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Controlling Inflation Without Interest Rates: An Islamic Macroeconomic Framework for Sustainable Growth

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Abstract

Inflation management in conventional macroeconomics is predominantly driven by interest rate adjustments, which conflict with the foundational principles of Islamic economic thought that prohibit riba. This study explores alternative Islamic macroeconomic tools for managing inflation without relying on interest rate mechanisms. Employing a conceptual and theoretical methodology, the paper draws on foundational Islamic economic concepts such as hisbah, zakat, and mudarabah to construct an alternative anti-inflation framework. It critically examines the theoretical consistency and empirical plausibility of these instruments in ensuring macroeconomic stability and equitable growth. Key findings suggest that Islamic mechanisms can mitigate inflation through moral governance, redistributive policies, and productive investment, aligning with maqāṣid al-sharīʿah. The implications are twofold: they highlight the viability of an interest-free economic model while also expanding the policy discourse in monetary economics. This approach underscores the need for a paradigm shift that is both ethically grounded and economically sustainable. The study contributes to the growing literature advocating pluralistic economic models in the face of global economic volatility.

Keywords

isamic macroeconomics; inflation control; interest-free economy; zakat-based

Introduction

Inflation, a persistent rise in the general price level, continues to challenge macroeconomic stability and equitable growth worldwide. Conventional economic responses primarily rely on monetary policy—particularly adjustments to interest rates—to curb inflation (Mishkin, 2019; Woodford, 2023). However, this approach assumes the legitimacy and centrality of riba (interest), which is strictly prohibited in Islamic economic jurisprudence.

Consequently, applying such methods in Islamic economies poses both doctrinal and practical inconsistencies (Chapra, 2016; Siddiqi, 2020). The reliance on interest rates not only contradicts Islamic legal norms but also raises questions about its distributive consequences, particularly for debt-laden households and marginalized communities (Mirakhor & Askari, 2018).

The emergence of Islamic economics as a viable discipline seeks to offer an alternative to interest-based macroeconomic management by rooting its principles in the maqāṣid al-sharīʿah, or objectives of Islamic law. Scholars argue that Islamic economics must address contemporary challenges—including inflation—through mechanisms that are ethical, redistributive, and growth-oriented (Kahf, 2022; Iqbal & Mirakhor, 2022). Despite this, the field lacks a consolidated framework for controlling inflation without recourse to interest rate tools. The dominant macroeconomic literature has largely ignored the Islamic perspective, while Islamic finance has often been limited to microeconomic and transactional domains (El-Gamal, 2006; Obaidullah, 2021).

Empirical studies on Islamic monetary policy often remain confined to comparative performance analysis rather than developing holistic alternative frameworks. This leaves a significant research gap in Islamic macroeconomic literature concerning comprehensive, interest-free inflation management systems (Hasan, 2023; Ahmed & Khan, 2020).

Furthermore, the limited integration of historical Islamic fiscal tools—such as hisbah, zakat, and mudarabah—into modern inflation theory weakens the potential of Islamic models to address macroeconomic volatility (Umer Chapra, 2016; Asutay, 2021). There is a need to develop a coherent theoretical structure that contextualizes these tools within modern economic paradigms while remaining faithful to Islamic jurisprudence.

This research seeks to address the following core question: How can inflation be effectively managed without interest rates within the framework of Islamic macroeconomics? Supporting questions include: What theoretical and institutional mechanisms from Islamic tradition can substitute interest-based policies? How do these mechanisms impact economic stability and growth under modern conditions? This inquiry aims to bridge theoretical innovation with normative Islamic frameworks to propose viable economic solutions for inflation control.

The objective of this study is to construct a conceptual and theoretical framework for controlling inflation without the use of interest rates by utilizing Islamic economic principles. This study contributes to expanding the scope of Islamic macroeconomics beyond micro-financial practices and into the realm of macro-level stabilization. Its relevance lies in responding to the global need for pluralistic economic models that are not only technically sound but also morally anchored and socially equitable (Zaman, 2024; Khan & Syed, 2022).

Literature Review

The discourse on inflation has long been dominated by Keynesian, monetarist, and neoclassical perspectives, each offering distinct explanations and remedies. Keynesians emphasize demand-side interventions through fiscal and monetary policies, while monetarists like Friedman advocate controlling the money supply as the principal solution to inflation (Mishkin, 2019; Blanchard & Johnson, 2022).

In contrast, Islamic economics offers a normative framework rooted in moral considerations and the prohibition of riba. Despite the richness of Islamic legal-economic heritage, mainstream inflation theories have seldom addressed Islamic models or principles such as zakat, sadaqah, and hisbah as legitimate economic stabilizers (Iqbal & Mirakhor, 2022). While there have been attempts to integrate Islamic ethics with fiscal policy, comprehensive approaches to inflation without interest remain underdeveloped in the literature (Asutay, 2021; Ahmed & Khan, 2020).

Several frameworks in Islamic economic thought provide theoretical grounds for an alternative macroeconomic paradigm. Concepts like maqāṣid al-sharīʿah emphasize justice, equity, and social welfare, aligning well with anti-inflation strategies that prioritize inclusive growth over short-term liquidity control (Siddiqi, 2020; Kahf, 2022). Notably, zakat is considered a fiscal tool that can reallocate wealth and reduce inflationary pressure by curbing speculative consumption and increasing aggregate supply (Obaidullah, 2021).

Furthermore, the institution of hisbah represents a governance model capable of monitoring market behaviors and price stability (Chapra, 2016). However, most existing studies focus on descriptive or jurisprudential analysis without translating these concepts into functional macroeconomic models compatible with contemporary economies (Mirakhor & Askari, 2018).

Thus, the current literature presents a fragmented understanding of how Islamic economic instruments could replace or complement interest-based policies in managing inflation. While scholars have increasingly recognized the potential of Islamic fiscal and redistributive tools, few studies have synthesized these insights into a unified macroeconomic framework (Hasan, 2023; Zaman, 2024). This research aims to fill this void by providing a theoretically coherent and policy-relevant model for inflation control that is consistent with Islamic legal and ethical values.

Theoretical Framework

The foundation of Islamic macroeconomic theory is anchored in the concept of maqāṣid al-sharīʿah, which upholds the preservation of religion, life, intellect, lineage, and wealth as the primary objectives of Islamic law, offering a moral compass that guides economic governance toward justice and socio-economic balance rather than mere efficiency (Kamali, 2019; Siddiqi, 2020). Within this framework, inflation is seen as a force that undermines these objectives—particularly the preservation of wealth and economic justice—by disproportionately affecting lower-income populations and destabilizing prices; hence, controlling inflation through policies inspired by maqāṣid al-sharīʿah requires not only price stability but also ethical redistribution (Chapra, 2016).

Scholars advocate for such policies to transcend utilitarian calculations by integrating instruments of social welfare, including zakat, waqf, and public expenditure on essential goods, which align with the shared goals of maqāṣid and anti-inflationary strategies: namely, achieving sustainable and inclusive growth through structural reforms in resource allocation and consumption rather than interest-based monetary adjustments (Mirakhor & Askari, 2018; Kahf, 2022).

Central to this vision is the institution of zakat, functioning as a redistributive fiscal tool that enhances aggregate demand during downturns without inducing inflation by transferring purchasing power from the wealthy to the poor—thus promoting inclusive growth and curbing hoarding and speculative behavior, both of which are known inflationary triggers (Obaidullah, 2021; Ahmed & Khan, 2020; Iqbal & Mirakhor, 2022). As a fiscal mechanism grounded in moral obligation rather than market incentives, zakat ensures liquidity circulation without the risks of debt-driven expansion, reinforcing the ethical foundation of Islamic economic policy (Siddiqi, 2020).

Complementing this is the concept of hisbah, a classical institution of market oversight and moral regulation that offers a framework for inflation control by supervising supply chains, preventing monopolies, and enforcing fair pricing, thereby addressing the structural and behavioral causes of inflation without resorting to demand suppression through interest rates (Chapra, 2016; Asutay, 2021). Calls to modernize hisbah as a public regulatory body highlight its potential to work alongside central banks—not through monetary tightening, but through market discipline and price stabilization grounded in ethical governance (Mirakhor & Askari, 2018).

Underpinning all these mechanisms is the prohibition of riba, which is not only a legal doctrine but a philosophical stance against unjust enrichment and economic instability, as interest-based credit systems are known to intensify economic cycles, worsen inequality, and drive inflation through excessive debt and speculative consumption (Hasan, 2023; El-Gamal, 2006).

In its place, Islamic finance promotes profit-and-loss sharing models such as mudarabah and musharakah, which tie financial returns to real economic output, thereby discouraging speculative investment and fostering sustainable growth (Iqbal & Mirakhor, 2022). In sum, the rejection of interest, coupled with the promotion of ethical redistribution, structural regulation, and market integrity, forms the core of an Islamic macroeconomic paradigm aimed at achieving inflation control, inclusive development, and long-term stability in accordance with the objectives of maqāṣid al-sharīʿah.

Previous Research

El-Gamal (2006) critiqued Islamic finance for mimicking conventional interest-based instruments while ignoring its transformative macroeconomic vision. Using a comparative institutional methodology, the study highlighted that true Islamic finance should incorporate risk-sharing and value-based allocation mechanisms. Although the research did not focus directly on inflation, it emphasized the theoretical inconsistency of using riba-like instruments under Islamic labels. This study is foundational in questioning the effectiveness of conventional monetary tools in Islamic economies and sets the stage for interest-free inflation control models.

In his seminal work, Chapra (2016) explored Islamic governance institutions like hisbah and their potential to enforce moral conduct and economic justice. His analysis suggested that ethical governance plays a vital role in stabilizing prices and preventing inflation. Chapra argued for an integrated macroeconomic framework based on Islamic ethics and public oversight. This research supports the current study by advocating institutional alternatives to interest rate tools and emphasizing the role of moral regulation in price stability.

Obaidullah (2021) examined the fiscal role of zakat in stabilizing macroeconomic variables such as inflation, unemployment, and inequality. Through a normative policy analysis, the study illustrated how zakat could serve as an automatic stabilizer, channeling wealth from excess spenders to need-based consumers. While empirical evidence was limited, the conceptual contribution was significant for constructing non-interest-based policy mechanisms. This study aligns closely with the current research in using zakat as a fiscal anti-inflation tool.

Ahmed & Khan (2020) This study evaluated the impact of Islamic monetary instruments in countries with dual financial systems. It found that Islamic tools like sukuk and profit-sharing contracts have limited impact on inflation without systemic institutional support. Using econometric analysis across OIC countries, the authors concluded that partial Islamization of finance fails to deliver macroeconomic results. This research demonstrates the importance of a holistic framework—such as the one this article proposes—rather than isolated policy instruments.

Building on decades of Islamic economic theory, Iqbal and Mirakhor (2022) emphasized the necessity of trust-based institutions and justice-centered fiscal policy. Their book presents a comprehensive theoretical model advocating risk-sharing and ethical finance to achieve macroeconomic stability. Their emphasis on eliminating rent-seeking behavior and reducing inequality directly ties into inflation mitigation strategies. This work is especially relevant for its detailed theoretical justification of alternative macroeconomic models grounded in Islamic principles.

Hasan (2023) provided a contemporary critique of interest-based inflation control, emphasizing its failure to address root causes such as structural inequality and speculative finance. The author called for the reintroduction of Islamic governance and redistribution mechanisms, particularly zakat and hisbah, in addressing macroeconomic volatility. The study's contribution lies in articulating a policy roadmap rooted in Islamic jurisprudence and economic ethics. It serves as a direct precursor to the present research.

Despite these foundational studies, a consolidated Islamic macroeconomic framework that specifically addresses inflation without relying on interest-based instruments remains absent. Most literature focuses on micro-financial or institutional critiques rather than offering a macro-level operational model. This research seeks to fill that gap by constructing a coherent theoretical approach combining ethical governance, wealth redistribution, and risk-sharing mechanisms to control inflation in accordance with Islamic principles.

Research Methods

This study adopts a qualitative, conceptual methodology grounded in Islamic economics and contemporary macroeconomic theory. The approach involves analyzing classical and modern Islamic texts, as well as peer-reviewed literature from Scopus- and WoS-indexed journals, to construct a normative framework for inflation control. Rather than relying on empirical datasets, the research utilizes interpretive analysis of economic and juridical concepts—such as zakat, hisbah, and riba—to formulate an alternative policy model. This method is consistent with the aims of theoretical advancement and normative inquiry in Islamic economics (Mirakhor & Askari, 2018; Iqbal & Mirakhor, 2022).

Data sources for this research include internationally published books, articles, and reports on Islamic economics, macroeconomic stabilization, and monetary theory (≤2025). Special emphasis is placed on classical jurisprudence and historical economic practices in Islamic civilization, such as those implemented during the Abbasid and Ottoman periods, to contextualize modern applications of Islamic institutions. Secondary data are drawn from digital libraries such as JSTOR, ScienceDirect, and Scopus-indexed journals. Authoritative texts in Arabic are also referenced through their English translations where possible to maintain academic rigor and accessibility (Chapra, 2016; Kahf, 2022).

The data collection process involves systematic literature review and thematic coding of relevant content. Each concept or institution (e.g., zakat, hisbah) is examined through both historical and modern lenses to assess its relevance to inflation control. Comparative textual analysis is employed to identify parallels and differences between Islamic and conventional frameworks. The analysis seeks to uncover implicit macroeconomic principles embedded in Islamic jurisprudence that could substitute the role of interest rates in controlling inflation (Siddiqi, 2020; Obaidullah, 2021).

Analytical methods include deductive reasoning from maqāṣid al-sharīʿah to derive policy implications and interlink them with modern macroeconomic objectives such as price stability and equitable growth. Key concepts are mapped onto theoretical constructs from mainstream macroeconomics to demonstrate functional equivalence or superiority. This synthesis is guided by the principle of ijtihād, or reasoned interpretation, which allows the integration of classical knowledge with contemporary economic challenges (Kamali, 2019; Asutay, 2021).

Conclusions were drawn through an iterative process of theory refinement, peer-reviewed validation, and logical coherence testing. Each Islamic tool was evaluated based on its capacity to reduce inflationary pressures without generating unintended economic distortions. Final insights are presented as components of a holistic model, offering both theoretical novelty and policy relevance. The methodological rigor ensures that the proposed framework remains faithful to Islamic values while addressing practical economic concerns in modern nation-states (Hasan, 2023; Ahmed & Khan, 2020).

Results and Discussion

The theoretical findings of this study confirm that Islamic macroeconomic principles offer a viable foundation for inflation control without reliance on interest-based instruments. Anchoring the framework in *maqāṣid al-sharīʿah* enables a multidimensional understanding of inflation as not merely a monetary phenomenon but also a moral and distributive issue.

This shifts the policy emphasis from manipulating interest rates to ensuring equity, justice, and real economic productivity. Tools such as zakat, hisbah, and profit-sharing contracts provide the structural and ethical instruments necessary to control inflation by influencing consumption, investment, and market behavior without triggering debt-based financial distortions (Iqbal & Mirakhor, 2022; Chapra, 2016). These mechanisms reinforce ethical redistribution, enhance purchasing power in the lower-income strata, and support supply-side stability, addressing both the symptoms and root causes of inflation.

The integration of Islamic governance mechanisms also highlights the unique contribution of this study to the broader field of monetary economics. Unlike conventional models that often isolate inflation as a liquidity issue, the proposed framework views inflation as a structural imbalance requiring holistic intervention. The findings illustrate that ethical oversight through hisbah and the strategic deployment of redistributive tools like zakat can moderate inflationary tendencies in a manner consistent with both Islamic law and modern macroeconomic goals (Asutay, 2021; Obaidullah, 2021). Moreover, this approach challenges mainstream policy assumptions, suggesting that stability and justice are not mutually exclusive but can be jointly pursued within an Islamic framework. The theoretical synthesis provides a novel avenue for pluralistic economic thought, with potential applicability beyond Islamic jurisdictions, especially in economies seeking equitable and sustainable development pathways (Hasan, 2023).

1. Ethical Redistribution and Inflation Control through Zakat

This section addresses the question: How can inflation be effectively managed without interest rates within the framework of Islamic macroeconomics? One of the core pillars of Islamic fiscal policy is zakat, a compulsory redistribution of wealth that functions analogously to modern automatic stabilizers. Unlike interest rate manipulation, which indirectly influences inflation through aggregate demand suppression, zakat targets the demand side directly by redistributing purchasing power toward lower-income households with higher marginal propensities to consume (Iqbal & Mirakhor, 2022). This stimulates productive consumption while curbing wealth hoarding, thus preventing both demand-pull and cost-push inflation.

The effectiveness of zakat also lies in its counter-cyclical nature. During inflationary phases, when real incomes fall, zakat injections into the economy can stabilize demand without requiring debt expansion or interest-bearing liquidity injections (Obaidullah, 2021). In this way, zakat promotes price stability while enhancing financial inclusion. Furthermore, it serves a dual role in correcting structural inequality—a common underlying driver of inflation—through an ethically grounded redistribution process (Chapra, 2016). Unlike monetary tightening via interest rates, which can exacerbate inequality, zakat addresses both inflation and income disparity in a unified framework.

2. Market Ethics and Price Discipline via Hisbah

Another vital instrument in Islamic inflation control is the institutional mechanism of hisbah, which emphasizes moral oversight and fair market conduct. Traditional Islamic economies used hisbah to monitor prices, ensure competitive behavior, and prevent monopolistic exploitation, all of which contribute to price inflation when left unchecked (Kahf, 2022). In a modern adaptation, hisbah can function as a regulatory authority that enforces anti-inflation measures through non-interest-based interventions, such as curbing speculation and supply manipulation.

This regulatory role complements fiscal mechanisms by addressing price distortions at the microeconomic level. Unlike central bank policies that raise interest rates to slow down economic activity, hisbah can directly intervene in pricing practices without harming real sector performance. Through transparent governance and market accountability, hisbah fosters trust in economic institutions, which is essential for inflation expectations management (Mirakhor & Askari, 2018). This highlights a crucial difference: whereas interest rates manage inflation through abstraction, Islamic tools address it through tangible institutional action.

3. *The Role of Risk-Sharing Investment Models*

Another inflation-mitigating strategy in Islamic macroeconomics is the replacement of debt-based finance with risk-sharing contracts such as mudarabah and musharakah. These instruments link investment returns to real economic performance, ensuring that money creation is tied to productive activity rather than speculative lending. In conventional systems, excessive credit creation at low interest rates can overheat the economy and drive inflation. Islamic models, by contrast, avoid this pitfall through asset-backed and profit-sharing arrangements (El-Gamal, 2006; Hasan, 2023).

The theoretical advantage of these contracts lies in their alignment of incentives and stabilization of the financial cycle. Since there is no fixed cost of capital in the form of interest, businesses are not pressured to generate profits just to meet financial obligations. Instead, capital is deployed more efficiently, and speculative bubbles—often a precursor to inflation—are minimized. This risk-sharing principle not only mitigates inflation but also fosters economic justice by distributing both profit and loss equitably (Siddiqi, 2020).

4. *Eliminating Structural Inflation Drivers through Islamic Institutions*

Islamic macroeconomic tools do not just substitute for interest rates—they aim to eliminate structural drivers of inflation altogether. These include wealth concentration, speculation, artificial scarcity, and consumption driven by credit expansion. By focusing on redistribution, ethical market behavior, and asset-backed finance, the Islamic framework addresses root causes rather than symptoms (Ahmed & Khan, 2020). In this way, inflation is seen as a consequence of moral and institutional failure, not merely a mechanical mismatch between money supply and output.

Moreover, the prohibition of riba leads to a financial architecture that discourages unproductive debt and prioritizes real economic activities. The resulting macroeconomic system is more resilient to volatility and less dependent on central bank intervention. This preventive approach contrasts sharply with the reactive nature of interest-based monetary policy, offering a proactive framework for maintaining price stability (Kahf, 2022; Chapra, 2016). Therefore, Islamic macroeconomics reshapes the discourse around inflation by embedding ethical norms and institutional reform into policy design).

5. *Toward a Holistic Framework of Islamic Inflation Control*

The synthesis of zakat, hisbah, and profit-sharing forms the basis of a holistic Islamic framework for inflation control. These instruments are not standalone tools but components of an integrated system governed by the principles of maqāṣid al-sharīʿah. Their interrelation ensures that both demand- and supply-side inflationary pressures are addressed within a cohesive moral and legal structure (Mirakhor & Askari, 2018; Iqbal & Mirakhor, 2022). The absence of interest rates does not signify a policy void; instead, it calls for a paradigm shift toward value-based economic management.

In operational terms, implementing this framework requires institutional reform, legal standardization, and public education. However, the long-term benefits include economic stability, reduced inequality, and moral coherence in fiscal policy. The proposed model is not just an alternative for Islamic states but a contribution to the global search for inclusive and sustainable macroeconomic systems. By framing inflation control as a multidimensional challenge, Islamic macroeconomics redefines the policy toolbox and expands the boundaries of monetary theory (Hasan, 2023; Zaman, 2024).

6. Islamic Fiscal Instruments as Policy Substitutes

This section addresses the question: What theoretical and institutional mechanisms from Islamic tradition can substitute interest-based policies? At the core of Islamic fiscal substitution is the reorientation of public finance away from credit expansion and toward redistribution. Zakat, a cornerstone of Islamic fiscal design, serves not merely as charity but as a legally mandated wealth transfer aimed at achieving equilibrium in aggregate demand (Obaidullah, 2021; Kahf, 2022). In this respect, it acts as a substitute for interest-rate-based demand management, enhancing liquidity among consumption-oriented economic agents without creating inflationary credit.

Another fiscal tool is kharāj (land tax) and ʻushr (agricultural tithe), which contribute to state revenue and support public expenditure without resorting to borrowing through interest-bearing instruments. These institutional mechanisms promote fiscal sustainability and provide counter-cyclical support during inflationary periods. Their theoretical value lies in aligning public revenue collection with the real economy, reducing reliance on debt issuance and mitigating inflationary pressure caused by monetary overexpansion (Iqbal & Mirakhor, 2022).

7. Interest-Free Monetary Instruments

From a monetary perspective, Islamic alternatives to interest include qard al-ḥasan (benevolent loans), which facilitate liquidity access without fixed returns. These instruments encourage savings and investments based on mutual cooperation and social solidarity, avoiding the inflationary spiral driven by interest-based credit creation (Siddiqi, 2020; El-Gamal, 2006). In macroeconomic terms, these mechanisms restrain excessive money supply growth—one of the main causes of inflation—while preserving the ethical foundations of Islamic finance.

Furthermore, Islamic banking can deploy asset-backed financial products such as sukuk to finance public infrastructure without resorting to interest. These instruments generate real economic activity and contribute to output growth, making them effective in balancing inflation dynamics. They also reduce fiscal deficits by attracting ethical investments that are productive and non-speculative (Hasan, 2023). Hence, sukuk not only replace interest-bearing bonds but also align public borrowing with real-sector productivity.

8. Institutional Mechanisms of Accountability and Oversight

In addition to fiscal and monetary tools, institutional mechanisms like hisbah and bait al-māl (public treasury) act as systemic stabilizers. Hisbah ensures market transparency, deters exploitative pricing, and upholds consumer rights—all of which are crucial for inflation control (Chapra, 2016; Asutay, 2021). Meanwhile, bait al-māl serves as a central institution for collecting and distributing zakat, kharāj, and other public revenues, making it essential for implementing equitable economic policies.

Unlike modern central banks that focus narrowly on inflation targeting through interest rate changes, bait al-māl represents a broader conception of economic management rooted in justice and welfare. The institutional embodiment of Islamic economic principles enables holistic macroeconomic governance. This integration offers a substitute to fragmented modern institutions by centralizing ethical, monetary, and fiscal responsibilities (Mirakhor & Askari, 2018).

9. Legal and Normative Substitutes to Interest-Based Systems

Islamic jurisprudence (fiqh) provides a robust legal foundation to support interest-free policy design. The prohibition of riba is not an isolated legal rule but a component of a comprehensive framework that promotes economic justice, contract transparency, and risk-sharing. Through contracts such as mudarabah (trust-based profit-sharing) and musharakah (equity partnership), Islamic law offers legal substitutes that mimic investment functions of interest without the associated moral and systemic risks (Iqbal & Mirakhor, 2022).

Normatively, these contracts are underpinned by ʻadl (justice) and maslahah (public interest), ensuring that macroeconomic outcomes are both efficient and morally acceptable. These jurisprudential tools enable macroeconomic interventions that are congruent with long-term human welfare, reducing the volatility and inequality often associated with interest-driven economic cycles (Kahf, 2022). Thus, Islamic legal tradition serves not just as an ethical compass but as an operational framework for policy design.

10. Stabilizing Aggregate Demand through Redistributive Finance

This section addresses the question: How do Islamic mechanisms impact economic stability and growth under modern conditions? Islamic redistributive tools—most notably zakat—support aggregate demand by injecting liquidity into the lower-income segment of society. These recipients typically have a higher marginal propensity to consume, thus enhancing effective demand without resorting to credit expansion. By circulating idle wealth, zakat not only stabilizes consumption but also contributes to a more balanced distribution of income (Obaidullah, 2021; Hasan, 2023).

In conventional economics, stimulus packages often involve deficit spending or interest rate cuts, both of which may exacerbate public debt or fuel inflation. Islamic redistributive finance, on the other hand, does not rely on debt issuance or interest payments, allowing for fiscal expansion without inflationary pressures. This approach enhances macroeconomic resilience and improves socio-economic equity simultaneously (Iqbal & Mirakhor, 2022).

11. Enhancing Investment through Risk-Sharing Contracts

Islamic finance promotes investment through risk-sharing instruments such as mudarabah and musharakah, which are inherently linked to real economic activity. These contracts reduce financial speculation and ensure that returns are generated through productive endeavors. By avoiding interest-bearing debt, they lower systemic risk and create a more stable macroeconomic environment (El-Gamal, 2006; Siddiqi, 2020).

Under modern economic conditions—marked by capital mobility and financial volatility—risk-sharing mechanisms offer a more sustainable model. They encourage entrepreneurship and small-business financing, which are critical for employment generation and inclusive growth. Furthermore, since returns are based on actual outcomes rather than fixed interest obligations, these contracts reduce the probability of financial crises caused by debt default (Hasan, 2023).

12. Price Stability through Market Supervision

Institutional oversight through hisbah ensures fair pricing, competitive behavior, and market integrity. In modern settings, hisbah can be institutionalized as a regulatory authority tasked with monitoring inflationary practices such as price gouging, speculative hoarding, and monopolistic behavior (Chapra, 2016; Asutay, 2021). These interventions provide a direct mechanism for maintaining price stability at the source, as opposed to indirect monetary tightening.

This institutional arrangement enhances transparency and boosts consumer confidence, which is essential for stable economic transactions. It also reduces the need for aggressive interest rate interventions that may stifle growth. Modern regulatory bodies can be redesigned using the hisbah model to merge ethical governance with market efficiency, providing a culturally resonant and operationally effective framework for price stability (Mirakhor & Askari, 2018).

13. Long-Term Growth through Ethical Financial Architecture

Islamic macroeconomic instruments promote long-term, stable growth by discouraging speculative finance and focusing on asset-backed investments. The prohibition of riba shifts economic activity toward real sectors such as manufacturing, agriculture, and services, creating employment and reducing volatility. In contrast, conventional systems often prioritize financial engineering and leverage, which contribute little to actual output (Iqbal & Mirakhor, 2022; Kahf, 2022).

Ethical financial practices also foster trust and moral discipline in economic relationships, which enhances long-term investment and cooperation. In countries adopting Islamic finance principles, empirical evidence shows greater stability in banking systems and resilience during economic shocks. These effects, though still under-researched in macroeconomic literature, point to the viability of Islamic instruments as foundations for sustainable growth (Hasan, 2023; Ahmed & Khan, 2020).

Core Findings and Pathways Forward

This study demonstrates that inflation can be effectively managed without relying on interest rate manipulation, through the strategic application of the comprehensive toolkit offered by Islamic macroeconomic principles. Contrary to mainstream economic orthodoxy, which typically regards interest rates as the primary lever for controlling inflation, Islamic economics proposes a multidimensional framework rooted in equity, risk-sharing, and ethical governance. Within this framework, the use of *zakat* operates as a powerful redistributive fiscal instrument aimed at reducing wealth concentration and stimulating aggregate demand in lower-income segments. Simultaneously, *hisbah* functions as a proactive regulatory mechanism that monitors market behavior, enforces fair pricing, and curbs exploitative practices such as hoarding and price manipulation. Furthermore, financing models based on *mudarabah* (profit-sharing) and *musharakah* (joint venture partnerships) facilitate risk-sharing investments that align entrepreneurial incentives with societal welfare, avoiding the speculative volatility often associated with debt-based systems.

Collectively, these instruments create a macroeconomic system capable of achieving price stability, social justice, and sustained economic growth—objectives traditionally pursued through interest rate adjustments. What distinguishes this Islamic model is its grounding in *sharīʿah*-compliant norms that prioritize ethical considerations alongside efficiency. Each tool is deeply embedded in the jurisprudential tradition of Islam, yet adaptable to modern institutional contexts, demonstrating both normative coherence and practical feasibility. By reorienting the policy focus from monetary expansion to structural balance and distributive justice, this framework addresses inflation not merely as a quantitative anomaly but as a symptom of deeper moral and institutional disequilibria.

The novelty of this research lies in its construction of a unified and integrative framework that brings together moral philosophy, institutional design, and macroeconomic theory within a holistic Islamic worldview. It advances the discourse by redefining the conceptual basis of inflation control—not merely as a function of money supply and interest rate management, but as a broader issue of equity, production capacity, and socio-economic stability. This reconceptualization challenges the narrow focus of conventional monetary policy, inviting scholars and policymakers to revisit foundational assumptions about economic governance.

Practically, the proposed framework offers a viable, ethically grounded, and resilience-oriented alternative to conventional interest-based macroeconomic models. It has relevance not only for Islamic economies seeking greater alignment with religious principles, but also for non-Islamic countries exploring sustainable economic alternatives amid growing concerns over inequality, financial instability, and ecological degradation. By promoting a value-based approach to inflation management that avoids excessive speculation and debt accumulation, the findings of this study open new pathways for both theoretical advancement and policy innovation. They also provide a compelling case for further empirical and comparative research into the potential of Islamic economics to serve as a robust and principled macroeconomic paradigm capable of addressing the multidimensional challenges of the 21st century.

Conclusion

The research underscores the transformative potential of Islamic economic institutions in fostering a macroeconomic environment characterized by equitable growth, distributive justice, and sustained price stability. By relying on mechanisms rooted in *sharīʿah*-compliant principles—such as risk-sharing contracts, ethical investment, and social redistribution—this model challenges the traditional reliance on interest-based tools and introduces a value-driven alternative to economic management. The study highlights how institutions like *bayt al-māl*, *zakat authorities*, and *Islamic financial intermediaries* can be structured to align individual incentives with collective welfare, thereby creating an economic order that is both ethically robust and functionally resilient.

Given the conceptual strength of this integrative framework, the study strongly recommends further empirical testing across a spectrum of Islamic and hybrid economies. Such validation would not only assess the model's practical viability but also help in calibrating its design to specific socio-economic contexts. Comparative studies involving case analyses of countries with varying degrees of Islamic financial integration—such as Malaysia, Indonesia, Pakistan, or the Gulf states—could yield valuable insights into the diverse trajectories of implementation. Future research should also investigate the interplay between institutional design and macroeconomic outcomes, with particular attention to legal harmonization between Islamic jurisprudence and existing regulatory regimes. This includes analyzing the adaptability of *fiqh al-muʿāmalāt* (Islamic commercial law) within plural legal systems and its capacity to support transparent, accountable, and inflation-resilient economic governance.

Moreover, comparative impact assessments between Islamic and conventional models would be instrumental in demonstrating the efficiency and ethical superiority of interest-free economic systems in addressing income inequality, speculative volatility, and monetary instability. These efforts could provide empirical evidence to substantiate what has long been argued in Islamic economic theory—that sustainable development and moral accountability are not mutually exclusive, but rather mutually reinforcing components of a sound economic paradigm.

Ultimately, this study reaffirms that ethical, interest-free economic governance is not only doctrinally grounded in Islamic principles, but also demonstrably achievable within the institutional realities of the contemporary world. The fusion of normative ideals and practical mechanisms positions Islamic economics as a compelling alternative capable of responding to the complex challenges of modern macroeconomics. By advancing this discourse, the research contributes to the growing recognition of Islamic economic thought as a viable and principled framework for inclusive, stable, and morally conscious development..

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