

Challenging Global Capitalism and Socialism: Circular Causation in Social-Commercial Finance Integration

Setiawan bin Lahuri ¹
Akmal Hidayah ^{*2}
Mohammad Ghozali ³
Ahmad Muqorobin ⁴

^{1,2} Master of Islamic Economics Law, Postgraduate Program, Universitas Darussalam Gontor, Indonesia

^{3,4} Department of Islamic Economics Law, Faculty of Sharia, Universitas Darussalam Gontor, Indonesia

*e-mail: binlahuri@unida.gontor.ac.id¹, akmalhidayah93@student.pm.unida.gontor.ac.id²
mohammadghozali@unida.gontor.ac.id³, muqorobin82@unida.gontor.ac.id⁴

Abstract

The global economic system experiences recurring crises largely driven by the structural separation between the monetary and real sectors, which reduces money to a speculative commodity. This study deconstructs these vulnerabilities to formulate a resilient alternative financial architecture. Employing a qualitative-conceptual research design and theoretical modeling grounded in the mesoscience paradigm, this research applies an extended circular causation framework to map the endogenous integration of Micro-Money, Social-Commercial Finance, and the Real Economy (MFQ). By synthesizing prior empirical literature with theoretical modeling, this study derives three core propositions. First, the model indicates that replacing interest rates with project-specific micro-money theoretically binds monetary circulation directly to real output. Second, endogenously amalgamating commercial participatory finance with Islamic social instruments (zakat and waqf) establishes a risk-sharing buffer that addresses the distributive limitations of welfare capitalism. Third, systemic stability can be strengthened when Islamic banks adopt scale-appropriate portfolio focus strategies in productive real sectors to mitigate procyclicality and credit bubbles. Consequently, regulators and Islamic financial institutions should shift from formalistic contract compliance toward an integrated ecosystem aligned with real-sector empowerment.

Keywords: Circular Causation, Global Capitalism, Islamic Social-Commercial Finance, Mesoscience, Theoretical Modeling.

INTRODUCTION

The contemporary global economic architecture, predominantly shaped by mainstream capitalism and historically contested by state socialism, continues to experience recurring structural instability. Within the neoclassical capitalist framework, reliance on methodological individualism and unrestrained profit maximization has frequently been criticized for exacerbating wealth concentration and widening socio-economic disparities (M. O. Farooq & Ahmad, 2022; Piketty & Goldhammer, 2014; Stiglitz, 2015). Conversely, historical socialist models that sought to rectify these disparities through state centralization often restricted individual economic agency and property rights, struggling to generate sustainable and participatory socio-economic wellbeing (Sufiyan & Ahmed, 2015). Empirically, the structural fragility of the conventional financial system is reflected in periodic banking crises, where excessive exposure to liquidity risk and speculative asset accumulation undermine the banking sector's capacity to absorb macroeconomic shocks (Mohammad et al., 2020; Reinhart & Rogoff, 2009).

A core driver of this instability is the persistent institutional dichotomy between the monetary and real sectors. Rooted in secular rationalism and what Choudhury (2010) characterizes as Kantian heteronomy, conventional financial markets frequently treat money as a tradable commodity for speculative gain rather than an organic medium facilitating real production. In debt-based banking systems, interest rate mechanisms often incentivize credit expansion detached from real output, contributing to credit bubbles, liquidity volatility, and real-sector slowdowns (Ascarya et al., 2016). Furthermore, historical benchmark manipulation scandals, most notably the London Interbank Offered Rate (LIBOR) crisis, demonstrate how

conventional pricing benchmarks remain vulnerable to institutional distortion and moral hazard when detached from tangible asset productivity (Ali & Azmi, 2014).

This structural vulnerability is closely linked to the problem of financial procyclicality. Conventional banks typically exhibit pronounced procyclical behavior: expanding credit aggressively during economic booms and contracting liquidity sharply during downturns, which deepens recessionary pressures (Soedarmono & Yusciantoro, 2023). While Islamic banking was normatively conceived to mitigate such shocks through profit-and-loss sharing (PLS) and asset-backed transactions, its practical operation within dual banking systems exposes it to conventional interest-rate risk transmission (Bacha, 2008; Bacha & Mirakhor, 2019) and asymmetric volatility spillovers from conventional financial markets (Ilyas et al., 2022). Moreover, empirical evidence reveals a divergence in institutional resilience: while small-scale Islamic banks generally maintain greater stability, large-scale Islamic banks frequently encounter complex risk-management challenges when imitating conventional portfolio strategies (Abuzayed et al., 2018; Čihák & Hesse, 2010).

Despite growing scholarly attention to these challenges, a critical review of the literature reveals three interconnected research gaps. First, at the operational level, contemporary Islamic finance practices often prioritize formalistic legal compliance (*fiqh* form) over macroeconomic substance (*maslaha*), resulting in debt-like instruments benchmarked against conventional interest rates (Hanif, 2016; Rudnycky, 2014; Syamsuri et al., 2026). Second, at the institutional level, philanthropic wealth redistribution mechanisms (such as *zakat* and *waqf*) typically operate in isolation from corporate commercial finance, limiting their structural impact on poverty alleviation and long-term capital formation (Karim, 2010; Maulina et al., 2023). Third, at the theoretical level, while Choudhury (2010, 2018, 2020) pioneered the mesoscience paradigm and the circular causation model linking Micro-Money, Finance, and the Real Economy (MFQ), prior works have primarily focused on abstract epistemological formulations and macro-monetary theory. Existing studies have not yet operationalized how Islamic social-commercial finance integration and bank-scale portfolio governance interact within the MFQ equations to address procyclicality in dual banking environments.

Addressing these gaps, this study aims to deconstruct the structural vulnerabilities of conventional and dual-banking architectures and formulate an integrated theoretical model combining Micro-Money, Social-Commercial Finance, and the Real Sector. The novelty of this research lies in two specific extensions of Choudhury's (2018, 2020) MFQ framework: (1) it endogenizes Islamic social finance instruments (*zakat* and *waqf*) alongside commercial finance within the circular causation equation system to resolve the functional separation between capital accumulation and social redistribution; and (2) it translates the abstract mesoscience framework into a differentiated portfolio governance matrix tailored to institutional banking scales to mitigate procyclical risk. As a conceptual and theoretical modeling study, this research does not perform empirical econometric estimation; rather, it provides a structured theoretical foundation and testable propositions for designing a crisis-resilient and distributively just financial architecture.

LITERATURE REVIEW

Structural Critiques of Conventional Systems and the Dual Banking Dilemma

Comparative economic literature highlights fundamental tensions within both market capitalism and state socialism regarding wealth distribution and financial stability. While Ahmad (2003) and M. O. Farooq and Ahmad (2022) argue that mainstream capitalism's reliance on self-interest fosters systemic inequality, Sufiyan and Ahmed (2015) emphasize that socialist state-centric allocation suppresses market efficiency and individual property rights. In financial markets, Choudhury (2010, 2018) attributes capitalist instability to the epistemological separation of monetary flows from real economic transactions, a vulnerability empirically illustrated by benchmark interest rate distortions such as the LIBOR scandal (Ali & Azmi, 2014).

Within the empirical banking literature, scholars have extensively debated whether Islamic banking offers a viable buffer against these conventional vulnerabilities. On one hand, M. Farooq and Zaheer (2015) and Albaity et al. (2022) provide empirical evidence that Islamic banks are less prone to deposit runs during financial panics and exhibit healthier, less destructive credit cyclicalities due to their asset-backed nature. On the other hand, a competing body of literature demonstrates that operating within a dual banking architecture significantly constrains this resilience. Bacha (2008) and Bacha and Mirakhor (2019) show that interbank liquidity connections transmit conventional interest rate risks directly into Islamic money markets. Extending this critique, Ilyas et al. (2022) and Soedarmono and Yusgiantoro (2023) document significant volatility spillovers and procyclical tendencies among Islamic banks that rely heavily on non-participatory contracts.

Furthermore, institutional and anthropological studies explain why this convergence occurs. Hanif (2016) and Syamsuri et al. (2026) argue that an overemphasis on individual contract legality (*aqd*) at the expense of economic substance leads Islamic banks to replicate conventional risk-return profiles. Rudnyckyj (2014) similarly observes that global market competition pressures alternative financial institutions to adopt capitalist market rationality. In terms of portfolio management, Čihák & Hesse (2010), Abuzayed et al. (2018), and Al-Kayed and Aliani (2020) demonstrate that aggressive sectoral diversification by large Islamic banks often increases insolvency risk rather than stability, indicating that conventional portfolio theory cannot be uncritically transplanted into alternative banking.

The Mesoscience Paradigm and the MFQ Circular Causation Model

To overcome the limitations of conventional macroeconomics and fragmented contract compliance, Choudhury (2020, 2024) formulates the mesoscience paradigm grounded in the epistemology of the unity of knowledge (*Tawhid*). Unlike neoclassical economics, which relies on the axiom of scarcity and exogenous policy intervention, the mesoscience approach models socio-economic development as a continuous, evolutionary learning process uniting micro-level institutional realities with macro-level ethical objectives (Choudhury & Harahap, 2012; Choudhury & Rahim, 2016).

A central contribution of this paradigm is the reconceptualization of money within the Micro-Money, Finance, and Real Economy (MFQ) framework. Whereas conventional quantity theories treat money as an exogenous store of value, Choudhury (2018, 2021) defines micro-money strictly as an endogenous, project-specific medium of exchange whose volume exactly matches the valuation of real market transactions. In this framework, the micro-money equation of exchange is expressed across continuous knowledge-induced learning processes (θ) as follows:

$$\sum_i M_i(\theta) v_i(\theta) = \sum_j p_j(\theta) y_j(\theta) [\theta]$$

Where $M_i(\theta)$ represents project-specific micro-money supply in sector i , $v_i(\theta)$ denotes the velocity of micro-money circulation (approaching unity as money is tied directly to real transactions), $p_j(\theta)$ is the price level of real goods and services j , and $y_j(\theta)$ represents real output, all governed by the endogenous ethical-epistemic parameter θ . As Choudhury and Hoque (2017, 2019) demonstrate, this transmission mechanism requires the phasing out of interest rates ($r = 0$) so that financial mobilization (F) directly catalyzes real output (Q) without leaking into speculative derivatives. **Table 1** synthesizes the epistemological and architectural differences across these competing economic paradigms based on the reviewed literature.

Table 1. Comparative Synthesis of Epistemology and Economic System Architectures

Parameter	Global Capitalism	State Socialism	MFQ Ecosystem (Mesoscience)
Basic Epistemology	Secular rationalism and Kantian heteronomy	Collectivist materialism and state centralism	Epistemology of Unity of Knowledge
The Role of Money	Exogenous store of value and speculative commodity	State-administered accounting and allocation unit	Endogenous, project-specific transaction medium / Micro-money
Pricing Mechanism	Interest-rate benchmarks (e.g., LIBOR) prone to distortion	Centrally fixed by state authorities	Real profit-sharing margins reflecting tangible asset/service value
Sectoral Relationships	Structural dichotomy between monetary and real sectors	State monopoly over production and finance	Endogenous circular causation among Money, Finance, and Real Output

Source: Authors' critical synthesis from various literature, 2026

Integrating Social and Commercial Finance: Positioning the Present Study

A growing strand of literature emphasizes that financial stability must be paired with distributive justice by integrating Islamic commercial finance with social philanthropy. Karim (2010) notes that under conventional welfare capitalism, corporate profit generation and philanthropic charity operate in separate spheres, failing to address structural poverty. In response, Choudhury et al. (2019) and Maulina et al. (2023) advocate for the integration of Islamic social and commercial finance (IISCF) to fund long-run real investments evaluated under the wellbeing criterion (*maslaha*). Recent empirical and socio-legal studies further illustrate the potential of blending cash waqf and sustainable instruments to empower grassroots agricultural and customary sectors (Hidayah, Benazza, et al., 2026; Hidayah, Zubaidi, et al., 2026; Muqorobin, Etica, et al., 2026).

However, a critical comparison of prior studies reveals a clear theoretical gap. While empirical banking studies (e.g., Albaity et al., 2022; Šeho et al., 2021; Soedarmono & Yusgiantoro, 2023) identify the risks of procyclicality and portfolio diversification in dual banking systems, they do not offer an alternative epistemological monetary model. Conversely, while Choudhury's (2018, 2020) mesoscience literature establishes the mathematical philosophy of MFQ circular causation, it has not explicitly differentiated commercial versus philanthropic capital flows within its functional equations, nor linked them to bank-level portfolio focus strategies. This study bridges these two streams of literature by embedding social-commercial finance integration and real-sector portfolio governance directly into the MFQ circular causation model.

METHOD

Research Design

This study employs a qualitative-conceptual research design combined with theoretical modeling grounded in the mesoscience paradigm (Choudhury, 2020). Rather than conducting quantitative econometric estimation or numerical data simulation, the term *abstracto-empirical* in this study refers strictly to the methodological synthesis bridging deductive normative axioms (*a priori* ethical principles of the unity of knowledge) with inductive institutional realities (*a posteriori* empirical findings synthesized from prior banking literature) (Choudhury et al., 2007; Choudhury & Rahim, 2016).

Operationally, the research procedure is executed in two analytical stages: First, Conceptual Deconstruction (Positive Analysis of Existing Literature). This stage critically evaluates empirical findings from prior studies regarding systemic failures in conventional capitalism and structural vulnerabilities (interest-rate transmission, procyclicality, and

diversification risks) in dual banking systems. Second, Normative-Theoretical Reconstruction (Circular Causation Modeling). This stage formulates an extended Micro-Money, Social-Commercial Finance, and Real Economy $MF_{sc}Q$ mathematical framework and derives theoretical propositions for institutional portfolio governance.

Mathematical Specification of the Extended Circular Causation Model

To model the endogenous integration of the monetary, financial, and real sectors without interest-based speculation, this study adapts and extends Choudhury's (2018) circular causation system. We disaggregate the financial sector variable into an integrated Social-Commercial Finance vector F_{sc} , which amalgamates commercial participatory finance (F_c , such as *mudharabah* and *musharakah*) and Islamic social/philanthropic finance (F_s , such as *zakat* and *cash waqf*).

The overarching objective of the economic system is to evaluate and maximize the organic social wellbeing function ($W(\theta)$, or *maslaha*), which is continuously induced by the evolutionary knowledge parameter $\theta \in (\Omega, S)$, where Ω represents the foundational epistemological law and S denotes its institutional mapping:

$$W(\theta) = f(M(\theta), F_c(\theta), F_s(\theta), Q(\theta))[\theta]$$

Unlike static neoclassical optimization, the wellbeing index $W(\theta)$ is evaluated subject to a system of simultaneous, inter-dependent circular causation equations in which no variable is autonomous or exogenous:

$$\begin{aligned} M(\theta) &= f_1(F_c(\theta), F_s(\theta), Q(\theta), \theta) \\ F_c(\theta) &= f_2(M(\theta), F_s(\theta), Q(\theta), \theta) \\ F_s(\theta) &= f_3(M(\theta), F_c(\theta), Q(\theta), \theta) \\ Q(\theta) &= f_4(M(\theta), F_c(\theta), F_s(\theta), \theta) \end{aligned}$$

Where:

- $M(\theta)$ denotes the volume of Micro-Money circulating specifically to finance real-sector projects;
- $F_c(\theta)$ represents commercial participatory financing mobilized by Islamic financial institutions;
- $F_s(\theta)$ represents Islamic social and philanthropic funds (*zakat*, *waqf*, *infaq*) allocated for risk-mitigation and grassroots empowerment;
- $Q(\theta)$ denotes real economic output and tangible asset creation in productive sectors (e.g., agriculture, manufacturing, MSMEs); and
- θ represents the endogenous parameter of discursive learning, ethical governance, and regulatory synergy.

In log-linearized conceptual form, the structural complementarity among these variables is expressed as:

$$\ln W(\theta) = \alpha_1 \ln M(\theta) + \alpha_2 \ln F_c(\theta) + \alpha_3 \ln F_s(\theta) + \alpha_4 \ln Q(\theta) + \beta \ln \theta$$

Under the normative condition of the model, interest rates are eliminated ($i = 0$), and positive elasticity coefficients ($\alpha_1, \alpha_2, \alpha_3, \alpha_4, \beta > 0$) signify inter-variable complementarity rather than neoclassical marginal substitution. Through this theoretical specification, money (M) is never created exogenously through speculative credit expansion; instead, it is endogenously generated in direct proportion to integrated social-commercial financing (F_c, F_s) and real productive capacity (Q). The synthesis of this mathematical framework with prior empirical evidence forms the basis for the theoretical propositions developed in the next section.

RESULTS AND DISCUSSION

Conceptual Deconstruction: Systemic Fragility and Dual Banking Vulnerabilities

The first stage of our analysis synthesizes historical and empirical evidence demonstrating how the structural separation of monetary and real sectors generates recurring instability. In conventional financial architecture, treating money as an interest-bearing commodity detaches credit expansion from real output (Q), creating speculative bubbles that inevitably burst and spill over into the real economy. **Table 2** synthesizes major historical episodes illustrating how interest-rate manipulation and speculative debt accumulation trigger severe real-sector contagion.

Table 2. Synthesis of Historical Systemic Failure Cases Linked to Monetary-Real Sector Dichotomy

Entity / Crisis Case	Primary Trigger (Speculation / Interest Rates)	Estimated Scale of Losses	Real-Sector Contagion Impact
Global Financial Crisis (2008)	Sub-prime mortgage securitization and toxic interest-bearing derivatives	Estimated > USD 2 Trillion globally	Paralysis of the housing sector, widespread bank insolvencies, and global manufacturing contraction
LIBOR Scandal (2012)	Collusive manipulation of interbank benchmark interest rates by financial elites	Institutional fines > USD 9 Billion; massive derivative pricing distortions	Distortion of global financial contract valuation and systemic erosion of market trust
Regional Banking Crises	Speculative lending, maturity mismatches, and foreign debt exposure	Hundreds of billions of USD cumulatively	Interbank liquidity contraction and severe credit rationing for Micro, Small, and Medium Enterprises (MSMEs)

Source: Authors' synthesis from prior literature and historical financial reports, 2026

While prior empirical studies confirm that Islamic banks demonstrated superior deposit stability during the 2008 crisis due to their asset-backed structure (M. Farooq & Zaheer, 2015), our conceptual deconstruction indicates that operating within a dual banking framework prevents Islamic financial institutions from achieving full structural autonomy. Because Islamic money markets coexist alongside conventional interbank markets, arbitrage and benchmark pricing dependencies transmit interest-rate volatility into Islamic financing instruments (Bacha, 2008; Ilyas et al., 2022). Furthermore, when Islamic banks prioritize formalistic contract compliance (*murabahah* markups pegged to conventional benchmarks) over participatory risk-sharing, their macroeconomic behavior mirrors conventional debt cycles (Hanif, 2016; Syamsuri et al., 2026).

From the perspective of our circular causation model, this dual-banking vulnerability occurs because financial mobilization (F_c) remains exogenously governed by conventional interest rate benchmarks (r) rather than endogenously determined by real output (Q) and ethical parameter θ . Based on this conceptual synthesis, we formulate our first theoretical proposition:

Proposition 1 (Monetary-Real Sector Endogeneity)

In a dual banking system, relying on conventional interest benchmarks and isolated legal-form compliance perpetuates monetary-real sector decoupling; systemic liquidity resilience can only be theoretically sustained when exogenous interest pricing is replaced by project-specific micro-money ($M(\theta)$) whose circulation is strictly bounded by real-sector productivity ($Q(\theta)$).

Theoretical Reconstruction: Social-Commercial Finance Integration (F_c and F_s)

To overcome the distributive limitations of conventional welfare capitalism, where philanthropic mechanisms operate separately from corporate capital accumulation (Karim, 2010), our extended circular causation model integrates commercial finance (F_c) and Islamic social finance (F_s) into a unified functional system. In conventional settings, high-risk but socially vital real sectors (such as smallholder agriculture and rural micro-enterprises) often face credit rationing because they cannot meet commercial collateral and return thresholds.

Within the reconstructed equations $F_c(\theta) = f_2(M, F_s, Q, \theta)$ and $F_s(\theta) = f_3(M, F_c, Q, \theta)$, philanthropic instruments such as *zakat*, *infaq*, and *cash waqf* (F_s) are not treated merely as consumptive charity. Instead, $F_s(\theta)$ acts as an endogenous catalytic buffer that absorbs initial default risks, funds capacity building, and provides social infrastructure, thereby making grassroots productive projects bankable for commercial participatory financing ($F_c(\theta)$) (Maulina et al., 2023; Muqorobin, Hubur, et al., 2026).

Simultaneously, as real output $Q(\theta)$ expands through this blended financing, higher business surpluses generate increased commercial returns for $F_c(\theta)$ and a larger base of mandatory *zakat* and voluntary *waqf* contributions feeding back into $F_s(\theta)$. This continuous circular feedback validates Choudhury et al.'s (2019) concept of the organic wellbeing criterion (*maslaha*, $W(\theta)$), demonstrating mathematically how capital accumulation and wealth redistribution reinforce one another rather than trading off. This leads to our second theoretical proposition:

Proposition 2 (Social-Commercial Complementarity)

*The endogenous amalgamation of Islamic social finance (F_s , such as *zakat* and *cash waqf*) with commercial participatory finance (F_c) within a circular causation framework mitigates grassroots financing risk and establishes a self-reinforcing cycle of capital formation and distributive justice, theoretically overcoming the welfare-capitalist trade-off between efficiency and equity.*

Financing Procyclicality and Differentiated Portfolio Governance in the Real Sector

The third dimension of our analysis addresses how banking institutions should govern their financing portfolios to prevent credit bubbles and mitigate procyclicality. Prior empirical research demonstrates that conventional banks exhibit destructive procyclicality, expanding credit rapidly during booms and cutting financing during downturns (Ascarya et al., 2016; Zulkhibri et al., 2016). Conversely, Albaity et al. (2022) and Soedarmono and Yusgiantoro (2023) show that participatory financing can foster healthier cyclical behavior when anchored in real assets.

However, a critical synthesis of the empirical literature on bank diversification reveals a crucial nuance: broad sectoral diversification does not automatically enhance stability. Studies by Čihák and Hesse (2010), Abuzayed et al. (2018), Al-Kayed and Aliani (2020), and Šeho et al. (2021, 2023) find that when Islamic banks (particularly large-scale institutions) aggressively diversify across unfamiliar sectors without specialized monitoring capacity, they experience lower returns and heightened insolvency risk (the dark side of diversification).

Interpreting these empirical findings through our $MF_{sc}Q$ theoretical model provides a clear governance implication. Because micro-money ($M(\theta)$) and integrated finance ($F_{sc}(\theta)$) require deep epistemic knowledge (θ) of real project fundamentals ($Q(\theta)$), unbridled portfolio dispersion dilutes institutional monitoring ($\theta \downarrow$), increasing asymmetric information and moral hazard. Therefore, rather than mimicking conventional wide-spectrum diversification, alternative financial institutions should adopt a differentiated, real-sector-focused portfolio governance strategy based on institutional scale, as mapped in **Table 3**.

Table 3. Theoretical Matrix of Procyclicality Behavior and Recommended Portfolio Governance

Banking Type & Scale	Nature of Procyclicality	Impact on Systemic Stability	Proposed Governance Strategy (Derived from $MF_{sc}Q$ Model)
Conventional Banking	Destructive / Bad Procyclicality	Fuels speculative credit bubbles during booms; sharp credit crunches during recessions	Relies on exogenous macroprudential capital buffers (often lagging during systemic shocks)
Alternative / Islamic Banking (Small Scale)	Healthy / Counter-Procyclical Potential	Higher resilience to panic withdrawals; localized relationship lending supports real output	Focused Real-Sector Strategy: Concentrate participatory financing (F_c) in specialized local productive sectors with high monitoring visibility (θ)
Alternative / Islamic Banking (Large Scale)	Vulnerable to Procyclicality & Diversification Risk	Complex agency costs and insolvency risks if engaging in unfocused, conventional-style diversification	Integrated Social-Commercial Ecosystem Strategy: Amalgamate F_s (waqf/zakat risk buffers) with F_c to anchor large-scale capital in strategic real-sector supply chains

Source: Authors' theoretical synthesis and model implications, 2026

As synthesized in **Table 3**, our theoretical model suggests that small-scale Islamic banks can maximize $W(\theta)$ by maintaining a focused portfolio strategy in local real sectors where participatory monitoring is strong. Meanwhile, large-scale Islamic banks can mitigate the dark side of diversification not by scattering credit into speculative markets, but by utilizing blended social-commercial finance ($F_s + F_c$) to build vertically integrated ecosystems in strategic real sectors (such as sustainable agriculture and manufacturing). From this synthesis, we derive our third theoretical proposition:

Proposition 3 (Real-Sector Portfolio Governance)

Within the $MF_{sc}Q$ circular causation architecture, financial stability and counter-procyclical resilience are theoretically optimized not through unfocused sectoral diversification, but through a targeted portfolio governance strategy that aligns institutional scale with participatory real-sector specialization and social-commercial risk sharing.

CONCLUSION

This conceptual study deconstructs the structural vulnerabilities of conventional capitalism and dual banking architectures through the mesoscience paradigm and formulates an extended circular causation model integrating Micro-Money, Social-Commercial Finance, and the Real Economy ($MF_{sc}Q$). Based on our theoretical modeling and critical synthesis of prior literature, this research advances three core conclusions framed as theoretical propositions. First, replacing interest-based pricing benchmarks with project-specific micro-money ($M(\theta)$) provides a theoretical mechanism to eliminate monetary-real sector decoupling and curb speculative liquidity volatility. Second, endogenously integrating Islamic social finance instruments (F_s , such as zakat and cash waqf) with commercial participatory finance (F_c) within the circular causation system creates a mutually reinforcing cycle that enhances grassroots project bankability and addresses the distributive deadlocks of welfare capitalism. Third, rather than pursuing unfocused

conventional portfolio diversification, which empirical literature links to higher insolvency risks, Islamic financial institutions can theoretically foster healthier procyclicality by adopting a scale-appropriate portfolio focus strategy anchored directly in productive real sectors ($Q(\theta)$).

These theoretical insights carry important implications for regulators and financial practitioners. Central banks and Islamic financial authorities should progressively transition regulatory frameworks from formalistic contract-level (*aqd*) compliance toward ecosystem-level governance that facilitates blended social-commercial financing and real-sector performance benchmarking. Nevertheless, because this study is grounded in conceptual and theoretical modeling, its conclusions are presented as normative theoretical propositions rather than empirically generalized findings. Furthermore, this study does not model transitional regulatory frictions or cross-jurisdictional legal barriers between commercial banking laws and philanthropic waqf/zakat statutes. Consequently, future research should empirically test the three propositions developed in this paper using longitudinal panel data and simultaneous equation econometrics across dual-banking jurisdictions. Future studies are also encouraged to conduct numerical agent-based simulations to evaluate how digital financial technologies (such as smart contracts and tokenized micro-money) can operationalize the $MF_{sc}Q$ model in strategic real sectors.

BIBLIOGRAPHY

- Abuzayed, B., Al-Fayoumi, N., & Molyneux, P. (2018). Diversification and bank stability in the GCC. *Journal of International Financial Markets, Institutions and Money*, 57, 17–43. <https://doi.org/10.1016/j.intfin.2018.04.005>
- Ahmad, K. (2003). The Challenge of Global Capitalism: An Islamic Perspective. In Hrh The Prince Of Wales, *Making Globalization Good* (1st ed., pp. 181–209). Oxford University Press Oxford. <https://doi.org/10.1093/0199257019.003.0009>
- Albaity, M., Noman, A. H. Md., Saadaoui Mallek, R., & Al-Shboul, M. (2022). Cyclicity of bank credit growth: Conventional vs Islamic banks in the GCC. *Economic Systems*, 46(1), 100884. <https://doi.org/10.1016/j.ecosys.2021.100884>
- Ali, M., & Azmi, C. W. N. (2014). Islāmic Finance Benchmark: A Possible Solution Revisited. *Journal of Islamic Business and Management*, 4(2), 115–126. <https://doi.org/10.12816/0019146>
- Al-Kayed, L. T., & Aliani, K. C. (2020). Effects of focus versus diversification on bank risk and return: Evidence from Islamic banks' loan portfolios. *Journal of Islamic Accounting and Business Research*, 11(10), 2155–2168. <https://doi.org/10.1108/JIABR-10-2019-0192>
- Ascarya, Rahmawati, S., & Karim, A. A. (2016). Testing of the Procyclicality of Islamic and Conventional Banks in Indonesia. In M. Zulkhibri, A. G. Ismail, & S. E. Hidayat (Eds.), *Macprudential Regulation and Policy for the Islamic Financial Industry* (pp. 133–152). Springer International Publishing. https://doi.org/10.1007/978-3-319-30445-8_8
- Bacha, O. I. (2008). The Islamic inter bank money market and a dual banking system: The Malaysian experience. *International Journal of Islamic and Middle Eastern Finance and Management*, 1(3), 210–226. <https://doi.org/10.1108/17538390810901140>
- Bacha, O. I., & Mirakhor, A. (2019). *Islamic Capital Markets: A Comparative Approach* (2nd ed.). WORLD SCIENTIFIC. <https://doi.org/10.1142/11109>
- Choudhury, M. A. (2010). Unity of knowledge versus Kant's heteronomy with a reference to the problem of money, finance and real economy relations in a new global financial architecture. *International Journal of Social Economics*, 37(10), 764–778. <https://doi.org/10.1108/03068291011070435>
- Choudhury, M. A. (2018). Micro-money, finance and real economy interrelationship in the framework of Islamic ontology of unity of knowledge and the world-system of social economy. *International Journal of Social Economics*, 45(2), 445–462. <https://doi.org/10.1108/IJSE-11-2016-0340>

- Choudhury, M. A. (2020). *Islamic Economics as Mesoscience: A New Paradigm of Knowledge*. Springer Singapore. <https://doi.org/10.1007/978-981-15-6054-5>
- Choudhury, M. A. (2021). Monetary and Fiscal Complementarities in Socioeconomic Sustainability. In T. Azid, M. Mukhlisin, N. Akbar, & M. Tahir (Eds.), *Monetary Policy, Islamic Finance, and Islamic Corporate Governance: An International Overview* (pp. 85–111). Emerald Publishing Limited. <https://doi.org/10.1108/978-1-80043-786-920211006>
- Choudhury, M. A. (2024). *Handbook of Islamic Philosophy of Science: Economics, Society and Science*. Springer Nature Singapore. <https://doi.org/10.1007/978-981-99-5634-0>
- Choudhury, M. A., & Harahap, S. S. (2012). The Future of Monetary Reform and the Real Economy: A Problem of Trade Versus Interest. *International Journal of Management Studies*, 19. <https://doi.org/10.32890/ijms.19.1.2012.10358>
- Choudhury, M. A., & Hoque, M. N. (2017). Shari'ah and economics: A generalized system approach. *International Journal of Law and Management*, 59(6), 993–1012. <https://doi.org/10.1108/IJLMA-07-2016-0067>
- Choudhury, M. A., & Hoque, M. Z. (2019). Chapter 4 Corporate Governance in Comparative Islamic Perspective. In T. Azid, A. A. Alnodel, & M. A. Qureshi (Eds.), *Research in Corporate and Shari'ah Governance in the Muslim World: Theory and Practice* (pp. 43–61). Emerald Publishing Limited. <https://doi.org/10.1108/978-1-78973-007-420191004>
- Choudhury, M. A., Hossain, M. S., & Mohammad, M. T. (2019). Islamic finance instruments for promoting long-run investment in the light of the well-being criterion (maslaha). *Journal of Islamic Accounting and Business Research*, 10(2), 315–339. <https://doi.org/10.1108/JIABR-11-2016-0133>
- Choudhury, M. A., & Rahim, H. A. (2016). An Epistemic Definition of Islamic Economics. *ACRN Oxford Journal of Finance and Risk Perspectives*, 5(2). <https://www.acrn-journals.eu/resources/jofrp0502g.pdf>
- Choudhury, M. A., Zaman, S. I., & Harahap, S. S. (2007). An Evolutionary Topological Theory of Participatory Socioeconomic Development. *World Futures*, 63(8), 584–598. <https://doi.org/10.1080/02604020701681219>
- Čihák, M., & Hesse, H. (2010). Islamic Banks and Financial Stability: An Empirical Analysis. *Journal of Financial Services Research*, 38(2–3), 95–113. <https://doi.org/10.1007/s10693-010-0089-0>
- Farooq, M. O., & Ahmad, A. U. F. (2022). Conscious Capitalism and Islam: Convergence and Divergence. In M. Dion & M. Pava (Eds.), *The Spirit of Conscious Capitalism* (Vol. 63, pp. 253–272). Springer International Publishing. https://doi.org/10.1007/978-3-031-10204-2_14
- Farooq, M., & Zaheer, S. (2015). Are Islamic Banks More Resilient During Financial Panics? *Pacific Economic Review*, 20(1), 101–124. <https://doi.org/10.1111/1468-0106.12096>
- Hanif, M. (2016). Economic substance or legal form: An evaluation of Islamic finance practice. *International Journal of Islamic and Middle Eastern Finance and Management*, 9(2), 277–295. <https://doi.org/10.1108/IMEFM-07-2014-0078>
- Hidayah, A., Benazza, I., Tifani, M. A. A., & Muqorobin, A. (2026). The Integration of Cash Waqf into the Management of Customary Land for the Empowerment of Indigenous People: An Analysis Based on Maqāsid al-Shari'ah. *Journal of Contemporary Business and Economic Studies*, 9(2), 125–143. <https://asjp.cerist.dz/en/article/300364>
- Hidayah, A., Zubaidi, S., Ishaq, I. M., & Rafi, M. H. (2026). Qur'anic Mizan and Sustainable Islamic Financial Instruments: A Semantic Analysis. *JURNAL ECONOMINA*, 5(7), 4075–4090. <https://doi.org/10.55681/economina.v5i7.3340>
- Ilyas, R. M. A., Kayani, S., & Fazil, A. (2022). Volatility between Conventional and Islamic Stock Market. *Journal of Accounting and Finance in Emerging Economies*, 8(2), 387–398. <https://doi.org/10.26710/jafee.v8i2.2359>
- Karim, W. J. (2010). The Economic Crisis, Capitalism and Islam: The Making of a New Economic Order? *Globalizations*, 7(1–2), 105–125. <https://doi.org/10.1080/14747731003593315>

- Maulina, R., Dhewanto, W., & Fatur Rahman, T. (2023). The integration of Islamic social and commercial finance (IISCF): Systematic literature review, bibliometric analysis, conceptual framework, and future research opportunities. *Heliyon*, 9(11), e21612. <https://doi.org/10.1016/j.heliyon.2023.e21612>
- Mohammad, S., Asutay, M., Dixon, R., & Platonova, E. (2020). Liquidity risk exposure and its determinants in the banking sector: A comparative analysis between Islamic, conventional and hybrid banks. *Journal of International Financial Markets, Institutions and Money*, 66, 101196. <https://doi.org/10.1016/j.intfin.2020.101196>
- Muqorobin, A., Etica, U., Rodliyah, N., Hidayah, A., & Ab Razak, M. R. (2026). Reconstructing Islamic Agricultural Financing Regulations: A Socio-Legal Study using Soft Systems Methodology. *Fiat Justisia: Jurnal Ilmu Hukum*, 20(1), 47–68. <https://doi.org/10.25041/fiatjustisia.v20no1.4722>
- Muqorobin, A., Hubur, A., Budiman, A. R., Hidayah, A., & Yahuza, B. S. (2026). Zakat management innovation: Wakalah contract for cash flow stabilization. *Asian Journal of Islamic Management (AJIM)*, 293–306. <https://doi.org/10.20885/AJIM.vol7.iss2.art7>
- Piketty, T., & Goldhammer, A. (2014). *Capital in the Twenty-First Century*. Harvard University Press. <https://www.jstor.org/stable/j.ctt6wpqbc>
- Reinhart, C. M., & Rogoff, K. S. (2009). *This Time Is Different: Eight Centuries of Financial Folly*. Princeton University Press. <https://doi.org/10.2307/j.ctvc4m4gqx>
- Rudnycky, D. (2014). Islamic Finance and the Afterlives of Development in Malaysia. *PoLAR: Political and Legal Anthropology Review*, 37(1), 69–88. <https://doi.org/10.1111/plar.12051>
- Šeho, M., Ibrahim, M. H., & Mirakhor, A. (2021). Does sectoral diversification of loans and financing improve bank returns and risk in dual-banking systems? *Pacific-Basin Finance Journal*, 68, 101619. <https://doi.org/10.1016/j.pacfin.2021.101619>
- Šeho, M., Shaiban, M. S. M., & Ghafoor, A. (2023). Loan and financing diversification and bank stability in dual-banking systems. *Finance Research Letters*, 51, 103395. <https://doi.org/10.1016/j.frl.2022.103395>
- Soedarmono, W., & Yusgiantoro, I. (2023). Islamic bank procyclicality in an emerging market economy: Do bank size and financing contracts matter? *The Quarterly Review of Economics and Finance*, 92, 132–141. <https://doi.org/10.1016/j.qref.2023.09.003>
- Stiglitz, J. E. (2015). The origins of inequality, and policies to contain it. *National Tax Journal*, 68(2), 425–448. <https://doi.org/10.17310/ntj.2015.2.09>
- Sufiyan, K., & Ahmed, M. (2015). A Comparative Study between Islamic Economic System and Other Major Economic Systems. *International Journal of Research*. <https://www.semanticscholar.org/paper/A-Comparative-Study-between-Islamic-Economic-System-Sufiyan-Ahmed/f459b18408a909d50b97653e2696ed99e14c12a6>
- Syamsuri, Hidayah, A., Amrullah, M. F., Mafaz, & Winarno, R. S. (2026). The Illusion of Islamic Banking Stability? Measuring Hybrid Risks with the Tawhidi Index. *Jurnal Ilmiah Manajemen Ekonomi Dan Akuntansi (JIMEA)*, 3(4), 163–178. <https://doi.org/10.62017/jimea.v3i4.8988>
- Zulhibri, M., Ismail, A. G., & Hidayat, S. E. (Eds.). (2016). *Macroprudential Regulation and Policy for the Islamic Financial Industry*. Springer International Publishing. <https://doi.org/10.1007/978-3-319-30445-8>