

Economic Transformation Toward Islamic Economics

Handi Risza¹, Arif Haryadi²

^{1,2}) Department of Management, Paramadina University, Jakarta, Indonesia

Abstract

Various strands of contemporary economic thought have raised substantial socio-economic critiques of the dominance of neoclassical economics. These critiques highlight limitations not only in its theoretical assumptions, such as rational individualism and market efficiency, but also in its influence on education systems, research agendas, and public policy formulation. The strong reliance on market mechanisms and economic liberalization has contributed to structural imbalances, including widening income inequality, marginalization of vulnerable groups, and unequal relations between developed and developing economies. Furthermore, the relative neglect of ethical and moral considerations has been associated with broader challenges, such as environmental degradation, excessive consumerism, and the erosion of social justice. This study aims to analyse the transformation of economic thought toward Islamic economics through a qualitative literature review. By synthesizing relevant academic works, the study examines how Islamic economics offers an alternative paradigm that integrates economic activity with ethical and social values. Rooted in principles such as rabbaniyah (divine orientation), adl (justice), tawazun (balance), and maslahah (public welfare), Islamic economics emphasizes the integration of positive and normative dimensions in economic analysis and practice. This study employs a qualitative research design using a literature review approach to analyse the transformation of economic paradigms from neoclassical and capitalist systems toward Islamic economics. The literature review is conducted systematically to identify, evaluate, and synthesize relevant scholarly works that discuss the theoretical foundations, criticisms, and development of Islamic economic thought. The findings indicate that Islamic economics provides a more holistic framework for achieving human welfare, extending beyond material prosperity to include social equity and moral well-being at both individual and societal levels. Economic activities are guided by principles of fairness, accountability, and sustainability, repositioning the economy to fulfil its essential function of ensuring a dignified and equitable livelihood. This study contributes to the literature by offering a conceptual synthesis of the shift from neoclassical to Islamic economic paradigms and highlighting the importance of embedding ethical values and social justice in economic transformation.

Keywords: Economy, Neoclassical, Capitalist, Islamic Economy, Social Justice

Abstrak

Berbagai aliran pemikiran ekonomi kontemporer telah memunculkan kritik sosial-ekonomi yang substansial terhadap dominasi ekonomi neoklasik. Kritik-kritik ini menyoroti keterbatasan tidak hanya pada asumsi teoritisnya, seperti individualisme rasional dan efisiensi pasar, tetapi juga pada pengaruhnya terhadap sistem pendidikan, agenda penelitian, dan perumusan kebijakan publik. Ketergantungan yang kuat pada mekanisme pasar dan liberalisasi ekonomi telah berkontribusi pada ketidakseimbangan struktural, termasuk meningkatnya kesenjangan pendapatan, marginalisasi kelompok rentan, dan hubungan yang tidak setara antara ekonomi maju dan berkembang. Lebih lanjut, pengabaian relatif terhadap pertimbangan etika dan moral telah dikaitkan dengan tantangan yang lebih

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Corresponding Author: Handi Risza (handi.risza@paramadina.ac.id)

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luas, seperti degradasi lingkungan, konsumerisme yang berlebihan, dan erosi keadilan sosial. Studi ini bertujuan untuk menganalisis transformasi pemikiran ekonomi menuju ekonomi Islam melalui tinjauan literatur kualitatif. Dengan mensintesis karya-karya akademis yang relevan, studi ini mengkaji bagaimana ekonomi Islam menawarkan paradigma alternatif yang mengintegrasikan aktivitas ekonomi dengan nilai-nilai etika dan sosial. Berakar pada prinsip-prinsip seperti rabbaniyah (orientasi ilahi), *adl* (keadilan), *tawazun* (keseimbangan), dan *maslahah* (kesejahteraan umum), ekonomi Islam menekankan integrasi dimensi positif dan normatif dalam analisis dan praktik ekonomi. Studi ini menggunakan desain penelitian kualitatif dengan pendekatan tinjauan pustaka untuk menganalisis transformasi paradigma ekonomi dari sistem neoklasik dan kapitalis menuju ekonomi Islam. Tinjauan pustaka dilakukan secara sistematis untuk mengidentifikasi, mengevaluasi, dan mensintesis karya-karya ilmiah yang relevan yang membahas landasan teoritis, kritik, dan perkembangan pemikiran ekonomi Islam. Temuan menunjukkan bahwa ekonomi Islam menyediakan kerangka kerja yang lebih holistik untuk mencapai kesejahteraan manusia, meluas melampaui kemakmuran materiil hingga mencakup kesetaraan sosial dan kesejahteraan moral baik di tingkat individu maupun masyarakat. Aktivitas ekonomi dipandu oleh prinsip-prinsip keadilan, akuntabilitas, dan keberlanjutan, memposisikan kembali ekonomi untuk memenuhi fungsi esensialnya dalam memastikan penghidupan yang bermartabat dan adil. Studi ini berkontribusi pada literatur dengan menawarkan sintesis konseptual tentang pergeseran dari paradigma ekonomi neoklasik ke Islam dan menyoroti pentingnya menanamkan nilai-nilai etika dan keadilan sosial dalam transformasi ekonomi.

Kata Kunci: *Ekonomi, Neoklasik, Kapitalis, Ekonomi Islam, Keadilan Sosial*

INTRODUCTION

The dominance of neoclassical economics and the broader capitalist system has significantly shaped global economic structures, influencing policy frameworks, academic discourse, and development strategies. Built upon assumptions of rational individual behaviour, market equilibrium, and efficiency, this paradigm has long been regarded as the mainstream approach in economics. However, a growing body of literature highlights fundamental limitations of neoclassical economics, particularly its inability to adequately address persistent socio-economic problems such as inequality, poverty, and environmental degradation (Stiglitz, 2010; Sen, 1999).

One of the key criticisms lies in the excessive reliance on market mechanisms as the primary determinant of resource allocation. While markets may enhance efficiency, they often fail to ensure equitable distribution of income and wealth. Empirical evidence shows that economic liberalization and globalization have contributed to widening income disparities and increasing marginalization of vulnerable groups (Piketty, 2014; Rodrik, 2011). In addition, the value-neutral stance of neoclassical economics tends to overlook ethical and moral dimensions, resulting in economic practices that prioritize profit maximization over social welfare and sustainability.

The consequences of such limitations are evident in various global challenges, including financial instability, environmental crises, and the rise of consumerism and materialistic culture. These conditions indicate a disconnect between economic growth and the broader concept of human well-being. As argued by Polanyi (1944), the disembodiment of the economy from social and moral contexts can lead to systemic imbalances that undermine long-term sustainability. Therefore, there is an urgent need to re-examine the foundational assumptions of economic theory and to explore alternative paradigms that integrate ethical values and social justice into economic analysis.

In this context, Islamic economics emerges as a promising alternative framework. Rooted in normative principles derived from Islamic teachings, Islamic economics emphasizes justice (*adl*), balance (*tawazun*), and public welfare (*maslahah*) as central objectives of economic activity (Chapra, 2000; Siddiqi, 2004). Unlike neoclassical economics, which tends to separate positive and normative dimensions, Islamic economics integrates both, ensuring that economic decisions are guided not only by efficiency considerations but also by ethical accountability and social responsibility.

The transformation toward Islamic economics is not merely an institutional shift but represents a broader change in economic worldview. It involves reorienting economic objectives from profit maximization to the achievement of comprehensive human welfare, encompassing material, social, and spiritual dimensions. However, despite its conceptual strengths, the implementation of Islamic economics remains partial and faces several challenges, including regulatory constraints, limited public understanding, and the continued dominance of conventional economic frameworks within Islamic financial practices (Asutay, 2012; Chapra, 2008).

Although numerous studies have discussed the principles and development of Islamic economics, there remains a lack of integrative analysis that systematically examines the transformation from neoclassical to Islamic economic paradigms. Existing literature often focuses either on critiques of conventional economics or on the operational aspects of Islamic finance, without sufficiently linking the two within a comprehensive transformation framework. This gap highlights the need for a literature-based study that synthesizes both perspectives to provide a more holistic understanding of economic transformation.

Furthermore, the increasing global demand for ethical, inclusive, and sustainable economic systems reinforces the relevance of this study. The recurring financial crises and persistent socio-economic inequalities have intensified the search for alternative models that can better address these challenges. Islamic economics, with its emphasis on social justice and moral values, offers a potential pathway, but its theoretical and practical transformation processes require deeper scholarly exploration.

Based on the above considerations, this study aims to Analyse the key criticisms of neoclassical and capitalist economic systems in addressing socio-economic issues such as inequality, marginalization, and environmental degradation. Examine the foundational principles of Islamic economics as an alternative paradigm that integrates ethical, social, and economic dimensions. Explore the process of economic transformation toward Islamic economics, including its opportunities and challenges within contemporary economic systems. This study is expected to contribute to the development of economic discourse by offering a structured and integrative perspective on the transition toward Islamic economics, particularly in the context of increasing global interest in value-based economic systems.

LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK

Critique of Neoclassical and Capitalist Economics

A substantial body of literature has critically examined the dominance of neoclassical economics and its implications for socio-economic outcomes. In *The Future of Economics: An Islamic Perspective*, M. Umer Chapra (2000) argues that conventional economics has failed to realize justice and equitable prosperity. He emphasizes that the shift away from a norm-based approach toward excessive focus on wealth maximization, individual satisfaction, and utility has led to structural imbalances. Such orientations, according to Chapra, ultimately shape economic policies and behaviour that disproportionately benefit capital owners while neglecting broader societal impacts.

Similarly, Khurshid Ahmad (2009) in *Studies in Islamic Economics* highlights that modern economics, under the influence of neoclassical thought, has distanced itself from its philosophical and ethical foundations. Economics has become increasingly mechanistic, relying heavily on quantification, modelling, and predictive tools. As a consequence, efficiency and wealth accumulation dominate decision-making processes, while considerations of justice and welfare are marginalized.

Historical perspectives further reinforce these critiques. Joseph Schumpeter (1972), in *History of Economic Analysis*, noted that an economic system driven primarily by capital accumulation fosters a rationalistic mindset that erodes moral authority and weakens social institutions. This erosion, in turn, undermines the sustainability of the economic system itself. Building on this, Stiglitz and Greenwald (2002) in *Towards a New Paradigm in Monetary Economics* identified inherent instabilities in financial systems driven by uncontrolled credit expansion and speculative activities. Their analysis anticipated recurring financial crises, a prediction substantiated by global economic disruptions, including the 2008 financial crisis, which echoed the severity of the Great Depression.

Empirical evidence also supports the systemic instability of the conventional economic system. Davies and Davies (1996), in *The History of Money from Ancient Times to the Present*, documented that more than twenty major financial crises occurred throughout the 20th century, indicating a cyclical vulnerability inherent in the global financial architecture. These recurring crises have inflicted widespread socio-economic suffering, raising concerns about the long-term viability of neoclassical economic frameworks.

From a critical development perspective, Gunnar Myrdal (1957) argued in *Economic Theory and Underdeveloped Regions* that the persistence of inequality necessitates a fundamental shift away from *laissez-faire* principles. He contended that achieving economic justice requires a new orientation that prioritizes structural transformation and social equity. Likewise, Swasono (2005) emphasized the need to deconstruct and reform conventional economic thought, particularly in the context of globalization and free-market ideology, which he viewed as reinforcing partial and reductionist perspectives.

Criticism also extends to the academic domain. Robert Kuttner (1991), in *The End of Laissez-Faire*, criticized the education system for producing economists who are technically proficient yet disconnected from real-world economic and social issues. This critique underscores the broader concern that neoclassical economics has become overly abstract, losing its relevance to human welfare and societal needs.

Islamic Economics as an Alternative Paradigm

In response to the limitations of neoclassical economics, Islamic economics has emerged as an alternative paradigm that seeks to reintegrate ethical, social, and spiritual dimensions into economic analysis. According to Chapra (2000, 2008), Islamic economics is grounded in principles such as *adl* (justice), *tawazun* (balance), *maslahah* (public welfare), and *rabbaniyah* (divine orientation). These principles provide a normative framework that ensures economic activities are aligned with broader societal goals, rather than solely driven by individual profit maximization.

Islamic economics differs fundamentally from conventional systems by integrating positive and normative approaches. Economic decisions are not value-neutral but are guided by ethical considerations that promote fairness, accountability, and sustainability. Mechanisms such as the prohibition of *riba* (interest), the promotion of risk-sharing, and the institutionalization of redistributive instruments

like zakat and waqf reflect a commitment to social justice and equitable wealth distribution.

Furthermore, Islamic economics conceptualizes human welfare in a holistic manner, encompassing not only material well-being but also social and moral dimensions. This perspective aligns economic objectives with human development, emphasizing the importance of balancing individual interests with collective welfare.

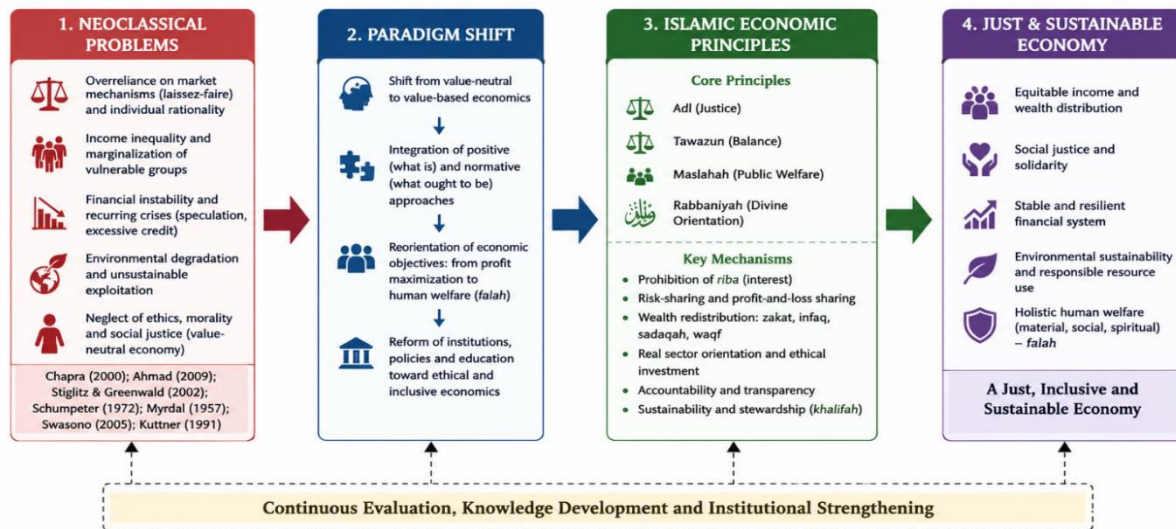
Conceptual Framework of Economic Transformation

Based on the literature, the transformation toward Islamic economics can be understood as a paradigmatic shift from a value-neutral, market-centred system to a value-based, ethically grounded economic framework. The conceptual framework of this study is structured as follows:

1. Input (Problem Identification):
 - a. Critiques of neoclassical and capitalist economics
 - b. Issues of inequality, financial crises, environmental degradation, and moral decline
2. Process (Transformation Mechanism):
 - a. Reorientation of economic thought from positive-only to an integrated positive–normative approach
 - b. Adoption of Islamic economic principles (adl, tawazun, maslahah, rabbaniyah)
 - c. Institutional transformation through Islamic financial systems and social finance instruments
3. Output (Expected Outcomes):
 - a. Achievement of social justice and equitable wealth distribution
 - b. Sustainable economic development
 - c. Holistic human welfare (material, social, and spiritual well-being)
4. Outcome (Long-term Impact):
 - a. A balanced economic system that integrates efficiency with ethics
 - b. Strengthened resilience against financial crises
 - c. Inclusive and just economic order

This framework highlights that economic transformation is not merely technical or institutional but involves a fundamental shift in values, behaviour, and policy orientation. The integration of ethical principles into economic systems is essential to address the shortcomings of conventional paradigms and to achieve sustainable and inclusive development.

**Picture 1. Conceptual Framework
Economics Transformation Toward Islamic Economics**



RESEARCH METHOD

This study employs a qualitative research design using a systematic literature review (SLR) approach to examine the transformation of economic paradigms from neoclassical and capitalist systems toward Islamic economics. The method is chosen to synthesize existing theoretical and empirical studies, enabling a comprehensive and critical understanding of the evolution, challenges, and prospects of Islamic economics as an alternative framework.

The research adopts a descriptive-analytical approach, which focuses on interpreting and critically evaluating scholarly literature rather than collecting primary data. This approach is appropriate for identifying patterns, theoretical gaps, and conceptual linkages between neoclassical critiques and the development of Islamic economics (Snyder, 2019).

The data used in this study are secondary data derived from credible academic sources, including peer-reviewed journal articles, academic books, and seminal works in economics and Islamic economics; institutional reports from the Islamic Development Bank and the World Bank; conference proceedings; and policy papers. The literature is limited to publications between 2000 and 2024 to ensure relevance and contemporaneity, while still incorporating seminal classical works.

The literature search was conducted using major academic databases, including Scopus, ScienceDirect, SpringerLink, and Google Scholar. Keywords applied in the search process include: "neoclassical economics critique," "capitalist economy," "Islamic economics," "economic transformation," "social justice," and "ethical economy."

The selection of literature follows specific inclusion criteria, relevance to the topic of economic transformation and Islamic economics, published in reputable journals, books, or indexed proceedings, providing theoretical, conceptual, or empirical

contributions. Exclusion criteria include non-academic sources, duplicate publications, and studies lacking methodological clarity.

The study utilizes qualitative content analysis and thematic analysis to interpret the collected data. The analysis process consists of the following stages: Data reduction – selecting and categorizing relevant literature; Data display – organizing findings into thematic clusters such as critiques of neoclassical economics, Islamic economic principles, and transformation processes; Conclusion drawing and verification – synthesizing insights to develop a coherent conceptual framework. A comparative analysis is also applied to contrast the assumptions, mechanisms, and outcomes of neoclassical and Islamic economic systems.

RESULT AND DISCUSSION

Synthesis of Key Findings

The literature review reveals a consistent pattern of criticism toward neoclassical economics, particularly regarding its inability to ensure equitable welfare and sustainable development. The dominance of market-based mechanisms and the assumption of rational, self-interested individuals have contributed to structural imbalances, including widening income inequality, marginalization of vulnerable groups, and recurring financial crises (Stiglitz, 2010; Piketty, 2014).

Empirical and theoretical studies indicate that the value-neutral stance of neoclassical economics has led to the exclusion of ethical and moral considerations in economic decision-making. As a result, economic systems tend to prioritize efficiency and profit maximization over social justice and environmental sustainability (Daly & Farley, 2011). This finding supports Chapra's (2000) argument that the failure of conventional economics lies in its detachment from normative values and its overemphasis on material outcomes.

Furthermore, the recurrence of financial crises—ranging from the Great Depression to the 2008 global financial crisis—demonstrates the inherent instability of financial systems driven by speculative activities and excessive credit expansion (Stiglitz & Greenwald, 2002). These crises not only disrupt economic growth but also exacerbate social inequality and economic vulnerability.

The literature reveals a fundamental divergence between neoclassical and Islamic economics at the level of ontology, epistemology, and policy implications. Neoclassical economics is grounded in methodological individualism and assumes that rational agents maximize utility within efficient markets. In contrast, Islamic economics adopts a value-based and holistic framework, where economic behavior is guided by ethical norms, social responsibility, and accountability to God (Chapra, 2000; Asutay, 2019).

From a goal-oriented perspective, neoclassical economics emphasizes efficiency and wealth maximization, whereas Islamic economics prioritizes *falah* (holistic welfare), which includes material, social, and spiritual well-being. This distinction has significant implications for how economic success is measured. While conventional

systems rely on indicators such as GDP growth, Islamic economics incorporates distributive justice, social equity, and moral outcomes (Dusuki & Bouheraoua, 2021).

In terms of resource allocation mechanisms, neoclassical economics relies predominantly on market forces. However, the literature shows that this reliance often leads to market failures, particularly in the presence of externalities, asymmetric information, and unequal power relations (Stiglitz, 2019). Islamic economics, by contrast, introduces a dual-filter mechanism, combining market allocation with moral screening. This ensures that economic activities not only meet efficiency criteria but also align with ethical and social objectives.

The findings confirm that neoclassical economics exhibits several structural weaknesses. First, its value-neutral assumption creates a disconnect between economic decisions and their social consequences. As highlighted by Raworth (2018), this detachment has contributed to ecological crises and unsustainable consumption patterns. Similarly, Piketty (2020) demonstrates that unchecked market systems tend to concentrate wealth, exacerbating inequality.

Second, the dominance of mathematical formalism has reduced the practical relevance of economics. While quantitative models enhance analytical precision, they often oversimplify complex socio-economic realities. This critique aligns with Kuttner (1991), who argues that economics has become increasingly abstract and detached from real-world policy needs.

Third, the instability of financial systems under neoclassical frameworks is evident in recurring economic crises. The expansion of speculative financial instruments and excessive credit creation has led to systemic vulnerabilities (Stiglitz & Greenwald, 2002). These crises disproportionately affect lower-income groups, reinforcing structural inequality.

Finally, the assumption that self-interest automatically leads to social welfare is empirically weak. The literature indicates that conflicts between private and social interests are common, particularly in contexts involving environmental exploitation and monopolistic practices. This undermines the core premise of *laissez-faire* economics.

Islamic Economics as a Holistic Alternative

The findings show that Islamic economics provides a comprehensive framework that integrates economic, social, and ethical dimensions. Unlike neoclassical economics, Islamic economics does not separate positive and normative aspects but combines them into a unified system guided by moral values (Chapra, 2008; Asutay, 2012).

The principles of *adl* (justice), *tawazun* (balance), and *maslahah* (public welfare) serve as the foundation for economic activities. These principles ensure that economic development is not only efficient but also equitable and socially responsible. The concept of *falah* (holistic welfare) further broadens the objective of economics beyond material prosperity to include spiritual and social well-being.

A key contribution of Islamic economics is the introduction of a dual-filter mechanism in resource allocation. The first filter is moral, which aligns individual

preferences with ethical values, while the second filter is the market mechanism. This approach addresses the limitation of neoclassical economics, which relies solely on market forces and assumes harmony between self-interest and social interest.

Additionally, Islamic economic instruments such as zakat, waqf, and profit-and-loss sharing systems play a significant role in redistributing wealth and reducing inequality. These mechanisms provide institutional support for achieving social justice, which is often lacking in conventional economic systems.

Islamic economics addresses these limitations by embedding ethical, social, and institutional dimensions into economic analysis. Its core strength lies in the integration of normative and positive elements, rejecting the dichotomy that characterizes neoclassical thought (Chapra, 2008).

One of the most significant contributions is the emphasis on social justice and redistribution. Instruments such as zakat, waqf, and profit-and-loss sharing mechanisms provide institutional solutions to inequality. Empirical studies suggest that these mechanisms can enhance financial inclusion and reduce poverty when effectively implemented (Jedidia & Ghroubi, 2024).

Another strength is the promotion of sustainable and responsible economic behavior. By prohibiting exploitative practices such as *riba* (interest) and excessive speculation (*gharar*), Islamic economics reduces systemic risk and promotes stability. This aligns with contemporary calls for ethical and sustainable finance.

Furthermore, the incorporation of moral values into individual behavior creates a self-regulating system that reduces reliance on external enforcement. Religious and ethical accountability can mitigate issues such as moral hazard and opportunistic behavior, which are prevalent in conventional systems.

Transformation Process: From Paradigm to Practice

The transformation toward Islamic economics is identified as a multi-stage process involving paradigm, institutional, and behavioral changes. The first stage focuses on reconstructing the fundamental assumptions of economics by integrating ethical and human values into economic thinking. This stage is critical, as the paradigm determines the direction of policy and practice.

The second stage involves institutional transformation, including the development of Islamic financial systems and the restructuring of economic policies to align with Islamic principles. However, the literature indicates that many Islamic financial institutions still operate within conventional frameworks, limiting the effectiveness of the transformation (Asutay, 2012).

The third stage emphasizes behavioral transformation, where individuals internalize moral values in their economic activities. This includes balancing self-interest with social responsibility and promoting altruistic behavior. The integration of moral values is essential for ensuring that economic systems function in a just and sustainable manner.

Discussion: Challenges and Critical Issues

Despite its conceptual strengths, the implementation of Islamic economics faces several challenges. First, there is a conceptual gap between theory and practice. Many

Islamic financial products replicate conventional instruments, raising concerns about their authenticity and compliance with Islamic principles.

Second, the dominance of neoclassical economics in education and policymaking creates structural barriers to transformation. As noted by Kuttner (1991), the emphasis on mathematical modeling and abstraction has reduced the relevance of economics to real-world problems. This condition makes it difficult to introduce alternative paradigms into mainstream discourse.

Third, there are institutional and regulatory challenges, including the lack of standardization and coordination among Islamic financial institutions. These issues hinder the scalability and effectiveness of Islamic economic systems.

Fourth, the transformation requires a cultural and behavioral shift, which is inherently complex and time-consuming. The internalization of ethical values cannot be achieved solely through policy interventions but requires changes in education, social norms, and individual consciousness.

Implications for Economic Development

The transformation toward Islamic economics has significant implications for economic development. Integrating ethical values and social justice into economic systems, it offers a pathway toward more inclusive and sustainable development. The emphasis on redistribution, social welfare, and moral responsibility can help reduce inequality and strengthen social cohesion.

Moreover, the integration of moral and market mechanisms enhances the resilience of economic systems, reducing the likelihood of financial crises. This aligns with the broader goal of achieving a balanced and stable economic system that serves the interests of all members of society.

The comparative analysis suggests that neither system is entirely sufficient in isolation. While neoclassical economics provides useful analytical tools for understanding market behaviour, it lacks ethical depth. Conversely, Islamic economics offers a strong normative foundation but faces challenges in practical implementation.

Therefore, the transformation toward Islamic economics should be understood as a process of integration and reconstruction, rather than total replacement. This involves: reframing economic objectives toward human welfare and social justice, integrating ethical considerations into policy and market mechanisms, strengthening institutions that support redistribution and social finance, and reforming economic education to include pluralistic perspectives.

Such an approach aligns with the growing global movement toward inclusive, ethical, and sustainable economic systems, where efficiency is balanced with equity and moral responsibility.

CONCLUSION

This study demonstrates that the dominance of neoclassical economics has contributed to persistent socio-economic challenges, including inequality, financial instability, environmental degradation, and the erosion of moral values in economic behaviour. The core assumptions of neoclassical economics—particularly its emphasis on rational individualism, market supremacy, and value neutrality—have limited its ability to achieve equitable and sustainable welfare. As a result, economic systems shaped by this paradigm often prioritize efficiency and profit maximization at the expense of social justice and collective well-being.

The literature review and comparative analysis reveal that Islamic economics offers a comprehensive alternative framework by integrating ethical, social, and economic dimensions. Grounded in principles such as *adl* (justice), *tawazun* (balance), *maslahah* (public welfare), and *rabbaniyah* (divine orientation), Islamic economics redefines the objective of economic activity toward the realization of *falah*, or holistic human welfare. Unlike neoclassical economics, Islamic economics does not separate positive and normative aspects but combines them into a unified system that ensures economic decisions are aligned with moral and social values.

The process of economic transformation toward Islamic economics is not merely institutional but fundamentally paradigmatic. It involves reconstructing the basic assumptions of economic thought, reforming policies and institutions, and fostering behavioural change among economic actors. This transformation requires the internalization of ethical values, the development of supportive institutional frameworks, and the reorientation of economic education toward a more holistic and value-based perspective.

However, the study also identifies several challenges that hinder the realization of this transformation. These include the persistence of conventional economic frameworks within Islamic financial practices, limited standardization and regulatory support, and the complexity of achieving cultural and behavioural change. Therefore, the transition toward Islamic economics must be carried out gradually and systematically, integrating theoretical development with practical implementation.

In conclusion, Islamic economics provides a viable and relevant alternative to address the shortcomings of neoclassical economics, particularly in promoting social justice, sustainability, and inclusive development. The success of this transformation depends on the ability to bridge the gap between theory and practice, strengthen institutional capacity, and embed ethical values within economic systems. Future research is recommended to explore empirical validation of Islamic economic models and their impact on socio-economic outcomes in different contexts.

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