīʿah*, focusing on preserving faith, life, intellect, progeny, and wealth. It links Islamic ethics with measurable socioeconomic outcomes.

Social and Practical Implications: Socially, the study promotes welfare, justice, and responsible economic decision-making. Practically, it supports policymakers and Islamic financial institutions in developing indicators and governance mechanisms to assess social impact, accountability, and sustainable development.

Keywords: Rationality, Maqasid Al-Shariah, Islamic Economics, Prescriptive Economics

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1 Introduction

Conventional rationality represents how humans are modelled when reduced to the figure of *Homo economicus*. Several economic, social, and environmental realities — and the problems they entail — either question the assumptions or reflect the unintended consequences of portraying humans as agents driven solely by the pursuit of utility maximisation, confined to a restricted version of well-being, and bounded by material and informational constraints. The magnitude of these shortcomings is proportional to the influence of conventional rationality in shaping modern economic systems, given its foundational role in economic thought.

Major contemporary world issues, such as widening inequality, environmental degradation, and blind consumerism, pose persistent challenges to the concept of conventional rationality in modern economic evaluation frameworks. Such limitations are observed both continuously, for example, through abrupt market reactions, and cyclically, for example, during major shocks. The consistent historical global crisis recurrence is a unique marker of collective irrationality, overconfidence, herd behaviour, and persistent failures of self-correction and convergence.

All these observations suggest that conventional rationality is too narrow to capture the full complexity of human behaviour, explain governance outcomes, or support sustainable well-being. While economists within *descriptive* economic frameworks acknowledge that refinements are needed to address real-world complexities, alternative schools of thought seek to rebuild from broader premises — starting from what humans ought to be and what systems ought to achieve — to develop economic concepts that optimise resources while taking into account the reality of human behaviour and remaining consistent with moral values that should be guiding human action.

Against this landscape of economic thought, Islamic economic thought incorporates a distinctive approach to rationality, driven by higher purposes of taqwa (God-consciousness), adl (justice), and maslahah (the collective good). Within this framework, rationality seeks to fulfil higher objectives and is grounded in an integrated ethical core that complements the utility dimension of decision-making, thereby promoting accountability, justice, and sustainable development.

This paper critically examines how rationality in Islamic economic thought, grounded in prescriptive and value-based principles, addresses the shortcomings of conventional rationality and offers a more comprehensive framework for addressing contemporary global challenges. It argues that replacing narrow utility-maximisation with a maqāṣid-guided rationality yields more robust policy criteria for sustainable well-being in Muslim societies and that such a shift must be implemented via concrete instruments (zakāt, waqf, risk-sharing finance) embedded in strengthened governance and outcome metrics.

The subsequent structure is followed by the literature review, which consists of an explanation of the theoretical origins of rationality and contrasting it with rationality in Islamic economics, along with their guiding principles. Section three that follows explains the critical, institutional, and behavioural limitations of conventional rationality in promoting well-being, while section four explicates the *modus operandi* of Islamic rationality, examining how its value-based paradigm refines welfare and apply them through Islamic social finance. It also addresses practical challenges and opportunities in its application. Section five concludes by synthesising the arguments, highlighting the typical contributions of the Islamic paradigm, and reflecting on the implications for future research.

2 Literature Review

2.1 Conventional Rationality as an (Over)-Simplification to Mathematise Well-being

The relationship between conventional rationality and well-being traces back to the 17th century. Thinkers such as Thomas Hobbes and John Locke laid the foundations of rational self-interest and optimisation, viewing rationality as a means to peace, order, and self-preservation. In its philosophical origins, however, rationality referred to reasoned and deliberate judgment rather than the narrow pursuit of self-interest (Gates & Steane, 2007). Philosopher and classical economist Adam Smith (1776) still described humans as acting within a framework of moral restraint and civic virtue. However, this broader meaning began to contract as economics increasingly equated rationality with calculative optimisation. While classical moral philosophy still tied well-being to virtue and moral sentiments, utilitarianism and later neoclassical economics redefined it as a measurable, individual utility — separable from ethics.

This moral-philosophical foundation began to shift with the rise of utilitarianism. Bentham (1781) redefined well-being as the sum of pleasures minus pains. While consistent with earlier models of rational happiness, Bentham's design was distinctive in narrowing the concept of well-being to measurable satisfaction. Neoclassical economists of the late 19th to mid-20th centuries were decisive in stripping well-being of its moral and non-mathematical dimensions. Conventional rationality was translated into measurable terms and equations such as utility, equilibrium, and welfare. This transformation was advanced by key figures such as Marshall, Pareto, Pigou, and Hicks, who progressively formalised welfare into a mathematical construct. Samuelson (1950) formalised this tradition by inferring well-being from revealed preferences, equating observed rational choices under constraints with true utility.

By the mid-twentieth century, welfare economics had become fully normalised, treating well-being as a function derived from observed rational choices rather than moral or psychological states, thereby completing the mathematisation of welfare. However, this identification of welfare with rational choice later came under scrutiny, as behavioural, institutional, and ethical critiques revealed that rationality alone could not account for human well-being. For example, Sen (1977) critiques conventional rationality for reducing human behaviour to self-interested utility maximisation, arguing that genuine rationality involves ethical reasoning and reflective evaluation of values rather than mere preference satisfaction.

Before contrasting this conception of rationality with Islamic ideals — and before demonstrating the limitations of conventional rationality in promoting sustainable well-being — it is methodologically necessary to refine and broaden the definition of well-being beyond its utilitarian and neoclassical confines. To expose the limits of conventional rationality, however, it suffices to show that well-being cannot be reduced to the neoclassical interpretation of individual utility. To this end, we recall two contemporary frameworks that have emerged to address the narrowness of conventional definitions: subjective well-being and social capital.

Bartolini and Sarracino (2014) provide empirical evidence that, in the medium and long run, social capital is a strong predictor of trends in subjective well-being, whereas its correlation with GDP remains weak. Moro-Egido *et al.* (2022) confirm these results, showing that well-being over time depends less on rational economic optimisation and more on relational, cultural, and psychological dimensions. Taken together, these findings yield two important insights for the present analysis. First, conventional rationality offers an incomplete framework for understanding human welfare. Second, well-being is intrinsically linked to social capital, distinct from material utility considerations, and grounded in temporal sustainability rather than momentary satisfaction.

2.2 A Consistent Approach to Rationality within the Islamic Paradigm

Against the conventional view, Islamic economics developed, proposing an alternative definition of rationality: one rooted not in self-interest but in taqwa (God-consciousness), adl (justice), and maslahah (the collective good). Instead of describing individuals as mere economic agents, Islamic economics places them within a divine construct: a khalifah (vicegerent) that, under divine command, operates within preordained values and rules. In contrast to *Homo Economicus*, *Homo Islamicus* represents a fundamentally different conception of human behaviour derived from the ethical and spiritual framework of Islam. As described by Chapra (2008) and Asutay (2007), *Homo Islamicus* acts not merely out of self-interest but out of moral accountability to God (taqwa) and responsibility toward society. Rationality is still present, but it is a value-guided rationality, constrained and inspired by maqāṣid al-Sharīʿah — the higher objectives of Sharīʿah, including justice (adl), compassion (rahmah), and social harmony (ihsan). Economic activity is therefore a means to achieve falāḥ (success in this world and the hereafter), not an end in itself.

2.3 *Homo Islamicus:* A Conceptual Contrast to *Homo Economicus*

In contrast to *Homo Economicus*, which maximises utility, *Homo Islamicus* seeks to maximise *maslahah*, integrating material and non-material dimensions of well-being. As Khan (2013) notes, the Islamic agent internalises moral costs and benefits that mainstream economics usually ignores, such as the ethical implications of exploitation, environmental degradation, or neglect of the poor. This spiritual rationality transforms the calculus of decision-making: an act that yields high private profit but violates justice or honesty is considered irrational within the Islamic paradigm.

Moreover, the scope of accountability differs sharply between the two archetypes. *Homo Economicus* answers only to the market and the state, acknowledging no higher moral or transcendental authority. *Homo Islamicus* is accountable to God, community, and conscience. This multi-layered accountability mechanism replaces the need for purely external enforcement with internalised moral discipline (*hisbah*). It also extends the time horizon of decisions: the Islamic agent considers long-term social outcomes as well as eternal consequences, whereas conventional rationality discounts the future heavily.

These contrasting paradigms imply distinct policy implications. A system built on *Homo Economicus* prioritises deregulation, competition, and profit maximisation. In contrast, a system modelled on *Homo Islamicus* emphasises cooperation, equity, and shared prosperity through instruments like *zakat*, *waqf*, and risk-sharing finance. The former relies on market equilibrium for justice; the latter embeds justice in the moral design of economic institutions.

Ultimately, the *Homo Islamicus* framework does not reject rational self-interest but redefines it. It recognises that genuine self-interest includes concern for others and the afterlife. As Iqbal (1989) observed, Islam envisions the "spiritual reconstruction of human reason," where intellect and faith work together rather than in opposition. This integration forms the moral foundation of Islamic economics — a paradigm that seeks balance (mizan) between efficiency and ethics, freedom and responsibility, individual success and collective well-being.

2.4 Maqāṣid al- Sharīʿah as the Foundation of Islamic Rationality

Maqāṣid al-Sharīʿah provides a purposive framework that shapes Islamic rationality in ways that transcend purely material considerations. It represents an ontological and epistemic process of re-imagining the Sharīʿah beyond its textual and jurisprudential boundaries by foregrounding ethics, values, and underlying normative commitments. According to al-Ghazālī, and further systematised by contemporary scholars such as Auda (2010), the maqāṣid seek to preserve five essential interests: faith (dīn), life (nafs), intellect *(ʿ*aql*),* progeny (nasl), and wealth (*māl*). Within this framework, rational economic behaviour in Islam is defined not merely by efficiency or profit maximisation, but by actions that contribute to the fulfilment and protection of these higher objectives.

Hence, the underlying *Homo Islamicus* paradigm promotes maslahah through moderation (wasatiyyah) and moral responsibility. Chapra (1992) emphasises that a rational Muslim makes choices that balance personal needs with social welfare, reflecting accountability before God. Such rationality recognises that economic growth must not undermine justice or sustainability. For instance, profit-seeking must coexist with ethical trade, fair wages, and environmental care, all of which uphold the maqāṣid.

2.5 Ethics (Akhlaq) as a Guiding Mechanism for Rational Behaviour

Ethics (akhlāq) constitute the moral compass of Islamic rationality. In Islamic economics, ethical principles are not external constraints imposed on economic behaviour; rather, they are intrinsic to the very structure of rational decision-making. Naqvi (1981) defines Islamic economics as "the study of human falāḥ achieved through the optimal allocation of resources under the guidance of ethical norms." Ethical rationality, in this framework, foregrounds honesty (ṣidq), justice (ʿadl), trustworthiness (amānah), and benevolence (iḥsān).

A key distinction between Islamic and secular paradigms is the source of ethical value. While ethics in conventional systems is often open-ended, shaped by social norms, cultural contexts, and evolving human preferences, the ethical framework of Islamic economics is grounded in the divine sources of the *Qur'ān* and *Sunnah*. These sources provide a stable moral architecture that sets boundaries, emphasises core values, and prevents over-contextualisation, all within the balanced paradigm of wasatiyyah.

This perspective recasts the economic agent from a self-interested maximiser into a morally responsible trustee (khalīfah). For example, an entrepreneur guided by Islamic ethics evaluates not only profitability but also the social and environmental implications of his decisions. Kahf (2003) argues that such ethical motivation acts as an internalised accountability mechanism, reducing reliance on external enforcement systems that dominate secular economic models.

2.6 Accountability (Hisbah and Amanah) as Institutional Rationality

Accountability (muhāsabah and ḥisbah) grounds Islamic rationality in the concept of responsibility before the Divine. In Islam, every individual is ultimately answerable before God for their economic and social conduct, a principle affirmed in the *Qur'ān* (2:286). This transcendent sense of accountability extends beyond the individual to encompass societal and institutional structures. The historical institution of ḥisbah, which ensured the supervision of market practices, illustrates how Islamic governance embeds mechanisms that safeguard justice in exchange, prevent fraud, and protect consumers by ensuring transactional integrity.

Even in the absence of formal governance or external moral policing, Islamic rationality cultivates an internalised sense of ethical vigilance. This is grounded in iḥsān — excellence in conduct — as articulated in the *Qur'ān* (16:90). Iḥsān functions as an elevated moral principle that encourages self-regulation, moral excellence, and proactive concern for the welfare of others. It transforms *Homo Islamicus* into an agent who is not only conscious of avoiding negative externalities but also actively committed to generating positive social impact. Thus, accountability in Islam is both institutional and deeply personal, shaping economic behaviour from the inside out.

Hence, justice (ʿadl) and sustainability (istidāmah) emerge organically from Islamic rationality. When individuals and institutions align their decisions with the maqāṣid, ethical norms, and principles of accountability, economic behaviour naturally promotes social balance and equity. Chapra (2008) argues that justice in Islamic economics requires equitable wealth distribution, the prevention of exploitation, and the fulfilment of basic needs for all members of society.

Sustainability, likewise, reflects the Qur'ānic imperative of moderation and stewardship (khilāfah) over the Earth (Qur'ān 6:141). Islamic rationality also advances intergenerational justice: by discouraging extravagance (*isrāf*) and encouraging resource conservation, the *Sharī ʿah* embeds sustainability within its ethical and economic framework.

3 Limits Of Conventional Rationality for Sustainable Well-Being

Building on the preceding discussion, this section examines in depth the major flaws of a restricted definition of well-being — one confined within the boundaries of conventional rationality. The analysis progressively narrows in scope, from systemic concerns to micro-level behavioural dynamics, to provide a comprehensive view of how these limitations undermine sustainable well-being.

3.1 Systemic Patterns

The planet is a shared habitat for all. A public good, as defined in modern economics, is characterised by two key attributes: first, *non-rivalry*, meaning the zero marginal cost of extending its benefits to an additional person; and second, *non-excludability*, denoting the impossibility of preventing individuals from enjoying it. Consequently, environmental harm is an area where human interests are more accurately defined collectively. Nordhaus (2019) describes climate change as "the biggest of all environmental externalities," reflecting the persistent failure of collective action to preserve humanity's most fundamental public good. Human behaviour in this regard resembles gambling with catastrophic stakes more than acting under the assumptions of bounded, expected-utility rationality. A major tension between rationality and sustainable welfare concerns the issue of discounting. Cline (1992) and the Stern Review (2006), as cited by Nordhaus (2019), represent the *prescriptive* school and advocate very low social discount rates (around 1%), arguing that the welfare of future generations should count as much as that of current ones. By rejecting market interest rates and revealed preferences, they contend that *descriptive* frameworks fail to integrate ethical considerations and remain heavily anchored in utility-maximising fundamentals. Such models fail because conventional rationality presupposes that all values, including intergenerational justice and ecological integrity, can be reduced to monetary trade-offs, an assumption that collapses when confronted with irreversible or non-substitutable losses.

A second pattern revealing the limits of conventional rationality concerns the distribution of wealth. In neoclassical growth theory, capital accumulation is subject to diminishing returns, and capital-scarce economies are expected to grow faster under rational investment behaviour, leading to convergence. Yet Piketty (2014) provides extensive historical evidence that the top decile of the population has consistently concentrated a significant share of wealth in Europe since the eighteenth century, thereby empirically refuting equilibrium-based rational models that predict convergence. He also shows that inheritance has played a dominant role in wealth accumulation, much as it did in the nineteenth century. These findings directly challenge the assumption of rational capital mobility grounded in the idea of efficient allocation. Further widening the gap between conventional rationality and historical reality is the persistent inconsistency between income growth and the marginal productivity of labour (Piketty, 2014). The rational-efficiency justification of income distribution is therefore undermined, as markets do not reward productivity in proportion to marginal contribution—thereby exacerbating inequality.

Global crises offer another demonstration of the weakness of conventional rationality in characterising systemic phenomena. Reinhart and Rogoff (2008) report that serial default is an almost universal phenomenon as countries struggle to transition from emerging markets to advanced economies. The authors also show that crises often originate in financial centres and spread through interest-rate shocks and commodity price collapses, with global waves of default in the 1820s, 1870s, 1930s, and 1980s, triggered by financial disruptions in core economies. These findings underscore the herd behaviour and systemic interdependence that rational theory tends to underestimate, as agents misjudge contagion risks and collective irrationality prevails over decentralised rational decision frameworks and rational-expectations assumptions of self-correction over time.

3.2 Market and Institutional Patterns

Markets, in neoclassical theory, are the natural playground of rational agents, operating under the assumptions of information symmetry and efficient price discovery. Yet this seemingly self-correcting promise of conventional rationality-based models is undermined by market failures. Akerlof (1970) illustrates this through the classic example of the car market, characterised by considerable uncertainty: individuals cannot distinguish between a good car and a bad one (a "lemon") because assessing quality requires owning and using the car over a certain period of time. Sellers who possess this information advantage offer both good and bad cars at similar prices, producing adverse selection. The result is that good cars are gradually driven out of the market, as buyers are unwilling to pay for quality they cannot verify, while owners of lemons gain disproportionately from information asymmetry. This evidence also coincides with learnings from institutional economics to refute that market efficiency is institution-neutral and can be achieved independently of governance quality, cultural norms, or power structures. The car market example also shows that self-interested rational choices, when detached from trust and transparency, erode rather than sustain collective well-being. Market inefficiency is also evident in ecological contexts. Nordhaus (2019) highlights that climate change, as a "public good" or "externality," generates costs and benefits that spill outside the market and are not reflected in prices. This demonstrates that markets driven by self-interest fail to internalise global spillovers.

Beyond market dynamics, conventional rationality focuses on individual optimisation and overlooks key institutional drivers of economic outcomes. Acemoglu and Robinson (2012) show that the capacity of economic institutions to sustain inclusive markets is critical for long-term growth. Sustainable well-being is therefore conditional upon institutional inclusivity. Conversely, when the distribution of political power is narrow and unconstrained, those who control it design institutions to enrich themselves, producing extractive systems in which structural irrationality prevails, and social welfare is undermined. Theoretical rationality also assumes costless redistribution. Rodrik (2017) explains that governments often have the incentive to promise compensation, but rarely to carry it out. He also shows that crisis episodes have frequently led governments to question the benefits of financial globalisation and to consider — and in some cases implement — capital controls. Such institutional measures seek to address systemic risks, ruled out by conventional rationality, which instead perceives financial liberalisation and global markets as harmless enablers.

3.3 Behavioural and Micro-Level Patterns

The limitations of conventional rationality at the individual level are tied to the very human condition. The ordinary observation of human behaviour makes it evident that the portrait of *Homo Economicus* is reductive. Veblen (1899), a contemporary of the neoclassical economists, adopted this approach in his work on the leisure class, constructing a portrait grounded not in equations but in empirical observation, historical examples, and sociological analysis. He identified the key motivation behind ownership as the pursuit of favourable social comparison rather than utility maximisation. This social signalling, overlooked by conventional rationality, is a key driver of consumerism, inequality, and waste, thereby undermining collective welfare. More recently, Ariely's (2008) experiments confirmed that people assess value not by absolute utility but by comparison. On another level, human rationality is also severely tested in decision-making. Kahneman and Tversky (1979) examined human risk-taking behaviour and provided empirical evidence that the symmetric utility assumed in rational models is invalid, and that humans systematically deviate from expected utility-maximisation. They also showed that humans overreact to unlikely events like lotteries and underprepare for common risks such as health-related issues. Earlier, Simon (1953) had already demonstrated that human cognition is bounded: individuals rely on simplifications and heuristics because their mental capacities and available information are limited. Another major finding of Kahneman and Tversky (1979) is the fact that our evaluation of utility depends not on final states of wealth or consumption, but on reference points. Collectively, these findings undermine the neoclassical assumption that humans can consistently optimise utility under full information and shed light on critical phenomena overlooked by conventional rationality, such as overconsumption, resource misallocation, and unsustainable economic behaviour.

4 Promoting Sustainable Well-Being: The Modus Operandi of Islamic Rationality

In light of the inherent limitations of conventional rational thought discussed above, Islamic rationality, as articulated through the notion of the *Homo Islamicus*, treats values-driven action as an intrinsic property of rational choice, because rationality itself is value-laden. It is ordered by *maqāṣid al-Sharīʿah* and oriented toward *falāḥ*, rather than merely toward preference satisfaction. In contrast to conventional welfarist economics in the Bergson–Samuelson tradition, which treats social welfare as an aggregation of individual utilities based on given preferences, Islamic rationality narrows the admissible choice set before aggregation by imposing non-negotiable *Sharīʿah*-based constraints and orienting choices toward teleological ends such as *falāḥ* and the *maqāṣid al-Sharīʿah* (Choudhury, 1998)*.* This re-specifies what counts as a welfare-improving move in the first place, addressing the anomalies previously highlighted (e.g., discounting future harms, systemic externalities) not by compensating after the fact but by re-designing the criterion of choice itself.

Within this paradigm, an action is "rational" only insofar as it advances *maṣlaḥah* across the protected essentials: faith, life, intellect, progeny, and wealth, and respects the *maqāṣid* hierarchy of needs (necessities, needs, refinements). Consequently, welfare and sustainability, though also discussed in conventional economics, acquire a distinct status in Islamic thought: they become *ex-ante* criteria of rational choice rather than externalities to be priced or corrected later. This orientation is reflected clearly in the Islamic economic treatment of environmental stewardship (*khilāfah*, sometimes framed as *ḥifẓ al-biʾah*) (Al-Qaradawi, 2001). Moreover, "rational" choice is constrained by obedience to divine guidance; actions that harm the *maqāṣid* or violate justice are deemed irrational, even if they yield private profit (Chapra, 2000). Thus, there is a *prescriptive* and moral dimension whereby the economic agent is instructed to correct behaviour out of ethical duty and divine obedience — unlike conventional rationality, which responds to externalities only when material utility is compromised. In short, while welfare economics treats sustainability and justice as optional — or, more accurately, as adjustive parameters — Islamic economics regards them as constitutive elements of rationality itself.

Focusing on distributive justice, Piketty's (2014) long-run historical evidence casts serious doubt on Kuznets-style, equilibrium models that predict automatic convergence. Rather than fading away, wealth concentration persists as a structural feature of capitalism, underpinned by the renewed importance of inheritance and the long-run tendency for the return on capital to exceed the economy's growth rate ($r > g$). By contrast, the Islamic economic paradigm embeds distributive justice at the level of wealth stocks rather than relying primarily on ex-post income transfers. Islamic social finance: *zakāt*, *ṣadaqah*, *awqāf*, and *qard ḥasan*, operationalises the values-based rationality outlined above by establishing enforceable claims over wealth and creating durable, decentralised mechanisms for provisioning social goods. Through obligatory *zakāt* (allocated across eight priority categories), perpetual *awqāf* for public goods, and voluntary giving and benevolent loans, the system furnishes an ex-ante distributive baseline that directly counters wealth concentration rather than a compensatory welfare framework applied after inequalities have emerged (Chapra, 2000).

At the market level, asset-linked, risk-sharing finance (*muḍārabah*, *mushārakah*) and mutual protection (*takāful*) are intended to spread risk, align finance with the real economy, and reduce the leverage-driven fragility associated with debt-based finance. These mechanisms connect micro-level behavioural discipline to macroeconomic stability and intergenerational stewardship (Iqbal & Mirakhor, 2011; Çizakça, 1998). In this way, Islamic rationality (*maqāṣid*-guided ends), sustainability (stewardship and justice), and Islamic social finance (*zakāt*/*waqf*/*qard ḥasan*/risk-sharing contracts) form a single integrated architecture: the instruments materialise the normative criterion, such that sustainable well-being is pursued by design rather than by after-the-fact repair.

4.1 Islamic Value-Based Frameworks: Opportunities and Challenges

The advent of Islamic economics — and, more specifically, Islamic rationality theory — has advanced the conceptualisation of an alternative paradigm capable of guiding national-level programmes and public policies. This paradigm moves beyond conventional economic practices by embedding value-based principles within a coherent Islamic economic architecture. In the Malaysian context, this orientation is exemplified by Bank Negara Malaysia's Value-Based Intermediation (VBI) framework, which encourages Islamic financial institutions to integrate social impact and environmental considerations into their financing decisions (Bank Negara Malaysia, 2017/2018). Through this institutional mechanism, *maqāṣid*-based rationality is operationalised by redefining success beyond profit maximisation and anchoring it in social well-being (Asutay, 2012).

Parallel developments in Islamic social finance further demonstrate the practical relevance of *maqāṣid al-Sharīʿah*. Khazanah Nasional's Yayasan Hasanah initiative, for example, mobilises Islamic social finance instruments to support programmes in education, healthcare, and environmental protection (Yayasan Hasanah, 2025). Likewise, *waqf*-based initiatives across Malaysia and Indonesia illustrate the capacity of Islamic institutions to sustain public welfare without imposing burdens on state budgets. The Waqf Selangor Muamalat (WSM) initiative, for instance, channels *waqf* resources into healthcare services and renewable energy projects, embodying both distributive justice and ecological stewardship (Ramli & Jalil, 2014). These examples show that Islamic rationality is not merely a theoretical construct but a viable framework for advancing the Sustainable Development Goals (SDGs) through faith-informed reasoning and deliberate institutional design.

4.2 Islamic Rationality and the Redesign of Economic Tools: A Critical Negotiation

That being said, the claim that an Islamic notion of rationality can inform economic tools and policies is persuasive, but it must be treated with caution and nuance. Integrating this paradigm into contemporary economic systems has taken diverse and contested paths. Indeed, what constitutes an "Islamic economic system" remains unresolved and subject to debate. Malaysia's Value-Based Intermediation (VBI) framework stands out as one of the few national-scale efforts to operationalise the *maqāṣid* of the *Sharīʿah* in banking and finance. However, as Calder (2024) highlights, there is a fundamental tension between *Sharīʿah* and capitalist structures, raising questions about the coherence of labelling economic systems as truly "Islamic" when they retain capitalist logics and frameworks. Hence, implementing Islamic rationality faces significant structural and institutional hurdles. As Asutay (2012) argues, the "social failure" of Islamic finance is located in its detachment from the *maqāṣid* and its over-focus on *Sharīʿah* compliance as a procedural benchmark rather than as an outcome-oriented strategy. Second, the insufficient integration between Islamic jurisprudence (*uṣūl al-fiqh*) and the social sciences imposes significant constraints on the design and implementation of holistic public policies that prioritise justice, sustainability, and long-term societal flourishing.

4.3 Further Challenges in the Application of Islamic Rationality in Modern Economics

The *prescriptive* stance of Islamic economics stands in deliberate contrast to the "positive" aspirations of mainstream economics, which typically define rationality as the satisfaction of preferences under constraints. Chapra (2000) argues that claims of value-neutrality obscure substantive social objectives, insisting that moral and institutional filters must complement price signals to realise multidimensional welfare. Because Islamic economics is inherently normative (or *prescriptive*), it promises to reconfigure both *what* is optimised and *how* success is measured (Asutay, 2007; Iqbal & Mirakhor, 2011). Yet this same prescriptiveness introduces its own hazards: metric manipulation, rhetorical appropriation, and governance failures that dilute substantive impact.

When applied with integrity, Islamic rationality provides a coherent basis for redesigning economic tools. If justice and balance constitute the *maqāṣid*-guided ends of the system, then risk-sharing and real-economy linkage become structural imperatives rather than optional design features. Instruments such as *muḍārabah* and *mushārakah* align incentives through shared risk, while prohibitions on *riba*, *gharar*, and *maysir* prevent rent extraction and speculative detachment from productive activity (Iqbal & Mirakhor, 2011). Even appraisal methodologies can be re-engineered: cost–benefit analyses may incorporate *maqāṣid*-oriented weights so that distributive justice, human dignity, and ecological boundaries serve as *ex-ante* evaluative criteria, rather than merely *ex-post* corrective mechanisms.

Malaysia's VBI framework, as mentioned above, and the Sustainable and Responsible Investment (SRI) *ṣukūk* framework represent early institutional attempts to operationalise these ideals by embedding impact expectations into strategy, risk management, and disclosure while explicitly underlying alignment to the *maqāṣid al- Sharīʿah* (Securities Commission Malaysia, 2019; BNM, 2017/2018). Nevertheless, these initiatives remain important yet incomplete manifestations of the optimal Islamic paradigm envisioned in classical scholarship — promising in architecture but still evolving in practice.

In this context, normative vocabularies are especially prone to co-optation. Within a profit-maximising paradigm, greenwashing emerges as a rational response to weak verification mechanisms and reputational incentives (Delmas & Burbano, 2011; Lyon & Montgomery, 2015). Islamic economics is no exception. For more than two decades, scholars have critiqued its persistent form-over-substance tendencies (El-Gamal, 2006), while the capacious language of the *maqāṣid* is increasingly deployed *post hoc* to legitimise almost any financial practice. Ali (2025) describes the growing problem of "*maqāṣid*-washing," and although similar practices such as *maṣlaḥah*-washing are not yet widespread, the underlying incentives suggest that these forms of metric manipulation could emerge as additional frameworks become institutionalised. Goodhart's Law warns that once a measure becomes a target, it ceases to be a good measure (Goodhart, 1975). Effective policy responses must therefore prioritise governance architecture rather than rhetorical expansion: independent and rotating *Sharīʿah* and impact audits, outcome-based (not input-based) metrics such as poverty reduction, emission reductions, and affordability gains, as well as performance-linked compensation with deferrals and clawbacks. Without these, the invocation of Islamic rationality will continue to be arbitraged in practice.

Finally, an epistemic challenge endures. Because Islamic economics is *prescriptive*, it must continually translate moral ends into empirically assessable criteria. This requires *ijtihād* that is methodologically plural, empirically literate, and willing to revise or retire instruments when evidence reveals failure. "Islamic-first" frameworks gain legitimacy only when they are evidence-first, that is, when they can withstand outcome-based scrutiny, even if this entails abandoning formally compliant yet substantively hollow practices.

In sum, Islamic rationality can inform economic tools and public policy, but not through invocation alone. Its strength lies in its capacity to redefine ends: *ʿadl*, *maṣlaḥah*, and *falāḥ*, and to embed these ends into the design of instruments, metrics, and incentive structures. Its vulnerability lies in the ease with which such moral vocabularies can be commodified or deployed rhetorically. The way forward demands governance arrangements that make substance cheaper than semblance: standards that constrain, assurance mechanisms that verify, and political will that orients markets toward the common good they are intended to serve.

5 Conclusion

Conventional rationality is largely *descriptive*: it observes and models behaviour in terms of preference satisfaction under constraints, treating welfare as a function of individual utility. Islamic rationality, by contrast, is explicitly *prescriptive*: it begins from what human beings ought to pursue — *justice,* maslahah, and falāḥ — and evaluates choices against these higher-order ends. The difference is not mere semantics, but a fundamental divergence in how rationality, welfare, and responsibility are conceived.

Both paradigms claim a form of self-correction, but the mechanisms they rely on differ. Conventional frameworks trust in utility, prices, and incentives to discipline behaviour over time, expecting markets and institutions to adjust when inefficiencies or welfare losses become too large. Islamic rationality, however, embeds self-correction in a moral and spiritual architecture: taqwā*, hisbah*, and accountability before God and society incentivise individuals and institutions to realign behaviour even when it is materially costly.

Islamic social finance represents one of the most distinctive material expressions of this alternative rationality. Instruments such as zakāt, waqf, ṣadaqah, qard ḥasan, and risk-sharing contracts operationalise maqāṣid-guided reasoning by redistributing wealth, internalising social obligations, and linking finance to the real economy. They offer not only a critique of the limits of conventional welfare states and market-based redistribution, but also a set of concrete mechanisms through which sustainable well-being and social justice can be pursued proactively rather than addressed reactively.

At the same time, the experience of contemporary Islamic economics shows that the mere invocation of Islamic rationality is not sufficient. Various initiatives in social finance, value-based intermediation, and Sharīʿah governance demonstrate that Islamic principles can inform practicable economic arrangements and influence real policy. Yet persistent challenges remain: form may still be privileged over substance, maqāṣid rhetoric may outpace institutional reality, and governance architectures may lag behind ethical ambition. The task, therefore, is not to abandon the paradigm but to refine its implementation.

Ultimately, the promise of Islamic rationality lies in its ability to hold together ethical integrity and economic sophistication. Moving forward, the central challenge is to preserve its normative core — its commitment to justice, balance, and stewardship — while continually adapting tools, institutions, and policies to complex contemporary realities. If this balance can be sustained, Islamic economics does not merely offer an alternative vocabulary of rationality; it offers a viable path toward a more holistic and sustainable conception of human well-being.

Study Implication

This study implies that addressing contemporary economic and sustainability challenges requires a shift from value-neutral, utility-driven decision-making towards a value-based framework that integrates ethical responsibility, social justice, and long-term societal well-being into economic choices. For policymakers, regulators, and Islamic financial institutions, the findings underscore the need to move beyond procedural Sharīʿah compliance by embedding maqāṣid al-Sharīʿah into institutional design, governance, and performance evaluation. The study further suggests that Islamic social finance instruments should be assessed based on their measurable contribution to social impact and sustainable development, rather than solely on legal conformity, thereby strengthening the practical relevance and credibility of Islamic economics.

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Conflict of Interest

The authors declare that they have no known financial or personal relationships that could have appeared to influence the work reported in this paper.

Declaration of Use of Generative AI

In accordance with principles of research integrity and ethical scholarly publishing, the authors acknowledge the use of generative artificial intelligence (AI) tools solely to support language editing, grammar improvement, and formatting of the manuscript. AI tools were not used in the conceptualisation of the research, literature analysis, development of arguments, interpretation of findings, or formulation of conclusions. The authors accept full responsibility for the originality, accuracy, and intellectual content of this work.

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