

M. Umer Chapra's Model for the Future of Islamic Economics: Integration of Values, Governance, and Policy

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ABSTRACT

*This article examines M. Umer Chapra's conception of the future of Islamic economics by integrating moral values, institutional governance, and policy reform. The study aims to synthesize Chapra's historical-institutional diagnosis and future policy agenda and to formulate a coherent model of economic transformation. It employs qualitative library research with Chapra's *The Future of Economics: An Islamic Perspective* as the primary source and recent journal literature as secondary material. A document-review matrix was used to classify evidence into historical diagnosis, values, institutions, fiscal and monetary policy, the real sector, redistribution, and Islamic finance; the data were analyzed through descriptive-analytical thematic comparison and source triangulation. The findings show that economic decline is systemic: erosion of public ethics weakens accountability, institutions, and policy quality. Reform therefore requires three interdependent layers—values as a compass, institutions as a lever, and policy as an instrument. Islamic finance is positioned as a means, rather*

than the final objective, and must be evaluated by its contribution to stability, productivity, distributional justice, and public welfare. The model is relevant but context-dependent on state capacity, rule of law, and institutional credibility.

ABSTRAK

Artikel ini mengkaji konsepsi M. Umer Chapra mengenai masa depan ekonomi Islam melalui integrasi nilai moral, tata nstru kelembagaan, dan reformasi kebijakan. Penelitian bertujuan menyintesis diagnosis historis-institusional dan agenda kebijakan Chapra serta merumuskan model transformasi ekonomi yang koheren. Penelitian menggunakan nstrument kualitatif dengan jenis penelitian kepustakaan, dengan *The Future of Economics: An Islamic Perspective* sebagai sumber utama dan artikel jurnal mutakhir sebagai sumber sekunder. Instrumen analisis berupa matriks telaah dokumen yang mengelompokkan data ke dalam diagnosis nstrum, nilai, institusi, kebijakan nstru dan moneter, sektor riil, distribusi, serta keuangan Islam. Data dianalisis secara deskriptif-analitis melalui analisis tematik, perbandingan antarsumber, dan triangulasi literatur. Hasil kajian menunjukkan bahwa kemunduran ekonomi bersifat sistemik: erosi etika nstru melemahkan akuntabilitas, institusi, dan kualitas kebijakan. Reformasi karena itu memerlukan tiga lapis yang saling bergantung, yaitu nilai sebagai nstru, institusi sebagai pengungkit, dan kebijakan sebagai nstrument. Keuangan Islam ditempatkan sebagai sarana, bukan tujuan akhir, dan keberhasilannya diukur melalui stabilitas, produktivitas, keadilan distribusi, serta kemaslahatan. Penerapan model tetap bergantung pada kapasitas negara, rule of law, dan kredibilitas institusi.

INTRODUCTION

Contemporary debates over the direction of economics have become increasingly prominent amid widening inequality, financial-system vulnerabilities, environmental degradation, and a crisis of legitimacy in public policies that are often deemed effective in numerical terms yet remain weak in addressing social justice. In this context, Islamic economics is no longer understood merely as a "normative alternative," but as a framework of critique and reconstruction that requires the integration of values, institutions, and policy. A number of studies in Indonesia emphasize that the contribution of contemporary Islamic economic thinkers, including M. Umer Chapra, is characterized by efforts to integrate ethics, the objectives of Sharia (maqāsid al-sharī'ah), and institutional design so that development does not merely pursue

growth, but also ensures sustainability and an equitable distribution of benefits (Aisyah et al., 2025).

M. Umer Chapra occupies an important position in the landscape of modern Islamic economic thought because he moves beyond formal-legal debates over whether transactions are halal or haram toward a critique of the philosophical and institutional foundations of the modern economy, while also offering a practical agenda for reform. Recent literature shows that Chapra emphasizes “welfare” not merely as material accumulation, but as the fulfillment of human needs in harmony with ethics, justice, and the effective functioning of public institutions (Fikri, 2024). In Indonesia, his thought is frequently discussed in relation to Islamic values that can be integrated into modern economic policy, including the affirmation of trustworthiness (*amanah*), justice, and social responsibility as foundations of governance (Hakim & Nuryadin, 2024). Chapra can therefore be read as a bridge between the conceptual and operational dimensions.

This article is structured around two of the most strategic parts of Chapra’s book: the historical-institutional diagnosis and the future policy agenda. The historical-institutional diagnosis is important because it explains why an economic order may decline not merely because of technical factors such as productivity or trade, but because of weakening public morality, deteriorating governance, and fragile institutions that should safeguard distributive justice and fiscal discipline. In studies examining the reconstruction of Islamic-based economic development, Chapra is often understood as positioning institutions as a “lever” so that the value of justice does not remain rhetorical, but becomes a mechanism capable of directing resource allocation, controlling deviations, and protecting vulnerable groups (Fadllan, 2018). For policymaking, this is crucial because many development failures are rooted in weak institutional integrity and poor-quality public accountability.

Chapra’s future policy agenda is also increasingly relevant as Indonesia faces the need for economic-governance reforms that are sensitive to inequality, stability, and social resilience. Empirical and conceptual studies indicate the need to translate Islamic economic values into policy, for example by prioritizing equality of opportunity, strengthening social protection, and structuring fiscal and monetary instruments so that they do not generate instability (Anisa, 2024). In the monetary field, several studies highlight how Chapra’s ideas on Islamic monetary instruments and stability governance can be tested empirically in the Indonesian context, so that his thought does not remain at a normative level but opens a path toward data-based evaluation (Fatoni et al., 2023). Discussions of inflation from Chapra’s perspective further enrich the policy agenda by linking price stability with monetary governance, market behavior, and the social-justice dimension, particularly its effects on low-income groups (Ridha, 2021).

On the other hand, Chapra’s strength lies in the way he formulates development as a process oriented toward *maqāṣid al-sharī’ah*. Theoretical studies of *maqāṣid* in development emphasize that Chapra’s framework requires synchronization between the goal—dignified welfare—the means—policies and instruments—and the prerequisite—credible institutions (Kusnan et al., 2022). From this perspective, sustainable development is not understood as a technocratic slogan, but as a logical consequence of the ethics of justice and intergenerational responsibility. Reading Chapra also gives rise to criticism of the Western concept of the “welfare state” when welfare states operate without adequate moral foundations and institutional discipline, thereby confronting a paradox: rising fiscal burdens, expanding social dependency, and persistent inequality (Umam & Jalaludin, 2023). In the discourse on business ethics, Chapra’s position is understood as reinforcing the need for a value system that restrains greed and reorients markets so that they once again serve human interests rather than the reverse (Hakim, 2016).

The state of the art shows that studies on Chapra have developed in three directions that tend to remain separate. First, studies of values and maqāṣid emphasize welfare and justice; second, policy studies more often examine monetary, fiscal, or Sharia-compliant financing instruments; third, governance studies assess the performance of financial institutions using compliance and maqāṣid indicators. Recent empirical findings show that formal compliance does not automatically produce ethical and social performance, and that governance quality affects both maqāṣid achievement and the stability of financial institutions (Mergaliyev et al., 2021; Raouf & Ahmed, 2022; Deza & Sofyani, 2022; Alhammadi et al., 2022; Mulyani et al., 2024). The remaining gap is the absence of an integrated model that connects the historical diagnosis of the causes of decline with policy-change design and demonstrates the causal relationship among values, institutions, and policy.

Against this background, this article aims to present an argumentative synthesis of the historical and institutional diagnosis in Chapra's thought and the future policy agenda he proposes. Academically, the contribution of this article lies in strengthening the analytical bridge between "why decline occurs" and "how improvement can be achieved." At the policy level, this synthesis is expected to clarify that the implementation of Islamic economics cannot be limited to labels attached to instruments such as Islamic banks or zakat; rather, it requires improvements in governance and institutional integrity so that the values of justice and welfare can genuinely be realized. Several studies mapping Islamic economic thought in Indonesia also demonstrate the importance of avoiding the reduction of Islamic economics to a narrow sector and instead positioning it as a paradigm that demands ethical consistency and the courage to undertake institutional reform (Ariby et al., 2024). Reading Chapra through these two key dimensions therefore becomes a systematic step toward producing robust scholarly arguments that are also relevant to the renewal of national economic policy. The scientific novelty of this article lies in formulating a three-layer model that links the diagnosis of decline with the reform agenda: values as a normative compass, institutions as a lever that transforms values into rules and incentives, and policy as an operational instrument. Within this framework, the research questions focus on two issues: how Chapra explains the chain of economic decline, and how that diagnosis is transformed into a future policy agenda oriented toward maqāṣid.

RESEARCH METHOD

This study employs a qualitative approach in the form of library research. This design was selected because the object of study is the construction of M. Umer Chapra's thought on the future of Islamic economics, particularly the relationship among values, governance, institutions, and economic policy. The primary source is Chapra's work, especially *The Future of Economics: An Islamic Perspective*, while secondary sources include journal articles and research findings on Islamic economics, maqāṣid al-sharī'ah, institutional economics, governance, fiscal and monetary policy, real-sector development, welfare distribution, and Islamic financial performance. Priority is given to recent scholarly literature so that Chapra's ideas can be compared with contemporary conceptual and empirical developments.

Data were collected through documentation and literature review. The research instrument was a document-review matrix containing source identity, principal ideas, argumentative position, analytical category, and relevance to the research focus. The data were classified into five themes: historical-institutional diagnosis; the causal chain of decline; reform of values and governance; the fiscal, monetary, real-sector, and distributional policy agenda; and the position of Islamic finance. This grouping operationalizes the identification and

categorization stages used in the initial manuscript so that the analysis does not stop at a literature summary but instead reveals relationships among concepts.

The data were analyzed descriptively, analytically, and thematically. The first stage identified Chapra's principal propositions and the causal relationships he constructed. The second stage compared these propositions with previous research to assess their consistency, explanatory power, and relevance to the contemporary economy. The third stage developed a conceptual synthesis in the form of a three-layer values-institutions-policy model. The validity of the interpretation was strengthened through source triangulation by comparing Chapra's primary work with scholarly articles that test or develop his ideas, as well as by checking consistency among the research objectives, analytical categories, findings, and conclusions.

RESULT AND DISCUSSION

1. Historical-Institutional Diagnosis and the Chain of Decline in Islamic Economics

Historical-institutional diagnosis is an epistemic prerequisite for the future of Islamic economics in Chapra's framework because he rejects the idea that future strategies can be formulated from economic data that are merely measurable and disconnected from the trajectory of social change. Chapra emphasizes that the purpose of his reading of history is not to romanticize the past but to orient action toward the future, because the future is closely linked to the past. Without accurately identifying the forces of decay, how their triggers operate, and how they build momentum through reciprocal interaction, the agenda for accelerating development in Muslim countries will remain conceptually and practically fragile (Chapra, 2000). This position is consistent with the tradition of genealogical analysis in the social sciences, which uncovers the origins of structural wounds and the mechanisms by which they are transmitted in order to understand why crises recur and why recovery requires deep institutional correction rather than merely short-term policies.

Within a future-oriented framework, history is treated as a basis for institutional learning. Chapra rejects the assumption that societies operate in a historical vacuum; he calls for tracing the roots of decline and contemporary problems as a prerequisite for formulating meaningful strategies to realize the Islamic vision (Chapra, 2000). The key questions are institutional: why were institutions that once promoted progress replaced by inefficient institutions that produced decline, and why did corrective mechanisms fail to emerge (Chapra, 2000)? Historical learning is therefore directed toward assessing institutional capacity as an operational prerequisite for an Islamic economic agenda that does not become trapped in formalism (Fadllan, 2018).

More broadly, decline is understood as a systemic phenomenon and a consequence of institutional deterioration. Drawing on the Ibn Khaldun model he employs, Chapra emphasizes multidisciplinary circular causality: when one sector deteriorates and is not corrected, it triggers weakness in other sectors, which in turn intensifies the original deterioration. At a certain point, causes and effects become difficult to distinguish because the factors of decline have become mutually reinforcing (Chapra, 2000). Consequently, economic decline cannot be separated from social, political, moral, and institutional decline; economic analysis that isolates market variables alone will fail to explain why civilizations weaken and how they can recover (Chapra, 2000). Chapra provides a concrete example of this institutional mechanism: when political accountability weakens, checks and balances over public resources collapse, and state assets are no longer treated as a trust for public welfare but are instead used excessively, instability arises and the deterioration of other institutions accelerates (Chapra, 2000). This explains why, in Chapra's view, the future of Islamic economics requires a historical-institutional diagnosis: without restoring institutional integrity, maqāṣid values become mere slogans; conversely, with

credible institutions, values can be transformed into public policies that are just, stable, and sustainable (Kusnan et al., 2022).

The Ibn Khaldun model serves as Chapra's principal diagnostic framework because it offers a structure of socioeconomic causality that is not linear but circular and interdependent. The core of the model is summarized in six mutually reinforcing principles of political wisdom: implementation of Sharia requires political authority; authority depends on people; people survive through wealth; wealth arises from development; development requires justice; and rulers are responsible for realizing justice (Chapra, 2000). In Chapra's formulation, these relationships bind together the key variables—values and rules of behavior (S), political/government authority (G), people (N), wealth/resources (W), development (g), and justice (j)—within a single Circle of Equity that operates through chain reactions over time (Chapra, 2000).

With regard to the key variables, Chapra emphasizes that justice is not a narrow economic concept, but a comprehensive form of justice encompassing security of life, property, and honor; the fulfillment of sociopolitical obligations; appropriate rewards; and the prevention of injustice in any form (Chapra, 2000). In this model, public morality is not treated as a normative accessory but as a productive factor that encourages compliance with rules, restrains destructive behavior, and shapes an ethos of honesty, integrity, hard work, and social concern, all of which support development and stability (Chapra, 2000). Meanwhile, governance (quality of governance) functions as an implementation nexus: values and rules (S) become meaningful only when they are applied fairly and without discrimination by society and government, while wealth (W) serves as a resource for providing justice, development, and public welfare. At this point, Chapra connects Ibn Khaldun with the institutional-economics tradition, according to which the long-term performance of a society is determined by the quality of institutions and rules of the game that shape incentives, accountability, and state capacity (Acemoglu et al., 2004).

The diagnostic strength of this model lies in the feedback mechanism between strong and fragile institutions. When institutions are strong—for example, the rule of law, accountable public administration, moderate fiscal policy, and protection of property rights—justice and development reinforce one another, markets function more orderly, and prosperity becomes a basis of political legitimacy (Chapra, 2000). Conversely, when one sector deteriorates and is not corrected, it can become a trigger mechanism that weakens other sectors; over the long term, causes and effects merge and decline develops into a comprehensive crisis. Chapra stresses that, under such circular causality, economic decline cannot be separated from social, political, and moral decline; prosperity collapses precisely because institutions lose discipline and their orientation toward justice (Chapra, 2000). By this logic, the future of Islamic economics, according to Chapra, requires institutional reform as a prerequisite: without restoring governance and public morality, the instrumentalization of Islamic economics risks becoming symbolic, whereas credible institutions allow values to be translated into effective, just, and sustainable policies (Aini & Abidin, 2022).

Chapra interprets the decline of the Muslim world through a causal chain that moves from a crisis of values to an institutional crisis and ultimately to a policy crisis that deepens socioeconomic vulnerability. Within the Ibn Khaldun framework that he adapts, decline is not a sectoral event but a systemic phenomenon: when one sector deteriorates and is not corrected, it can trigger the weakening of other sectors until causes and effects become intertwined and decline occurs across nearly all dimensions, with the economy constituting only one part of the broader sociopolitical crisis (Chapra, 2000).

First, the erosion of public ethics produces the delegitimation of authority. Chapra emphasizes that when political authority lacks adequate legitimacy, the space for accountability narrows, public criticism is restricted, and the use of public resources can easily shift from the public good toward narrow interests. He shows that accountability and freedom of expression increase the likelihood that authorities will fulfill their obligations to the people; conversely, a legitimacy deficit perpetuates the misuse of resources and delays policy correction until it is too late (Chapra, 2000). Conceptually, this approach is close to genealogical analysis: institutional crises are inherited and repeated because their moral and political roots remain unresolved, so social trauma and governance failures create recurring patterns of policy failure.

Second, the crisis of values escalates into governance breakdown: corruption, rent-seeking, and weak accountability. Chapra describes how weak accountability mechanisms encourage the misuse of public resources and strengthen group interests that are inconsistent with justice, thereby turning corruption into a structural practice rather than an individual deviation (Chapra, 2000). In Chapra's analysis, declining government quality—including the competence and integrity of elites and administrative discipline—halts the development momentum that previously sustained prosperity because public institutions lose the capacity to structure incentives fairly (Chapra, 2000). Consistent with the institutional-economics literature, institutions as rules of the game and their enforcement are fundamental causes of long-term performance: when institutions weaken, decline tends to persist and is difficult to reverse through technical interventions alone (Acemoglu et al., 2004).

Third, institutional crisis produces fiscal distortions, ineffective expenditure, taxation that suppresses productivity, and widening inequality. Chapra links waste, corruption, and unproductive spending to expanding deficits and rising tax burdens; historically, high defense spending intensified tax pressure and weakened the state's ability to provide social and physical infrastructure, ultimately accelerating decline (Chapra, 2000). He also stresses that without accountability—for example, independent audits and transparency—budget leakages are difficult to control, making spending priorities for education, health, and social safety nets unrealistic (Chapra, 2000).

Fourth, fiscal distortions are often intertwined with monetary distortions: inflation, instability, and regressive effects on vulnerable groups. Chapra identifies a historical pattern in which deficit financing through monetary expansion or currency debasement—often associated with corruption, excessive military spending, and mismanagement—triggers high inflation and debt burdens that erode tax revenues and worsen welfare (Chapra, 2000). In classical cases, the combination of oppressive taxation, declining production, and currency manipulation culminated in inflation, poverty, and suffering among the poor (Chapra, 2000). For Chapra, therefore, the future of Islamic economics requires breaking this chain of decline by restoring public values, reforming institutions, and reconstructing fiscal and monetary policies in favor of justice.

These conceptual findings are reinforced by contemporary studies of governance. In the financial sector, stronger risk governance is correlated with bank stability, indicating that institutional quality is not merely an administrative factor but a mechanism that affects the resilience of the financial system (Raouf & Ahmed, 2022). In the context of Indonesian Islamic banking, the relationship between governance and *maqāṣid* achievement likewise indicates that institutional structures should be assessed by their substantive impact, not merely by the presence of compliance bodies (Deza & Sofyani, 2022). This reinforces Chapra's view that economic failures that appear technical often have institutional and ethical roots.

2. From Diagnosis to Islamic Economic Reform

The future course of action in M. Umer Chapra's framework is not a list of stand-alone technocratic policies, but a transitional design that moves from diagnosing decline toward engineering future-oriented social change. Chapra emphasizes that long-standing degradation has penetrated the core of social life, so correcting economic variables alone is insufficient; what is required is comprehensive reform across the domains of values, institutions, and policy (Chapra, 2000). The future policy agenda must therefore be constructed through a causal logic: reform should cut the chain of decline at its source and then reorganize the mechanisms that promote welfare through effective governance (Chapra, 2000).

The logic of transition from diagnosis to change engineering is evident in Chapra's insistence that Islamic economics should not stop at what is, but should guide what ought to be through a realistic package of reforms. He criticizes the tendency to assume that Islamic values are operative even though they are frequently violated in practice. The first step of reform must therefore begin with an analysis of prevailing values and institutions, including the psychological, social, economic, political, and historical factors that allow such deviations to persist (Chapra, 2000). Methodologically, this is consistent with a genealogical approach, such as studies of historical legacies shaping institutional responses, which emphasizes that the past is not merely a background condition but a structure that conditions today's policy choices.

Chapra advances an integrative argument: the Islamic economic paradigm rests on the integrated roles of values and institutions, markets, families, society, and the state; reform of individuals and society is a prerequisite if markets and the state are not to reproduce inequality (Chapra, 2000). At the institutional-political level, he shows that the gap between ideals and reality is driven primarily by weak political accountability, the absence of substantive democracy, limited press freedom, insufficient judicial independence, and inequitable law enforcement, which in turn weaken commitment to reform and the general welfare (Chapra, 2000). Here, the thesis that institutions are a fundamental cause of long-term growth strengthens Chapra's claim: moral improvement without institutional engineering and effective deterrent incentives tends to be fragile, while economic policy without legitimacy and accountability is readily captured by rent-seeking interests (Acemoğlu et al., 2004).

Chapra's principles of reform priorities and sequencing can be read as three interlocking layers. The first layer is vision-setting and human development: if the goal is not merely growth but spiritual progress, social harmony, justice, and welfare for all, then the most rational starting point is human reform through education, character formation, and public ethics (Chapra, 2000). The second layer is political and governance reform: values must be institutionalized through transparency, the rule of law, checks and balances, whistleblower protection, and accountability mechanisms that prevent violations from escaping sanction (Chapra, 2000). The third layer is economic-policy engineering grounded in data and feasibility. Chapra calls on Islamic economics to focus on actual problems—such as corruption, inequality, inflation, unemployment, and debt burdens—and to formulate remedies that are ideal in light of Islamic values yet applicable within existing political-economic structures, adapted to the historical background and institutional framework of each country, and supported by adequate data transparency (Chapra, 2000). With this sequence, reform avoids becoming a symbolic Islamization of policy and instead develops into a consistent design for change: building morally grounded people, improving institutions that guarantee accountability, and implementing measurable and context-sensitive policy packages (Aisyah et al., 2025).

The pillars of the future of Islamic economics according to M. Umer Chapra cannot be reduced to technical economic prescriptions; rather, they must be developed as a civilizational project that simultaneously connects the revitalization of values, political reform, governance,

and the strengthening of economic institutions. For Chapra, the Islamic economic paradigm rests on the integrated roles of values and institutions, markets, families, society, and the state in ensuring comprehensive welfare. Social change through the reform of individuals and society is therefore a prerequisite if markets and the state are not to become mechanisms for reproducing inequality (Chapra, 2000).

The first pillar is the revitalization of *maqāṣid* values, justice, trustworthiness (*amanah*), and social responsibility as both the basis of legitimacy and the moral energy of public policy. Chapra emphasizes that resource scarcity must be treated as a trust from God, so economic problems fundamentally concern the ethics of resource use and the fulfillment of obligations among human beings (Chapra, 2000). From this perspective, *maqāṣid* does not remain a normative slogan, but becomes a framework of priorities that directs policy toward meeting needs, restraining destructive luxury, strengthening social solidarity, and protecting vulnerable groups (Chapra, 2000). The *maqāṣid* literature on development emphasizes that such a goal-oriented perspective provides an evaluative compass for determining whether policies genuinely improve substantive welfare or merely raise growth indicators without improving justice (Kusnan et al., 2022). In contemporary Indonesia, the integration of Chapra's values is likewise understood as an effort to position justice, trustworthiness, and social responsibility as the ethos of economic policy so that policy does not become trapped in a narrow efficiency bias (Anisa, 2024).

The second pillar is political and governance reform through the rule of law, accountability, and limits on rent-seeking. Chapra argues that the historical decline of Muslim societies did not originate in a lack of resources but in the erosion of political accountability, which generated a range of governance pathologies: shrinking freedom of expression, the formation of privileged classes, increasing corruption and inefficiency, and the use of public resources for private interests and elite luxury. He even links accountability and freedom of criticism to the prerequisites for correct diagnosis and the adoption of corrective policies before crises become permanent, because without public control the state loses the incentive to act in a timely manner (Chapra, 2000). Chapra's argument is consistent with the thesis that institutions are a fundamental cause of long-term growth: when institutions weaken, rents and extraction replace productivity as the principal path of accumulation (Acemoğlu et al., 2004). Limiting rent-seeking is therefore not merely an ethical issue but a matter of incentive design: closing opportunities for impunity, strengthening oversight, and ensuring that violations impose high costs on perpetrators rather than on society.

The third pillar is the strengthening of economic institutions through fair regulation, effective supervision, and high-quality public services. Chapra emphasizes that Islamic values must be reflected in legal, social, political, and economic institutions and then reinforced through effective enforcement using impartial worldly incentives and disincentives (Chapra, 2000). In policy terms, this includes transparency, codes of conduct for public officials, public-accountability mechanisms, whistleblower protection, and checks and balances that make violations difficult to resolve informally. In the fiscal sphere, Chapra shows that taxation and public expenditure must satisfy the requirements of a fair distribution of burdens, affordability according to citizens' ability to pay, and trustworthy use in accordance with the purposes for which revenue is collected; without these conditions, taxation becomes an oppressive instrument that undermines productivity and erodes trust (Chapra, 2000). Conceptually, recent findings on institutional quality also show that institutional improvements at both national and regional levels make a tangible contribution to development trajectories, so the agenda of high-quality

public services and effective supervision is not supplementary but central to engineering inclusive growth (Aparicio-Pérez et al., 2025).

Accordingly, Chapra's vision of the future of Islamic economics can be formulated as an architecture of three mutually reinforcing pillars: Islamic values provide direction and legitimacy, governance provides the mechanisms of control, and economic institutions provide implementation capacity. If one pillar is neglected, the future project becomes unbalanced: values lose their practical force, policies lose integrity, and institutions lose trust. Chapra's most important contribution therefore lies not only in his critique of mainstream economics, but also in a reform design that requires moral-political-economic engineering as a single package of realistic and measurable change.

An important implication of this reform sequence is the need for indicators capable of testing whether institutions actually translate values into performance. The development of *maqāṣid* indices shows that ethical, social, environmental, and financial achievements can be assessed more comprehensively than through conventional financial ratios alone (Mergaliyev et al., 2021). Cross-country findings also indicate that certain governance elements affect *maqāṣid*-based performance, although not all formal bodies generate the same impact (Mulyani et al., 2024). Chapra-inspired reform should therefore be understood as reform of incentive and accountability design, not merely as the addition of formal institutions.

3. Policy Agenda and the Position of Islamic Finance in the Future of Islamic Economics

The future economic policy agenda, within M. Umer Chapra's framework of Islamic economics, must be understood as an institutional design linking the normative objective of *maqāṣid al-sharī'ah* with measurable macroeconomic policy instruments. The orientation toward justice does not stop at moral rhetoric, but is translated into fiscal discipline, monetary stability, a stronger real sector, and an architecture of welfare distribution that supports social resilience. In Chapra's logic, public policy works effectively only when it is supported by the ethics of trustworthiness and by institutions that enforce accountability, because without them expenditure, taxation, and monetary instruments can easily become vehicles for rent-seeking and the financing of waste (Chapra, 2000).

First, justice-oriented fiscal policy requires both effective social spending and budgetary discipline. Chapra emphasizes expenditure priorities that serve the welfare of the majority, including strengthening rural productivity, expanding access to education and training, and providing well-targeted social safety nets; all of these require reducing leakages caused by corruption, inefficiency, and spending that lacks a *maqāṣid*-based rationale (Chapra, 2000). He also warns that chronic fiscal deficits are often driven by waste and unproductive expenditure that burden macroeconomic adjustment and suppress growth (Chapra, 2000). On the revenue side, taxation is treated as a trust that must be managed honestly and efficiently for the public interest, so fair fiscal governance requires robust audits, executive accountability before representative institutions, and sanctions for violations (Chapra, 2000). Institutionally, this principle is consistent with the thesis that institutional quality determines the state's capacity to generate long-term growth without trading public welfare for extraction by elite groups (Acemoğlu et al., 2004).

Second, stability-oriented monetary policy is positioned as a prerequisite for justice, not merely as a technocratic target. Chapra stresses the obligation of monetary authorities to preserve the stability of the value of money so that it can perform its functions as a unit of account, medium of exchange, and store of purchasing power; sustained erosion of the real value of money undermines socioeconomic justice and general welfare (Chapra, 2000). Price stability is also understood as a prerequisite for meeting basic needs, achieving a more equitable distribution,

optimizing real growth, and expanding employment opportunities (Chapra, 2000). Inflation control therefore cannot rely only on liquidity management; it must also address the structure of money demand. Chapra emphasizes that reducing wasteful consumption, unproductive investment, and speculation requires synergy among moral values, sociopolitical institutions, and profit-based incentives that encourage productive financing (Chapra, 2000). Contemporary literature on monetary-policy stability and transmission, including in the context of Islamic banking, shows that the effectiveness of monetary instruments depends heavily on institutional design and the response of the financial sector to policy shocks (Hafidh, 2021).

Third, real-sector development is positioned at the heart of future policy: productivity, job creation, and community economic empowerment. Chapra links sustainable growth with savings, investment, diligent work, technological progress, and conducive government policy, while criticizing the allocation of financing toward conspicuous consumption and speculation (Chapra, 2000). Policy design should therefore ensure broader access to financing for entrepreneurs in both rural and urban areas so that employment opportunities and the production of essential goods and services increase (Chapra, 2000). At the macro level, fiscal policies that stimulate productive public services—such as education, health, and basic infrastructure—and monetary policies that contain market risk must be combined with reforms of market institutions and regulation so that economic incentives move toward productivity rather than rent-seeking (Aparicio-Pérez et al., 2025). Cross-country and cross-regional findings likewise confirm that national and regional institutions make real but varying contributions to development, so the real-sector agenda requires governance improvements across multiple levels of government (Aparicio-Pérez et al., 2025).

Fourth, welfare distribution requires the design of social-security systems, redistributive instruments, and stronger solidarity. Chapra rejects the simplistic assumption that zakat replaces all modern social-security schemes; he stresses that zakat is not a substitute for social protection related to unemployment, accidents, old age, and health, nor does it relieve the state of its fiscal responsibility for redistribution and the expansion of employment opportunities (Chapra, 2000). In a more empowering approach, zakat is prioritized as income support for those who are genuinely unable to provide for themselves, while for productive but vulnerable groups it can be directed toward training and seed capital for developing microenterprises and achieving self-reliance (Chapra, 2000). This can be complemented by effective government social spending and labor policies that promote job creation, as shown by empirical studies linking financing, government expenditure, investment, and growth (Nofrianto et al., 2021). In times of crisis and uncertainty, solidarity also requires values-based leadership and governance that protects vulnerable groups from the effects of inflation, unemployment, and cuts to basic services (Mulyani et al., 2024). Historical experiences of protracted conflict further show that trauma and political violence can drain public resources, disrupt stability, and damage social cohesion—factors that ultimately hinder the welfare agenda.

Accordingly, the future economic-policy agenda in Islamic economics must advance simultaneously along four fronts: a just and disciplined fiscal system, stable monetary policy, a productive real sector, and distributional arrangements that strengthen solidarity. All of these must be framed by institutional reform so that trustworthiness, auditing, and rule enforcement are not merely norms but mechanisms that compel policy to serve the public good.

In the future envisioned by M. Umer Chapra, Islamic finance is not positioned as the ultimate achievement but as a policy instrument that must operate under the normative objectives of Islamic economics: the realization of *maqāṣid al-sharīʿah*, justice, and the public good (Chapra, 2000). The success of Islamization cannot be measured solely by the growth of banking

variables such as assets, third-party funds, or profitability, because similar indicators can also appear in conventional systems. The crucial role of Islamization lies in the financial system's tangible contribution to achieving the objectives of Islamic economics: reducing inequality, expanding opportunities for dignified employment, and strengthening socioeconomic resilience (Chapra, 2000). Islamic finance must therefore be understood instrumentally: it channels savings into productive investment, mitigates excessive speculation, and serves as a lever for just governance rather than merely as an industry that is administratively halal.

This instrumental conception also rejects the trap of compliance formalism. Chapra emphasizes that the rationale of Islamic banking does not end with changes in mechanisms or products; rather, what is required is the realization of the system's objectives and the limitation of complexities that facilitate departures from the substance of Sharia and encourage excessive credit expansion (Chapra, 2000). His critique of Islamic financial institutions highlights problems of transparency and internal certification that are vulnerable to conflicts of interest. This is not intended to deny the integrity of scholars, but to emphasize the need for strong governance, independent compliance audits, and adequate standardization (Chapra, 2000). At this point, the *maqāṣid* orientation must be translated into evaluative tools that measure impact: whether financing genuinely drives productive sectors, improves the distribution of benefits, and strengthens corporate social responsibility, rather than merely replacing the term interest with profit sharing (Shahwan et al., 2023). Empirical literature on the social performance of Islamic financial institutions likewise demonstrates the urgency of developing impact metrics and information disclosure so that compliance does not stop at procedures but extends to ethics and public benefit (Mergaliyev et al., 2021; Alhammadi et al., 2022).

However, Chapra's future agenda sets a more demanding condition: the integration of fiscal policy, monetary policy, and the real sector as a prerequisite for the effectiveness of Islamic economics. In evaluating Islamization experiments, Chapra argues that an excessive focus on eliminating interest is insufficient; simultaneous progress is required in institutional reform, the soundness of the financial system according to prudential standards, and improvement of the socioeconomic environment that enables values to function both as a constraint and as a motivation (Chapra, 2000). He further emphasizes that the Islamization of the financial system must not be a cosmetic change; it must form an integral part of a comprehensive reform program, including strengthening democratic institutions, combating corruption in government and banking, and reducing macroeconomic imbalances (Chapra, 2000). This statement accords with the modern institutional thesis that institutional quality is a fundamental cause of long-term growth because institutions determine incentives, the distribution of power, and transaction costs that shape productivity (Acemoglu et al., 2004). In other words, Islamic finance detached from governance reform will easily become trapped in symbolism while failing to achieve stabilization and equitable distribution.

Such integration also requires a proactive role for monetary authorities and regulators, including the provision of legal frameworks, market infrastructure, reporting standards, compliance and risk supervision, and a lender-of-last-resort function compatible with Sharia principles (Chapra, 2000). Chapra regards this as an evolutionary process requiring policy leadership and the development of human-resource capacity; without these, the system will stagnate in short-term financing and struggle to finance productivity transformation (Chapra, 2000). At the design level, linking financing to real goods, services, and projects becomes an important distinguishing feature because it can restrain credit expansion that is not aligned with output growth and thereby help reduce inflationary pressure. However, this distinction is effective only when fiscal policy supports budgetary discipline and productive expenditure,

monetary policy maintains stability, and the real sector enjoys a fair business environment—an interlocking policy triangle.

Finally, Chapra's future also requires a sociopolitical dimension: legitimacy, trust, and public ethics. Social crises rooted in memories of violence or collective trauma can undermine trust in authority, increase coordination costs, and weaken citizens' compliance with policy, so economic reform—including Islamic finance—requires the reconstruction of trustworthiness and procedural justice (Alhammadi, 2022). The position of Islamic finance in the future agenda is therefore not to serve as a showcase of identity, but to function as a policy instrument that, together with institutional reform, directs the transition toward an economy that is stable, productive, just, and oriented toward *maqāṣid*.

The distributional dimension shows that Islamic social instruments need to be connected with broader development policies. Zakat, waqf, and sadaqah can support poverty alleviation and the Sustainable Development Goals, but their effectiveness depends on adequate governance, coordination, and institutional design (Rosman et al., 2022). Redistributive instruments therefore do not replace the state's fiscal responsibility; rather, they complement it within a welfare architecture oriented toward the public good.

At the level of financial institutions, Chapra's critique of formalism is also supported by empirical studies. The performance of Islamic banks assessed through *maqāṣid* reveals a gap between financial growth and ethical-social achievement (Alhammadi et al., 2022). A sustainability framework that expands performance measurement to include prosperity, people, the environment, and prophetic values likewise confirms that the success of Islamic banking cannot be reduced to profitability or contractual compliance (Hamidi & Worthington, 2021). Islamic finance is therefore most consistently positioned in Chapra's model as an instrument that must remain subordinate to the objectives of the system, rather than as the ultimate goal of reform.

4. Conceptual Synthesis of Chapra's Model for the Future of Islamic Economics

The conceptual synthesis of Chapra's Model for the Future of Islamic Economics can be formulated as a three-layer model linking values, institutions, and policy within a coherent causal chain. At the first layer, values function as a compass—a normative direction affirming that the purpose of the economy is not merely the expansion of output, but the realization of the public good through *maqāṣid*, justice, trustworthiness (*amanah*), and social responsibility (Chapra, 2000). In Chapra's framework, values are not ethical ornaments but sources of legitimacy and behavioral constraints that shape public preferences, guide political choices, and reduce social transaction costs arising from mistrust and opportunism. At the second layer, institutions function as a lever because values that are not translated into rules of the game and incentives become confined to private morality without social force (Chapra, 2000). Here, Chapra is consistent with the institutional-economics tradition, which views institutions as fundamental causes of long-term growth and distribution because institutions determine who gains access, who bears burdens, and how conflicts of interest are resolved (Acemoğlu et al., 2004). The third layer is policy as an instrument: fiscal, monetary, and real-sector mechanisms that can work effectively only when supported by public values and credible institutions (Chapra, 2000).

From this model emerges a theory of change in which moral and institutional reform reduces inequality and increases stability through feedback mechanisms. First, when public values affirm justice and trustworthiness, social tolerance for corruption, rent-seeking, and manipulation narrows, and the delegitimation of such practices increases support for law enforcement and transparency (Chapra, 2000). Second, strong institutions—including the rule of law, accountability, and performance measurement—reduce discretion and improve expenditure

allocation, shifting budgets from symbolic projects toward productive basic services (Chapra, 2000). In local government, consistent performance-measurement practices help ensure that social programs do not stop at budget absorption but produce verifiable outputs and impacts (Akbar et al., 2012). Third, monetary stability and financial resilience become more attainable because policy is not forced to cover governance deficits; inflation and volatility are often symptoms of fragile institutions rather than purely technical failures of central banks (Ridha, 2021). Over the medium term, the combination of public morality supportive of justice and institutions that constrain rent-seeking will reduce inequality through two channels: more accurately targeted redistribution and the expansion of productive opportunities, including access to financing, protection for small businesses, and improved public-service quality, thereby increasing economic mobility (Deif & Cochrane, 2022).

Chapra's theoretical contribution is distinctive because he positions Islamic economics as both a civilizational project and a project of governance reform. He does not reduce Islamic economics to the design of Sharia-compliant contracts or the growth of financial-industry assets, but directs it toward reconstructing the sociopolitical rules of the game that connect ethics, institutions, and public policy (Chapra, 2000). Success is therefore measured primarily not by formal compliance, but by contribution to *maqāṣid* and quality of life, especially for vulnerable groups (Chapra, 2000). Contemporary literature on Chapra's thought reinforces this orientation: Islamic economic values need to be integrated into public policy so that they do not remain normative discourse but become a logic of action for the state and the market (Anisa, 2024). Islamic economics is thus understood as a development agenda that demands reform of leadership, accountability, and institutional design to minimize rent-seeking (Mulyani et al., 2024; Deza & Sofyani, 2022).

However, this model requires critical evaluation so that it does not fall into universal claims that obscure cross-country complexity. Its main strength is the integration of three layers that prevents single-solution approaches; Chapra avoids the illusion that Sharia-compliant financial instruments automatically create justice without reforming the political and legal order (Mulyani et al., 2024; Deza & Sofyani, 2022). The model is also compatible with recent findings in institutional economics that both national and regional institutions contribute to development, meaning that reform cannot be confined to the central level but requires the orchestration of multi-level governance (Mulyani et al., 2024; Deza & Sofyani, 2022). Yet several key assumptions remain: the state must possess the capacity to enforce the rule of law in a relatively impersonal manner; a political coalition capable of limiting rent-seeking must exist; and the bureaucracy must be able to manage performance measurement and regulatory consistency (Chen & Chen, 2025). If these assumptions are not met, moral reform may end as a slogan while formal institutions become administrative procedures without corrective force.

The limits of cross-country application are also apparent in historical factors and collective memory. Studies of war trauma and the genealogy of political memory show that experiences of violence and polarization can generate public distrust, affect acceptance of reform, and strengthen identity politics. Under such conditions, the value compass promoted by Chapra remains relevant, but the pathway of implementation must incorporate strategies for social reconciliation, mitigation of elite resistance, and gradual strengthening of bureaucratic capacity. In other words, Chapra's model is most productive when treated as a diagnostic-design framework: it maps the relationships among values, institutions, and policy, while the final outcomes depend on each country's political context, administrative quality, and economic structure.

Overall, the findings produce the proposition that Islamic economic reform operates through a values-institutions-policy chain. Values shape orientation and behavioral limits; institutions transform that orientation into rules, incentives, oversight, and implementation capacity; while policy allocates resources through fiscal, monetary, real-sector, and distributional instruments. Feedback from policy performance then affects institutional legitimacy and public trust. This model explains why reform that touches only one layer is prone to failure: values without institutions become symbolic morality, institutions without values risk becoming empty procedures, and policy without either is easily captured by rent-seeking interests. The main contribution of Chapra's model is therefore to position Islamic economics as a design for change that simultaneously connects ethics, governance, and policy.

CONCLUSION

M. Umer Chapra's thought demonstrates that the future of Islamic economics cannot be built merely through the development of Sharia-compliant financial instruments, but requires more fundamental improvements in values, institutions, and policy. Economic decline is understood as a systemic problem arising from weakened public morality, poor governance, fragile institutions, and policies that depart from the principle of justice. Economic reform must therefore begin by strengthening the values of *maqāṣid al-sharī'ah*, trustworthiness (*amanah*), and justice, and then translating them into the rule of law, accountability, limits on rent-seeking, and fiscal, monetary, and real-sector policies oriented toward the public good.

Within this framework, Islamic finance is positioned as an instrument rather than an ultimate objective. Its success cannot be measured solely by formal compliance or industry growth, but by its contribution to stability, productivity, equity, and welfare. Chapra's model for the future of Islamic economics can therefore be summarized in three interconnected elements: values as a compass, institutions as a lever, and policy as an instrument. The strength of this model lies in its ability to connect ethics with governance and public policy, although its application still requires adjustment to the institutional capacity, political conditions, and socioeconomic characteristics of each country.

RECOMMENDATION

Further research should operationalize the three-layer values-institutions-policy model into indicators that can be tested empirically. In the Indonesian context, testing may focus on the relationships among governance quality, *maqāṣid* orientation, the composition of public expenditure, monetary stability, financing of productive sectors, and welfare-distribution outcomes. Comparative approaches across regions or countries are also needed to determine which institutional variables most strongly influence the successful transformation of values into policy.

The limitations of this study lie in its library-research character and its predominant reliance on a single major work by Chapra as the center of interpretation; consequently, the resulting model has not tested causal relationships statistically or through field data. In addition, differences in state capacity, political configurations, market structures, and bureaucratic quality may produce different implementation pathways. Policy recommendations derived from Chapra's model should therefore be treated as a diagnostic framework and a reform design that must be adapted to each country's institutional context.

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