

Comparative Study of Epistemological Principles of Islamic Economics and New Institutional Economics

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Abstract

The epistemological study of economic schools can help recognize goals, strategies and policies and the way they confront the economic challenges. The present study considers the epistemological principles of Islamic economics and new institutional economics with a comparative approach. The results show that both Islamic economics and institutional economics have ideological and moral orientations. But these values in Islamic orientation are based on monotheistic episteme, while new institutional economy has earthly and humanistic origin. Also, of the parameters of the new institutional epistemology is the evolutionary nature of economic affairs while in Islamic economy merely the variable elements have evolutionary nature. Finally government is an influential institution in both Islamic and institutional economics, but the range of interference of Islamic government in economy is broader and it has rather a role of trusteeship and protector of resources. This paper described the epistemological study of economic schools which reveals the points of difference and similarity between them.

Key Words: *New Institutional Economics, Islamic Economics, Principles of Epistemology.*

Introduction

Comparative¹ studies is of great significance in humanities in general and in the domain of economics in particular. Considering the major role of methodology in conducting researches and studies and due to the point that "epistemological analysis of economic parameters is a starting point that leads to methodological considerations" (Tavakkoli, 2010, p.74). The present research comparatively studies the epistemological principles of Islamic economics and new institutional economics. In fact, it is aimed to find out "which economic school is more efficient and realistic in analyzing economic issues." (Motavasseli and Mashhadi Ahmadi, 2010, P6). Here we define epistemology as "indicating specific and basic codes, values, and considerations which are indicative of cognitive behavior of the two institutional and Islamic economic schools. In fact, epistemology defines the cognitive tools on whose basis; social operators frame their realities and actions. Therefore, it shapes the necessary part of the economic activities." (Kallinikos, 1994, p.120). In other words, epistemology refers to cognitive and perceptual patterns.

¹ Comparative study is a kind of method of consideration in which the phenomena are put together and analyzed in order that find the points of difference and similarity are found.

The importance of this research is in clarifying the similarities and differences between the two economic schools in heterodox economic bloc and that consideration and analysis of these similarities and differences can revolutionize the domain of economics and lead to better analysis of economic issues for the researchers. This research aims at epistemological analysis of similarities and differences between the two Islamic and institutional economic schools and finding a common ground between them to pave the way for Economic development. By conducting a comparative research with a library method, the epistemological domains of the two economic schools mentioned above are, considered.

The present article is organized in six chapters: after the introduction, existing research literature about Islamic economics and new institutional economics is discussed. In the third chapter, institutional economics is introduced. In the fourth chapter, Islamic economics is considered. Chapter five expresses and analyzes the points of similarity and difference of the two schools. Summary and conclusion are discussed in chapter six.

Literature Review

Early institutionalism can be identified as a current influenced by the historical school which is believed to be emerged with the Veblen's article in 1898 with the title "why is economics not an evolutionary science?" Before World WarI, Institutional economics was regarded as an American intellectual movement. Veblen (1875), Commons (1862) and Mitchell (1876) are the founders of this school. Social transformations and economic turmoils and political efforts which the United States went through in the last quarter of the 19th century caused the American thinkers to question the capability of the traditional teachings in analyzing the ever-changing situation. Institutionalists believed that the new classical economics has no credibility for analyzing and explaining the industrial system due to patterning after Newton mechanics. They believed that economic analysis should be compatible with the cultural and social conditions of the society to which the new classical economics was indifferent. After the end of World WarII the early institutionalism started to wane but because of the weakness of the conventional economic theory in presenting a universal theory about all different aspects of development and underdevelopment, it was reintroduced in a new format in 1960's. In the new format, institutionalists accepted part of the principles of the new classical theory and abandoned some other parts. Thus, a new chapter was opened in the analysis of social and economic issues (Moini, 1998, 120-121).

About the historical background of the Islamic economics it must be said that its onset goes back to the time when liberation movements in developing countries and especially Islamic countries were shaped and the thinkers of these countries willed to resist against the penetration of various cultures, beliefs and values by relying on Islamic teachings. They believed that Islam has economic system as well as social and cultural systems. Therefore, efforts to prove that Islamic economics exists intensified. Thus the history of Islamic history is as old as Islam, although the title is new (Mesbahi and the others, 2000, 206). There are three approaches about the nature of Islamic economics; the first approach is that the essence of Islamic economics is similar to Islamic trading jurisprudence and Islamic economics is not something more than the consequence of utilization of Islamic jurisprudence. The theory of Islamic economics would be the application of jurisdiction principles and code of ethics in issuing religious orders in conventional economy. The second approach is the methodological pluralism of Islamic economics and it believes that Islamic epistemology recognizes multiple sources of science. Islamic tradition of economy is always free of formalism and has been centered on meanings and objectives by using a flexible methodology and is suitable to help realize the economic interests and outlooks for a good life. The third approach is the project of Islamization of methodology of economics and that is when scientists seek to create interaction between the main current of economy and Islamic principles and to merge them with together and vice versa. Islamic economics can benefit from modern economics in the process of developing body of knowledge, its interplay, merging and integration, but Islamic economy should be creative and objective. While it is required for Islamic economics to have interaction with conventional economics and this interaction is

necessary for the development of Islamic economy, the method of this interaction, evaluation and justification criteria and also Islamic foundation and basis as a benchmark in this interaction should be clearly specified (Forghani and Hanif, Bitar, 1-10). It must be noted that although there are separate compilations in the realm of Islamic economics and institutional economics but there has been no research into comparative study of these two economic schools. Comparative studies conducted compare the Islamic economics with conventional economics. Willem Trommel and Romek Van Der Veen (1997) consider the relationship between sociology and institutionalism in an article with the title "Sociological Perspective on Institutions and Neo-institutionalism", and point to four approaches in the regard. They also take account of multiple aspects of institutionalism, the relationship between modernization and institutionalism, and challenges of new institutionalism. They conclude that both institutionalism and sociology are a response to the problems arising from modernization of economy.

H. Röbbken (2004) in an article titled "Organizations and Organizational Environments: New Institutionalism" considers the whys and wherefores of new institutionalism, its origins, different aspects of new institutionalism approach and finally the restrictions of new institutionalism.

Dragan Petrovic and Zoran Stefanovic (2009), in an article with the title "Methodological Position(s) of Institutional Economics", consider the goal of institutional economics as increasing the real perception of economic phenomenon. They believe that methodological orientation of institutional economics has been briefly formed and merged the holistic thought with the evolutionary methodology approach.

Sylvain Rossiaud and Locatelli Catherine (2010) in a research titled "Institutional Economics" seek to expand the standardized framework of different levels of analysis of institutions which new institutionalism is based on. They concluded that the new institutionalism make the division of economic favoritism and reduction of prices interpretable. In other words, institutional framework in organizations motivates them to change their measures in production and exploration.

Thráinn Eggertsson (2013) in a research titled "Quick Guide to New Institutional Economics" writes: new institutional economics provides a theoretical framework for system of economy. It follows with strength and weakness points of new institutional economics, policy meaning and its future usage. He believes that the gap between productive regulations and the common institutions has caused the shaping of new institutionalism approach. Some of the researches about institutional economics and Islamic economics carried out in Iran are as below:

"Methodology and Epistemology of Islamic Economics" is the title of an article by Yadollah Dadgar (2000). The author believes that outlining the fundamental bases of Islamic economics causes clarification of studies and increasing their efficiency. In chapter one he outlines the methodology of Islamic economics. Eivazlou (2000), in an article titled "Methodological Principles and Structure of Scientific Theories of Islamic Economics" believes that any remark on methodology of Islamic economics depends on positioning about existential reason of Islamic economics. He considers the dimensions of the influence of ideological judgment on economic theories and also characters of the ruling philosophy on economics in Renaissance era. He also brings up the main problem and scourge of the science of Islamic economics and presents solutions for it. Motavasseli (2002) has translated an article titled "The New Institutional Economics: Taking Stock and Looking Ahead" compiled by Oliver Williamson. The author admits that the information on institutions is very little, although the last quarter of the century has witnessed various developments in the study of institutions and recommends that to reach a single theory we should embrace pluralism. He concludes that the new institutional economics is a small and capable engine and its best days are on the way. Aboujafari (2006) in a research titled "Survey of Institutional Economics and Study of Islamic Economics"- which is the closest research to the present article -presents frameworks for analysis of issues of Islamic economics, considering only experiences of institutional economics; of course comparative study of these two schools is not his concern. Mashhadi Ahmad (2013) in an article with the title "The Meaning of Institution in Institutional Economics, a Look at the Differences Between the Early

Institutionalism and the New Institutionalism and the Role of Institutions in Economic Relations” believes that the study of institutions and therefore institutional economics is vital and inevitable. He considers the expression of process of appearance and evolution of institutions as one of the major problems of new institutionalism and presents a new classification of new institutionalists’ shortcomings and analyzes the factors which caused predecessors of economics to neglect the role of institutes. Considering the above literature review in internal and foreign studies, there has been no epistemological comparative research between institutional economics and Islamic economics. Loss of such a study made us compose this article. The innovation of this research is in expressing points of difference and similarity in these two schools with an epistemological approach.

Research Questions

The main research questions are: What epistemological principles do the Islamic economics and new institutional economics follow? What are the differences and similarities of the epistemological principles of these two schools?

The Main Hypothesis

In this regard the following hypothesis is tested:

Islamic economics and new institutional economics have specific epistemological principles, but they follow their particular systemic and ideological orientation.

Theoretical Framework

New Institutionalism

Institutionalism emphasizes on the role of economic, social and political institutes in determining economic events. “Institutes are the rules of the game in society; to put it thoughtfully, they are constraints which are established by mankind and shape the mutual relationships of human beings. Thus, institutions cause the latent motivations in human interchanges to get structured, whether these interchanges are political, economic or social. Institutional changes specify the direction of human societies; therefore, they are considered to be the key to understand historical changes” (North, 2006, p.19). In fact every instrument and solution that causes to solve one of the problems of humans is an institution. According to this deduction, money, as an example is an institute because facilitates the problems related to exchanges. Institutes influence both choice of people and relationship with each other. Entrance of institutions into economic analyses causes the basis of economic knowledge to be ordered based on humans’ relationship with each other, not the relationship between human and commodity, as it is usual unconventional economics. “On the one hand, institutions accept individuals’ perceptions and expectations; on the other hand they are confirmed by them. In other words, on one side institutes are generators of perceptions and expectations, on the other side they are generated from them. The existence of institutions causes the welfare of a factor or agent to improve without any damage to others’ welfare and allows it to achieve a higher level of its goals in a certain range” (ibid, p.340). New institutionalism has been identified with the names of James March (1928) and Johan Olsen (1939). They emphasized on the role of the individual in political choice and widely tended to intellectualize the individual as an independent actor. From this perspective, the issue of structure, broker and interpretation of values of institutions has been solved and the basis of behavior in institutions is normative instead of suppressive and is more influenced by existing values in organizations rather than being guided by official specific roles of members of institutions. Londs enumerates six characteristics for the new institutionalism: 1) focus on organization changes to focus on regulations 2) formal concept of institution changes to informal concept 3) static concept of institution changes to dynamic concept 4) latent values convert into value – critical position 5) holistic concept of institution replaces the

concept of discontinuity 6) independency changes to merging (Haghighat, 2008, p.142-148). On the other side, "various kinds of new institutionalism differ in explaining the origin, continuity and changes of institutions, but they have common concerns and axioms which all institutions focus on them (J.vijge, 2013, 156). Although institutions are generated from human perceptions, but cannot be reduced to a certain number of individuals, and group behavior should be focused on, instead of individual behavior. "New institutional economics arises out of individual actions but cannot be reduced to a number of individuals due to their independent existence. Analyses in new institutional economics don't begin with mathematical methods, but they begin with stylized facts and theoretical constructions which include causal mechanisms, mathematical and statistical methods are used merely as a tool not as a necessity in economic analysis. Institutional economics also uses experiential and historical materials which refer to social and economic institutions. In actual fact, institutional economics begins with general parameters about behavior of human and institutions and evolutionary nature of economic processes" (Petrovic, Stefanivic, 2009, 111). New institutional economics seeks to increase efficiency by reducing uncertainty and encouraging individuals in investment. The zenith of new institutional economics is development of a functionalist approach to institutions. The formal section includes rules and regulations and the informal one includes culture and cognitive and social processes. The purpose of functionalism in new institutional economics is firstly reducing doubt and uncertainty – rules either formally or informally can decrease doubt in the environment – the second role of functionalism is that they define the structure of motivation of societies and social systems (Rossiaud, Locatelli, 2010, p.3-4). In this regard, Williamson says: by correcting individuals' cognition, different learnings and their Verisimilitude, we should motivate people to invest in efficient technologies, increase their skills and organize efficient markets: such incentives are embodied in institutions. "Students of new institutional economics avoid Hypothetical ideals, keep away from infinite knowledge, absolute philanthropy, costs of zero transaction, full credit and etc. Instead, they work with effectual organizational alternatives which all are insufficient and defective (Williamson, 2002, p.16). Therefore, new institutionalism, in comparison with early institutionalism puts more emphasis on the role of human and normative behavior. In this school individuals are given and institutions deliberately impose restrictions on the behavior of individuals and guide their motivations.

"In institutional economics, it is assumed that human information is imperfect, they have limited mental capacity and face venture and risk in their interchanges with each other. To reduce risks and costs they devise codes, contracts and norms in order to make the risks more predictable" (Bidollahkhani, 2012, p.112). It should be noted that imposing these restrictions doesn't completely deny the authority of humans. The characteristic of the new institutionalism approach is that it considers the influence of institutions as limiting factors of human behavior; in the meanwhile, it takes account of a determined range for freedom of human behavior which is referred to it as imperfect rationality" (Naeb, 2011, 145). Institutional economics focus on conflict of interests and visible hands of institutions instead of coordination of interests and invisible hands of institutions. "Individuals make decisions based on mental models; these models differ from person to person and the information that these actors receive is so incomplete that no indication of convergence or tendency for these contrasting models to a single model can be seen" (North, 2006, P42). Also institutional economics takes account of linking the past and the future. In actual fact economic issues have evolutionary process. "New institutionalism does not consider the economic future and development of societies as a future with unlimited choices, and by presenting concepts such as path dependence and increasing efficacy of institutional matrix seek to demonstrate that without the knowledge of the economic past (history), it's impossible to improve the economic performance" (Naeb, 2011, p.146). Institutionalists emphasize on the active role of government and believe that institutions such as property rights and ethical codes play fundamental role in economic developments. These teachings of institutionalism, introduce it as a real-life school. Finally, "new institutionalism as a way of analyzing the behavior of societies is not a definitive solution and does not attract all social and economic thinkers" (ibid, p.152).

Islamic Economics

All Islamic teachings are based on revelation. Thus, the Islamic economics is established upon Revelatory philosophy of life. In fact, the philosophy of Islamic economics is derived from philosophy of life, because economy in Islamic philosophy is one of the aspects of human life and is not in the spotlight of all activities. Therefore, philosophy of Islamic economics is based on some principles: 1) "Monotheism", the comprehensive concept that suggests the absolute obedience of human to the unique God who is "Creator", "Provider", "Owner of the kingdom", "Knowing", "knower" and "Mighty". 2) "Prophecy", means presenting guidance in the form of The Tradition and transferring it to the human. 3) "The afterlife", means the reckoning of human deeds and actions including economic activities and taking punishment of the deeds in an immortal life. 4) Economic and non-economic welfare in order to achieve an appropriate life, to do Islamic social duties in this world and to gain a lodge and favor in hereafter. Among these indices, the last index provides a framework for economic achievements; the first and the third indices suggest that all economic activities have to be in complete accordance with Islamic values and norms which are received by revelation. Every research in Islamic economics should be based on these principles (M. Sadegh, Ghazali, 2006, p.29). Islamic economics is based on the fact of God's revelation. In addition, it makes use of historical realities of human life. Economic teachings of Islam should be discovered and deducted from Islamic teachings. For this purpose "Islamic economists should discover all components forming the system in the form of a coherent and compatible whole.

The method of discovering is similar to that of the theories and general laws in Islamic Jurisprudence, some of which are found in Quran and The Tradition, and some others are to be deducted from verses and narrations in different aspects (Kahf, 2006, 158). In this regard, Islamic jurisconsults and philosophers should have interaction with each other. In addition, Islamic economics has an independent pattern and the collection of epistemological, ideological and methodological components are inseparably relevant in the whole Islamic system. It must be noted that firstly, Islamic economics has ideological and systemic orientation; secondly, Islamic economics can both take advantage of and have a role in deepening the traditional economics, thirdly, it can attempt to extract economic theory of Islam by different methods, but by common aims, basics and principles, fourthly, it can be proved that the relationship between components of Islamic economics pattern is systematic and causal. Finally, it can be said that, on the one hand, there is a background of criticism and revision, on the other hand, considering the feature of diligence, this pattern possess a particular level of dynamism (Dadgar, 1999, 15, 16).

Thus, Islamic economics is a school and an autonomous system. The term "system of Islam's economy" is meant the collection of arrangements, frameworks and institutions which lead the economic affairs and determine the quality of the required coordination, considering the objectives and principles of Islam school (ibid, p.50). In addition to some invariable components, Islamic economics has some variable components as well, which are changeable in accordance with time and place conditions. Islamic economics emphasizes on the link between motivations of individuals and religious economic values of Islam. "Although we care about individual interests and motivations in Islamic economics, but they are taken into account according to the ideological and religious ties. In other words, the least "desired form" of the individuals are visualized as those who are adherent to the values of Islamic economics. For this reason, in Islamic economics human is not always known a suitable judge to diagnose his own good, as he is fallible. Thus, the desirability of individuality is defined considering the Islamic and religious values (ibid, p.83). Therefore, in Islam, the human without values is not a suitable judge to diagnose his own good in economy and non-economy. In addition, as the human is fallible and does not have a leading infinite wisdom, it is necessary not to cut his connection with revelation, and take advantage of it alongside his wisdom. Islam takes account of both human and society, but in juridical terms gives priority to the society over human. Human adherence to Islamic principles, codes and values guarantees his meaningful and long-term freedom to continue.

Comparative Consideration of the Most Important Epistemological Components of the two Economic Schools (Analysis and Discussion)

Having Ideological Basis and Ethical Background

Similarity: both institutional and Islamic economics have ideological and ethical orientation and background, normative and ethical patterns are the most important instruments on whose basis the two schools identify the world functions according to them. "Most of the thinkers of the new institutional economics consider the social norms as a significant component in institutional changes" (Eggertsson, 2013, 3). "Islamic resources including Quran and The Tradition emphasize that economic behavior of human should be within the framework of norms, ethical values and behavioral patterns which the Quran and The Tradition describe" (Kahf, 2006, 159). Of course this does not mean that these two economic systems lack demonstrability aspects, but it means that the ideological and ethical aspects are more highlighted and notable in comparison to demonstrability aspects. In actual fact, neither the institutional economics nor the Islamic economics has numerical and mathematical epistemology. The method which was employed to research, analyze and express their economic theories contains ideological and ethical background. The new institutional economics provides a theoretical framework for comparative economic systems" (Eggertsson, 2013, 1) as "the Islamic economist by designing a theoretical pattern and an abstract model, and based on Islamic economics school demonstrates that by institutionalization of Islamic principles and relations in society, the goals of Islamic economics are obtainable (Eivazlou, 2000, 156).

Difference: values of Islamic economics are based on monotheistic episteme and have a revelatory background, while values and ethics of institutional economics are not necessarily religious and revelatory. In addition, the establisher of codes and institutional values is the human. Values and ethics suggested in institutional economics have earthly and humanistic origins, but the establisher of values and codes of Islamic economics is the holy lawgiver. These laws are derived from the holy book and have divine origin. Thus, "institutions legitimize and justify the values and normative evaluation processes. In fact, institutions confirm their own moral legitimacy and either right or wrong represent themselves as morally justified" (Motavasseli, 2005, 340). But in Islamic economics values and economic (or non-economic) normative evaluation processes take their legitimacy from the eternal divine power of God Almighty. They are intellectually right; their justification is based on revelation and conformity to wisdom. Moreover, institutions are values and constraints created by human and suggest the relationship between humans. "All institutions contain actions and reactions between the actors. In actual fact, interaction between various actors is within the framework of the institution which is formed and consolidated. On the one hand, institutions accept individuals' perceptions and expectations; on the other hand, they are confirmed by them. In other words, on one side institutes are generators of perceptions and expectations, on the other side they are generated from them. But the codes and values of Islamic economics suggest the relationship of the humans with each other and also the human with the God. In fact, the goal of these two schools is the human and his excellence, but in Islamic economics granting him full independence in economic legislation is not accepted.

Individual Authenticity or Collective Authenticity

That if the individual influences on the society, or vice versa, is one of the significant epistemological components which is notable in both the institutional and Islamic economics schools. From an economic perspective, individualism means that "a free person in economics follows his/her benefits, acts consciously and tactfully. Thus, whatever limits his freedom is rejected (Rabbani, 2000, 142). The holistic perspective means that the actions of an actor is affected and restricted by society. One of the main features of institutionalism is its holism. In institutionalism school the range of intellectuality and the authority of the economic human are limited. The desired human of new institutionalism is bounded by time and location. Therefore, this school lacks an individualistic methodology. Of course this does not completely reject the

authority of human and does not turn him into an obliged creature but within the institutions, there is still a determined range defined for free behavior of human. Within these institutions, the actions of the individuals and social forces interact with and influence each other. Individuals and the actors are the core, however, the actions are not originated from the inherent tendencies and inclinations, but they are originated from common intellectual habits in society (Kitanović, Petrović, 2008, 1-13). In addition, institutionalism emphasizes on the collective values in order for successful organizational forms to be created and for the conflict over the interests of different groups to be reduced. Furthermore, from the viewpoint of Islamic economists, individualism is rejected because the human has intellectual restrictions and limitation on choice and authority. The human as conditional creature, cannot have unconditional and unlimited intellect and authority. "From Islamic perspective, the human is not able to recognize his best good. Only the God is absolute knower. Human insight is imperfect. Thus, he requires guidance" (Eivazlou, 2011, 402). Rejecting individualism does not mean to accept absolute holism, but in Islamic economics theory both individual and collective are taken into account. In Islamic economics neither the authenticity of the individual nor the collective is approved, but they have a compatible interaction with each other. Although, in case of conflict over interests of the individual and the collective, the priority is given to the interests and rights of the collective. This tendency towards community is a matter of instrument not target. In Islam hereafter perfection and well-being of human has priority over the worldly interests and advantages. Giving preference to interests of the collective is in order to facilitate the process of worldly advantage and hereafter perfection.

Evolutionary Nature

Similarity: considering the character of variability of tastes and preferences of individuals and also evolvability of human knowledge, institutional economics and the part of Islamic economics which is the outcome of humans' interpretation and perception of Islamic resources, are of evolutionary nature. "institutionalists are in favor of evolutionary nature of social, political and economic issues. Accordingly, they believe that economic generalizations should specifically appertain to a determined time and place, because they are evolving and not considered unchangeable" (Dadgar, 2013, p.259). According to this perspective, taking account of change in taste and motivation of individuals and prior to it, change in institutions, it should be avoided presenting general and universal rules which are not limited to specific time and place. "Institutions transform and the basic changes in relative changes are the most important origin of this transformation, the only other source of these changes are alterations of tastes" (North, 2006, p.136). Some of the components of Islamic economics which were previously called variable components also have changeable and evolutionary nature. In actual fact, although principles and basics of Islam are permanent and invariant, it's not that most of the instructions and ways of living which are common among humans and the religion concentrates on them are permanent and invariant. In Quran most of the orders and emphases relating to economic issues, business and determination of prices pertain to specific time and place, and are not invariant and permanent.

Difference: generally, it can be said that human thoughts are historical phenomena which have been formed over time, they were nonexistent, then were created, after a while they vanish and are replaced by newer thoughts. But revelatory religion which is established upon monotheism is permanent. Thus, Islamic economics is based on religion and revelation. "it's designed based on discovery not genesis and establishment" (Research Institute of Hawzah and University, 2013, 63), *its core, origin and base would not change, but human's deduction about and perception of it and its secondary aspects would transform and improve over time and its manifestation can be observed in economic analyses and modeling. In fact, economic orders and codes of Islam are inherently complete, comprehensive and invariant, but human perception of them transforms. However, institutional economics is intrinsically variable, because it's designed based on genesis and establishment. "Groups and organizations create, preserve and change institutions in interaction with external forces" (Zarei, 2013, 4).*

The Role of Government Institution

Similarity: government as a source of solving economic problems and helping increase economic efficiency has always attracted the attention of institutional and Muslim economists. Generally, human as a social creature requires discipline and order in his life and in order to avoid chaos and to monitor the implementation of the law, needs to establish government as an implementer of these duties. "institutionalists emphasize on the role of government in resolving economic difficulties. Generally, one of the basic characteristics of the market systems in industrial countries is existence of a strong government which can support the official legal systems that are a complement to common norms, also a government which itself respect the rules and avoid arbitrary measures" (The World Bank, 2006, p.35). Even institutions can be created by governments and communities; they can be official or unofficial. Government can prevent conflicts between various institutions. Tension-free function of institutions requires inspection and if necessary, interference of a superior and upmost force. Thus, government as a legal system can attempt at determination of property rights and arbitration of claims" (Motavasseli, 2005, p. 382). That suggests the significance of existence of government is contrast in interests and conflict of tastes. "institutional school defines human as a social and participatory creature which in order to maintain mutual and common interests with others, attempt to create groups, nevertheless, contrast of the interests compels the government to take action as the balancer of contrasts relating to public welfare and efficient function of economic system" (ibid, p.367). On the other hand, in Islamic school, the government has a superior role which includes inspection of fixed elements domain and inspection of and intervention in variable elements of Islamic economics. "Islamic government also has a wide range of possessions, authorities and duties in economy which provide the possibility of extensive inspection and intervention for government. Regarding fixed economic orders and codes of Islam, government has a role of pursuing and monitoring the implementation of fixed orders and materialization of specific aims of Islamic economics. With regard to variable economic orders and policies, government is responsible for recognition of duties and dictation of terms (Research Institute of Hawzah and University, 2008, p.169).

*Difference: unlike institutional economics, in Islamic economics government does not make laws and regulations, but it discovers them*². From Islam's perspective, God is the real lord and king. That is his legislative determination which is the origin of government's legitimacy. Government in Islamic economics has a more widespread power than that in institutional economics. The range of interference of government in Islamic economics is as following: 1) making (discovering) economic laws and regulations (from Quran and The Tradition). 2) Trading some of the commodities and services. 3) Transfer payments to some groups of the society. 4) Taxation. 5) Seeking to stabilize the economic condition. 6) Informing about useful issues to increase efficiency and setting up efficient and reasonable allocation. 7) Providing general commodities and encountering external consequences. 8) Setting up natural monopolies. 9) Fighting against unnatural monopolies in order to improve welfare of the consumer. 10) Taking measures in order to go out of recession or inflation and seeking to enhance production and foreign balance. 11) Equitable distribution of income. Of course the government should criticize itself and be open to the criticism of the people, the people and the government should reasonably inspect each other, in addition, it should consult experts and critics" (Dadgar, 1999, p.272). Moreover, in Islamic economics there is a peaceful interaction between the government and private sector. Neither the government nor the private sector is the absolute possessor of resources, but they are trustees who owe the duty to exploit the resources in an optimized way in order for protection of individual and society rights.

² Generally, Islamic economics should be discovered, but institutional economics should be created. Therefore, Islamic economics researcher faces with a coherent system which has been previously organized and the researcher should discover it and determine its main dimensions and rules and remove the dust of history from it, eliminate the mistakes accumulated over time and release it from the influence of non-Islamic cultures (Aghanazari, Khatibi, 2013, p.13).

Institution of Ownership

Similarity: both institutional and Islamic economics recognize property rights. Property rights in institutionalists' viewpoint is defined as: "official or unofficial rules determining the limits of individual or group rights over properties (including insiders), individual rights over consumption, earning money and continuity of properties. If property rights is not defined and guaranteed, the success of formal credit market will be questioned" (Motavasseli, 2005, 346). Observance of property rights causes enhancement and improvement of finances and as a result, sustainable economic development. "New institutionalism follows functionalism to define structure of motivation of the communities and social systems especially economists, the approach of property rights is a case which emphasizes on this aspect. In actual fact, the objective is to demonstrate that the impact of structure of property right is the use of resources in a specific and predictable way and manner. Supporters of this theory insist that the structure of property ownership rights influences the motivation and behavior of owners" (Rossiaud, Locatelli, 2010, p.4). The gist of all this is that property right in new institutional economics expresses who should gain what, and when this should happen. Islamic economics recognizes property right. Property right in Islam, on the one hand, paves the way for spiritual evolution of individuals as it provides optional possession of property for them, on the other hand, it causes flourishing of individuals' creativity in economic activities, exchanges and emergence of markets.

Difference: the issue of ownership in Islam is arisen from two moral and social dimensions. From a moral perspective "in Islam, The God is considered the real owner of properties. The concept of "God ownership" is a deep-rooted principle in Islamic economics (Dadgar, 1999, p.232). According to such interpretation on property right, private ownership is ancillary to real ownership of The God and is a symbol of human succession to the God. "Islamic ownership is based on the thought that human is the successor and heir of the God on the earth. Islamic law or Islamic Sharia recognizes property (ownership) rights as a divine creed and munificence" (a group of authors, 2005, p.218). From a social perspective on property right, the God who is the real owner of the world has created the resources and wealth of the world for public use in favor of human beings. Whereas institutional economics based on its own specific world-view does not utilize the property rights in such a wide concept. God ownership is an unfamiliar concept in teachings of institutionalism. The other difference is that Islam in order for eradication of oppression and injustice "opposes with unlimited ownerships and large capitals. Because the reactionary nature of such system cause more expansion of oppression and injustice and this new phenomenon inevitably threatens the existing social system. Thus, all properties must be utilized in accordance to divine criteria" (Sadr, Aboulsoud, 1971, p.46). Therefore, Islamic economics, on the one hand, provides the required motivation for work and effort by recognizing property right, on the other hand, it seeks to reduce oppression and injustice against fellow-creatures, inspire cooperation and collaboration in Islamic society by emphasizing on the succession of human to The God and on the fact that the real owner is The God and individual ownership is within God ownership. Hence, the range of authority of individual owner in Islamic economics is more restricted than that in institutional economics.

Rationality

Similarity: Another point of similarity between institutionalists and Muslim economists is taking account of human rationality on the one hand, and restriction of his intellect on the other hand. From the viewpoint of both Muslim and institutional economists rationality is an effective component in economic activities, but it's not that economic human has complete and unlimited rationality. "New institutionalism possesses peculiarities of the theory of intellectual authority. In other words, new institutionalism idea has considered a free range for human rationality" (Naeb, 2011, p.151). But they also emphasize on this point that human rationality is restricted: "There is a relative coincidence on the idea of limited cognitive competence in institutional economics which is usually called restricted rationality. Consciousness of a resource is limited. Cognitive specialization leads to economizing.

In addition, assuming the cognitive restrictions, complex contracts are inevitably incomplete” (Williamson, 2002, p.15). From Islamic point of view, human is not a know-it-all creature but he is fallible. Thus, when Muslim economists speak about human intellect, they consider its rational restriction and by taking account of human intellect restriction, they address the issues of mental evolution, education, research and technological innovation in order for realization of the goals. On the other side, in both institutional economics and Islamic economics methodological individualism in considering economic rationality, by emphasizing on the rationality restriction of human, balances out and inspires individuals to form groups and exchange information in order to compensate for these shortcomings. This perspective “nurtures a kind of human whose personal interest to be converted from individual personal interest to social personal interest. It is sought that human to be developed to an extent in which heslightly considers the increase in social interests as his own personal interest. In other words, an element of social interest should lie in his utility function in addition to his individual personal interest (Dadgar, 1999, p.256).

Difference: the principle of pursuing personal interest and occasionally worldly social interest plays an essential role in conventional rationality. In this regard Islamic economics takes a further step and spreads the range of interests from mundane benefits to hereafter benefits. In Islamic economics hereafter desirability has a fundamental role in leading economic motivations. “Benefits are not only summarized in this world. Hereafter benefits are also imaginable which should be taken into account. This outlook is formed based on the belief in the hereafter and life after death. A person believing in the afterlife should consider his benefits in the hereafter as well” (Ezzati, 2008, 43). According to Islamic teachings revelation has priority over individual rationality, and a Muslim should seek to resolve the cognitive and rational restrictions with the help of Quran and The Tradition.

Competition

Similarity: institutionalists emphasize on the role of competition on the economic growth. As regards alteration in motivations, Competition leads to increase in efficiency of institutions. “Institutions should cause increase in influence of competitions on domains of power, businesses and individuals. More competition leads to increase in effectiveness of existing institutions, change in motivations and behavior of people and creation of demand for new institutions” (Rossiaud, Locatelli, 2010, p.31). In addition, competition causes economic creativity. “Competition motivates people to equally extend their opportunities. In competitive markets the probability of resources to be used based on profitability of a project not on the political and social relations of an Entrepreneur, is more. [A high] degree of competition leads to stimulation of innovation and economic growth” (ibid, p.38).

On the other side, competition will be in accordance with the spirit of Islamic teachings if it is interspersed with cooperation and collaboration and if it moves in the direction of removing the barriers in the way of development and not in the direction of posing obstacles in the way of others’ development, in this case Islamic economics confirms the concept of competition in this meaning. Therefore, in order to achieve a sustainable and developed society, it is necessary to take account of all aspects of individual and social life and all spiritual and physical needs.

Difference: Islam does not confirm competition absolutely in its general sense if we define it as emulation and overtaking each other by resorting to any means. “Considering Islamic point of view about personal interest and the point that it is directed towards a way to be in accordance with the legitimate interests of others not in contradiction to them, it turns out that Islam denies competition in this sense” (Research Institute of Hawzah and University, 2008, p.149). *Thus, in Islamic episteme, competition has different meaning and definition. If competition does not deny the interests of others, it is a fair competition which is confirmed by Islam, but if it causes mutual trust to be weakened and the spirit of cooperation to be damaged and if it causes chaos and confusion in society, it is rejected by Islam.*

Conclusion

Comparative study of epistemological principles of new institutional economics and Islamic economics suggests the existence of common and different institutions between these two economic domains. Consideration of command economy and emphasis on values, consideration of concept of rationality, property right, the role of government in economics, significance of rationality and the role of competition in development of economics are the points of similarity between the two schools. Inseparable combination of Islamic economics with monotheism and consideration of revelation element has caused creation of differences between the two schools in these very common areas. Comparative study of the most important epistemological components of these two economic schools has had the following results:

1. Emphasizing on the values is the first and most important point of similarity between the two schools, the difference is that institutional economics includes a set of rules and values which are determined by and for human, but establisher of the teachings and values of Islam is the holy lawgiver.
2. The economic human of new institutional economics has a limited freedom in the framework of institutions.
3. With completion of human knowledge and change in his tastes and motivations, there is the possibility of alteration in essence of institutionalism teachings and completion of its nature. But economic teachings of Islam are derived from Quran and The Tradition, and the possibility of change in the essence of these teachings is rejected. Therefore, the first hypothesis of the research "in spite of some similarities, these two schools have specific epistemological principles and follow their own particular systemic and ideological orientation" is verified.
4. In Islamic economics, the individual and the collective have compatible interaction with each other and in case of conflict and contradiction the interests of society has priority over those of the individual.
5. Government is an influential institution in both Islamic and institutional economics, but its range of interference in Islamic economics is more widespread. Meanwhile, government has a role of trusteeship and protector of resources.
6. Both Islamic and institutional economists believe in individual ownership. The difference is that in Islamic episteme human ownership is restricted and within the ownership of The God.
7. One of the epistemological components of new institutionalism is the evolutionary nature of social and political and economic issues, but in Islamic economics merely the variable elements have changeable and evolutionary nature.
8. In both schools human rationality is considered limited, but Islamic economics spreads the range of rationality from pursuit of worldly interest to hereafter interest and pleasure of the God.
9. In Islamic episteme, a fair competition is a competition with cooperation and collaboration and which is in accordance with the content of religious parameters.

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