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Reclaiming Economics as a Moral Science: An Islamic Approach to Monetary Reform

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Abstract: This paper proposes a new approach to monetary reform grounded in moral economy. Post-crisis reforms focus on technical fixes—macroprudential tools, regulatory redesign, and institutional safeguards—but ignore public welfare. Islamic finance has developed mechanisms for micro-level Shariah compliance but does not have institutional capabilities to protect the public interest. Bridging these gaps, the paper offers a triangular ethical architecture composed of three governance pillars: (i) banks as delegated creators of money; (ii) the state as regulator and macro-coordinator; and (iii) institutionalized moral authority, tasked with ensuring justice and public purpose in monetary governance. For the third pillar, we propose a Monetary Justice Commission, built to ensure just outcomes. The core claim is that financial systems built on public trust must serve public purpose, and that this requires enforceable ethical oversight. Using Pakistan as an illustrative case, the paper shows how moral authority can be embedded at the macro level to discipline monetary power under real-world conditions of institutional capture. The proposed architecture shifts monetary reform from technical engineering to normative governance—ensuring that the power to create money is matched by a duty to protect the public good in both boom and bust.

Keywords: Islamic economics; monetary reform; moral economy; macroprudential governance; institutional design; Shariah governance; financial justice

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Introduction

The 2008 financial crisis shattered the illusion of prosperity, revealing how credit-fueled booms often end in widespread suffering—millions lost their homes, jobs, and savings as public rescues shielded private risk. In response, a wide literature—especially in policy and central banking—focused on technical solutions: introducing macroprudential tools, redesigning financial regulation, and strengthening institutional frameworks to contain systemic risk (Borio, 2011). At the same time, scholars in the moral economy tradition have argued that money and debt are systems of power—structures of obligation that decide whose claims count and who must pay (Graeber, 2011). As Sayer (2000) argues, economic practices are shaped by moral norms and should be judged by their implications for justice, fairness, and human flourishing.

Both traditions point to a crucial fact: in a growing economy, money must be created. The future of the economy is shaped by how newly created money is used. Today, most money is created by financial institutions in ways that enable private profits in booms and shifts losses to the public in busts. Laeven and Valencia (2018) document more than 150 banking crises conforming to this pattern in the last few decades. Mainstream reforms offer purely technical solutions to this problem, while moral-economy critiques highlight ethical concerns but offer no practical design. This paper bridges that divide by proposing a new institutional framework—one that empowers moral authority to shape how money is created and governed, alongside technical rules and state oversight.

Breakdown of trust in money is both a technical problem and also a moral one. From a moral-economy view, whoever controls money creation also controls how resources are distributed: who gets paid first, what gets funded, and who is left to bear the losses when things fall apart. Islamic moral economy makes this point explicit: the power to create money is an amānah—a trust—and must be used with accountability to society. What is legally permissible cannot be separated from what is socially just (Chapra, 1985). Islamic finance has focused heavily on micro-level compliance—developing mechanisms like Shariah boards, product certification, and standards from bodies such as AAOIFI (2015) to ensure that individual contracts meet religious requirements. But it lacks an institutional capacity to assess what happens when those compliant transactions scale up—how the overall flow of money and credit affects justice at the system level.

The GFC shows why this kind of institutional gap matters. The crisis was driven by a vast volume of transactions that appeared procedurally compliant with financial regulations—at least on paper. Yet the end result was a system that collapsed, inflicting mass foreclosure, unemployment, and public bailouts. The realization that microprudence could not prevent system failure led to analysis of systemwide risks, or macroprudential regulation. This field of research has developed an advanced and complex set of macroprudential tools—such as countercyclical buffers, liquidity requirements, and stress testing—that aim to reduce systemic risk. Our goal in this paper is to show that these technical tools need to be supplemented with moral concerns about power, responsibility, and justice.

Islamic finance is the natural place to look for such a supplement. But it too faces a parallel challenge. A system built from halal contracts can still produce outcomes that violate the ethical aims of Islamic economics—such as justice, inclusion, and protection from harm. Just as microprudence does not ensure macroprudence, micro halal does not guarantee macro justice. Without institutions that can see and restrain injustice at the system level, Shariah review risks becoming a mosaic of formally compliant fragments that cannot prevent morally intolerable outcomes. This is what Asutay (2012) calls the "social failure" of Islamic finance: the disconnect between ethical aspiration and institutional design. Put simply: Islamic finance has institutions with teeth for micro-compliance. Islamic moral economy has no comparable institutional teeth for macro-justice.

This paper proposes a new institutional framework for monetary reform, grounded in Islamic moral economy. It rests on three pillars: (i) banks, as creators of money and allocators of credit; (ii) the state, as regulator and macro-coordinator; and (iii) independent moral authority to ensure just outcomes, grounded in Islamic tradition. Without this third pillar, technical reforms remain vulnerable to capture, symbolic relabeling, and the breakdown of legitimacy. Treating moral authority as a core governance function helps explain why technical fixes alone keep failing. This approach has practical implications: how banks can be realigned with public purpose, how state policy can be bounded by justice, and how the ʿulamāʾ can engage macroeconomic governance. Methodologically, the paper draws on the moral and institutional framework that was largely abandoned in the post–World War II era.

The paper proceeds as follows. Section 2 reviews three literatures that rarely intersect: moral economy, macroprudential regulation, and critiques of Islamic finance. Section 3 presents the core argument: money creation is institutionalized power, and must be constrained by enforceable moral oversight. Section 4 shows how this architecture can be applied in Pakistan, and Section 5 concludes with design principles for durable, justice-oriented monetary governance.

Literature Review

This literature review brings together three strands of research that rarely intersect directly. The first is the moral economy of money, which views money and debt as systems of obligation and social power (Graeber, 2011; Polanyi, 2001; Simmel, 2004). The second is the post-crisis literature on financial architecture, especially macroprudential policy, which focuses on tools to manage credit cycles and systemic risk (Borio, 2011; Minsky, 1986; IMF, FSB and BIS, 2016). The third is the critical literature on Islamic finance, which highlights a gap between formal Shariah compliance and the ethical aims of Islamic economics (El-Gamal, 2006; Asutay, 2012; Asutay and Yilmaz, 2025).

Each stream makes important contributions. Moral economy clarifies the ethical stakes, but lacks institutional design. Macroprudential work provides tools, but sidelines questions of power and legitimacy. Islamic finance shows how form can diverge from substance, but has yet to develop a system-level approach to justice. This paper builds on all three by asking: what kind of institutional structure can ensure that money creation serves both financial stability and ethical purpose?

Moral Economy Of Money: Obligation, Legitimacy, And Depoliticized Power

David Graeber's (2011) *Debt: The First 5,000 Years* recovers a dimension of debt that modern economic discourse has largely erased: its moral character. Debt has always involved moral judgments about responsibility and obligation—who deserves punishment, forgiveness, or assistance. Modern financial systems obscure this by framing debt as an impersonal contract governed by rules and incentives. But these rules conceal moral judgements. The student debt crisis illustrates this dynamic: widespread defaults have triggered policy debates focused on efficiency and cost, not justice, broken promises, or social welfare. Graeber's key contribution is to make visible what market language conceals: that debt is never just financial—it is always political and moral.

Karl Polanyi's (2001) *The Great Transformation* explains how this displacement of moral obligation became systemic. In his account, economic life was once embedded in social relations; markets served human needs. Modern capitalism reversed this, embedding society within the logic of markets. The commodification of land and labor turned homes, livelihoods, and even habitats into marketable goods—priced and sold like any other commodity. This shift, driven by state-backed institutional design, subordinated social obligation to market discipline. In crises like the GFC, this hierarchy becomes explicit: protecting financial institutions takes precedence over protecting jobs, homes, or community stability. Polanyi reveals how the moral economy of obligation was restructured to serve the imperatives of finance.

Georg Simmel's (2004) *The Philosophy of Money* deepens this critique by examining how money transforms the moral fabric of social life. As a universal medium of exchange, money abstracts value from relationships, detaching obligations from personal ties and reducing them to quantifiable transactions. This abstraction facilitates impersonal efficiency, but also erodes moral accountability. In traditional communities, personal debt was never a private matter. If a borrower could not repay, the obligation extended outward—first to family, then to kin networks, and eventually to the local community. Debt was embedded in webs of mutual responsibility, not isolated as an individual liability. Simmel helps explain how this ethical reflex is lost in modern financial systems. As monetary logic spreads, systemic outcomes—foreclosure, exclusion, precarity—are treated as technical consequences of market behavior, not as injustices linked to accountable relationships. His insight complements those of Graeber and Polanyi by showing that modern finance not only produces morally troubling outcomes, but is structured to obscure their ethical content.

Together, these thinkers show that money and debt are institutions of power, obligation, and judgment—realities that modern finance conceals but cannot escape. Recognizing this is essential for any serious effort to reform monetary systems in ways that serve justice as well as stability.

Post-GFC Monetary And Financial Architecture: Macroprudential Tools, Cyclicality, And Adaptive Finance

The global financial crisis revealed that modern finance is vulnerable to collapse at the system level. Individual firms may appear stable, even as growing connections and shared risks push the entire structure toward breakdown. In response, regulators developed what is now called macroprudential policy: a new approach that focuses on the financial system as a whole, rather than on isolated institutions (Borio, 2011; IMF, FSB and BIS, 2016). It aims to reduce the chances of boom–bust cycles by building resilience during expansions—requiring banks to hold extra capital, maintain liquidity buffers, and undergo stress tests that simulate downturn scenarios.

One of the clearest explanations for why financial systems build up hidden risks during calm periods comes from Hyman Minsky's theory of financial instability. He observed that when the economy appears stable, both borrowers and lenders grow more confident. They take on more debt, lower their standards, and start to believe that the good times will last. Over time, safe and cautious lending gives way to riskier bets, until the entire system becomes fragile. Crises are the inevitable result of internal dynamics that build quietly during booms (Minsky, 1986).

Postcrisis research highlights another challenge: regulation chases a moving target. As new rules are introduced, financial institutions adjust their behavior, often by shifting risky activities into new legal forms or into less regulated sectors. Research shows this kind of regulatory adaptation is common—even intended safeguards like capital requirements can lead banks to expand lending in areas where oversight is weaker (Reinhardt & Sowerbutts, 2015). A second force at work is regulatory capture, where regulated firms influence the very bodies meant to oversee them. In its classic formulation, regulation can come to serve the interests of the industry rather than the public (Stigler, 1971). This dynamic contributes to lax oversight and weak enforcement, while stricter action serves for public appeasement, rather than just chastisement. For these reasons, macroprudential governance is an ongoing contest—constantly reshaped by innovation, financial incentives, and the shifting balance of power between regulators and industry.

Macroprudential policy treats financial stability as a technical matter, leaving moral questions off the table: who is responsible for collapse, who is harmed by it, and how blame or protection are distributed. This creates a justice cycle alongside the business cycle: who gains during booms, and who bears the losses during busts. Due to its exclusive focus on technical aspects, macroprudential policy can legitimize outcomes that are ethically unacceptable. Blindness to justice is reflected in President Barack Obama 's (2009) praise of Ben Bernanke for his courage and wisdom in preventing a repeat of the Great Depression, completely ignoring the millions who lost their homes, and trillion in household wealth wiped out.

This blind spot reflects a broader disciplinary stance: modern economics is built on positivist foundations, and systematically excludes power, legitimacy, and moral responsibility from its analytical framework (Zaman, 2013). The next section turns to Islamic moral economy, which places these concerns at its core—but has not yet developed the institutional infrastructure needed to operationalize them.

Islamic Moral Economy, Islamic Finance Practice, And The Missing Macro-Institutional Layer

The Qur'an (4:58) explicitly links political authority with moral responsibility, commanding those entrusted with power to uphold justice: *"Indeed, Allah commands you to render trusts (amānāt) to whom they are due and when you judge between people to judge with justice."* In this spirit, Islamic moral economy places justice at the heart of monetary governance. Economic and financial authority is a public trust (*amānah*)—a delegated power that must be exercised to uphold *ʿadl* (justice) and *maṣlaḥah* (public welfare) (Chapra, 1985, pp. 1–4, 44–48). As Chapra argues, modern economies require the creation of money to support expanding production and trade, making monetary governance an unavoidable feature of contemporary economic life (pp. 18–21). Because the process of money creation inherently redistributes purchasing power, it is necessarily a deeply moral issue: who is allowed to create money, under what conditions, and to what end. For this reason, Chapra insists that Islamic monetary policy must be designed to prevent harm, avoid injustice, and ensure that the financial system serves the broader goals of equity and social well-being (pp. 52–55).

Contemporary Islamic finance has invested heavily in building micro-level compliance structures—such as Shariah boards, product certification, and standard-setting bodies like AAOIFI (2015)—to ensure that individual contracts meet formal religious requirements. But critical scholars argue that this focus on legal form often comes at the expense of ethical substance. Asutay (2012) describes this as a "social failure": Islamic finance may comply with the letter of the law while failing to deliver justice, inclusion, or equitable outcomes. El-Gamal (2006) offers a similar critique, calling it "Shari'a arbitrage"—a process where conventional financial products are rebranded as Islamic without meaningful changes to their structure or impact. More recently, Asutay and Yilmaz (2025) argue that Islamic finance has been overtaken by the logic of global financial markets. Through a Polanyian lens, they show how Islamic finance has become disconnected from its own moral foundations: market performance takes precedence, while concerns about justice and welfare are marginalized. Shariah governance, in this context, functions as a transaction-level filter rather than as a tool for guiding the system toward Islamic ethical aims.

In section 3 of this paper, we discuss how we can develop an institutional framework capable of addressing these concerns.

Synthesis: The Gap And The Paper's Proposed Solution

The preceding sections converge on a shared diagnosis. Moral economy reveals that money creates a regime of enforceable claims grounded in legitimacy and social backing, and is inseparable from moral responsibility (Graeber, 2011; Polanyi, 2001; Simmel, 2004). Post-GFC macroprudential work shows that credit-driven monetary systems are endogenously cyclical and require system-level regulation to manage instability (Borio, 2011; Minsky, 1986; IMF, FSB and BIS, 2016). The moral economy framework makes clear that such regulation always involves judgment—about whose interests are protected, whose losses are absorbed, and what outcomes are acceptable. Moral judgements must be made; the choice is between concealing these judgments and evaluating them explicitly. Islamic moral economy provides a clear framework for articulating and assessing such claims in terms of justice (ʿadl), public welfare (maṣlaḥah), and the ethical use of entrusted power (amānah). Yet as critiques of Islamic finance show, existing institutions avoid these questions, focusing instead on formal permissibility at the transaction level (Chapra, 1985; El-Gamal, 2006; Asutay, 2012; AAOIFI, 2015).

What remains missing is an institutional framework capable of embedding moral authority at the level where systemic financial power is exercised: in the creation and allocation of money. Section 3 addresses this gap by proposing a triangular ethical architecture, composed of: (i) banks, as the operational locus of credit-money creation; (ii) the state and central bank, as regulators and macro-coordinators; and (iii) independent moral authority, grounded in Islamic tradition, tasked with ethical oversight. The aim is to complement technical governance with the missing moral dimension, ensuring that business cycle gains are shared equitably, and losses apportioned according to responsibility.

From Technical Fixes To Moral Governance: An Institutional Architecture For Monetary Reform

This section develops the paper's central claim: that monetary reform must shift from a model of technical repair to one of enforceable moral governance. It proceeds in five steps. Section 3.1 frames money creation as a form of institutionalized power, and explains why that power is routinely misdescribed or concealed. Section 3.2 analyzes why technical reforms, though necessary, routinely fail under conditions of adaptive finance and regulatory capture. Section 3.3 why justice must operate as a binding moral constraint across the cycle, to prevent financial exploitation and oppression. Section 3.4 reframes banks as delegated monetary authorities whose power must be governed as a public trust. Section 3.5 synthesizes these insights into a triangular ethical architecture—grounded in Islamic moral economy but applicable more broadly—designed to embed moral authority as a standing pillar of monetary governance.

Money Creation As Power

To create money is to shape society. With a keystroke, central banks and commercial banks generate new money—purchasing power that did not exist the moment before. This power is immense, but largely invisible. During the 2008 financial crisis, governments fiercely debated whether to assist struggling homeowners, while quietly creating trillions to rescue financial institutions. During COVID-19, central banks expanded their balance sheets overnight, boosting asset prices while working families waited for relief. Money creation necessarily involves judgments about who matters, who is to be helped, and who bears the costs. In Islamic terms, this power of money creation is an amānah: a delegated authority that must be exercised with justice (ʿadl) and public welfare (maṣlaḥah). As Ibn Mani' (1984, pp. 27–28) explains, paper money is legitimate because it is backed by the authority and guarantee of the state—placing the responsibility for just issuance squarely on those in power. Yet modern systems conceal this moral dimension, treating money creation as a technical operation rather than a deeply political and ethical act.

The power embedded in the money creation process remains largely hidden by the way money and banking are taught. Conventional economics textbooks depict banks as passive intermediaries—lending out pre-existing savings. In reality, banks create new money when they issue loans, generating fresh purchasing power in the form of deposits (McLeay, Radia & Thomas, 2014). This function makes them powerful actors in shaping economic outcomes. As Zaman (2016, pp. 82–84) argues, concealment of the mechanisms of modern finance enables the private capture of a public power, allowing banks to extract unjustified profits through money creation—what should be a state-held amānah serving the public becomes a privatized source of enrichment.

Once this money–power link is made visible, the post-crisis question becomes unavoidable: what institutional constraints can ensure that this power serves the public good?

Why Technical Governance Fails: Missing Moral Baseline

Modern macroprudential frameworks correctly recognize that financial systems are endogenously fragile: credit expands in booms, risk appears low when it is actually rising, and institutional incentives often align with procyclical behavior (Borio, 2011; Minsky, 1986). They also acknowledge that regulation faces an adaptive opponent: rules are circumvented, enforcement weakens during booms, and reform momentum typically arises only after visible crises. Yet even this more sophisticated view accepts as normal—and implicitly legitimate—that banks will seek to evade constraints in pursuit of profit.

This acceptance reflects the core limitation of a purely technical approach: it treats evasive behavior not as a moral failure but as a design challenge. As Claassen (2011) argues, the 2008 crisis exposed a deeper ethical breakdown: the same institutions that engineered systemic risk were rescued, while the households they harmed were left to bear the costs. Sandberg (2019) similarly argues that financial governance must be judged by its ethical consequences, not merely its efficiency. These critiques echo the Islamic legal maxim *alḥuqūq maʿa alwājibāt*—rights entail responsibilities. If banks are granted the right to create money, they must also be held accountable for using that power in ways consistent with public welfare and justice (Chapra, 1985, pp. 52–55).

This is why technical governance is insufficient. Without a moral baseline—an explicit normative framework for what financial actors owe to the public—regulation becomes a cat-and-mouse game: rules, evasion, revision, repeat. What is needed is not simply more complex regulation, but a shift in the normative default. Like a Hippocratic oath in medicine, banking must adopt binding commitments to avoid harm, grounded not just in compliance, but in moral responsibility.

The Missing Invariant: Justice As The Binding Constraint Across The Cycle

A familiar slogan captures the moral asymmetry of modern finance: banks privatize profits and socialize losses. This pattern was painfully evident in the 2008 crisis, when the same institutions whose risk-taking destabilized the system were rescued with public funds, while millions of households were left to bear the costs. What is striking is not just the pattern itself, but how it has come to be accepted—as an unfortunate but inevitable feature of how financial systems work. This paper challenges that assumption. When monetary power is a public trust (amānah), outcomes like these are not just regrettable—they are morally unacceptable. They demand institutional design that prevents their recurrence.

Macroprudential tools are designed to moderate volatility; they do not address the deeper governance question: are gains and losses allocated justly across the cycle? In booms, money creation drives private profits while shifting hidden risks to households and the public. In busts, “discipline” arrives in the form of evictions, unemployment, and depleted savings. Injustice is a structural part of the business cycle: banks profit from upswings, while the public loses in the downswings.

Islamic moral economy provides a framework to address this gap. As Chapra (1985, pp. 44–48) argues, the legitimacy of monetary authority depends on whether it prevents harm, promotes equity, and serves the broader public good. Institutions that exercise the power to create money must be accountable not only for efficiency or compliance, but for the justice of their outcomes. Claassen (2011) echoes this point from a secular perspective, framing the financial crisis as a moral failure: responsibility was misallocated, and public power was used to entrench private advantage.

The key claim here is simple: justice must operate as a binding constraint across the cycle. That means identifying outcomes that are intolerable by design: systematic risk-dumping on the poor, foreclosure waves triggered by predatory lending, or bailouts that protect financial institutions while abandoning the social base. Treating these as violations of public trust, rather than unfortunate technical effects, reframes the goal of monetary governance. The next section builds on this premise to propose how banks can be governed as trustees of delegated power, and how justice can be embedded as an enforceable standard.

Reframing Banking: Delegated Monetary Authority And Public Trust

These premises imply a reframing of banks. Commercial banks do not operate like ordinary private firms; they occupy a special position at the intersection of public infrastructure and private enterprise. Modern credit systems consist of both public money (central bank liabilities) and what Gabor and Vestergaard (2018) call *private–public money*—bank deposits created and sustained within frameworks of public guarantees, legal support, and access to central bank operations. From a legal-institutional perspective, private banks may be viewed as “regulated franchises” of the sovereign government—delegated the authority to create money on behalf of the state (Kashyap, 2020). This public scaffolding—including lender-of-last-resort facilities, deposit guarantees, and the legal enforceability of monetary claims—is the condition of possibility for modern bank money. Recognizing this makes clear that money creation is not a private market activity, but a public function exercised under license.

Once this is recognized, the inference is straightforward: bank money creation is not a private entitlement, but delegated public authority—a franchise granted under law, enabled by central banking infrastructure, and dependent on public trust. In secular terms, some reformers conclude that money creation should be taken out of private hands entirely (Positive Money, 2016; Kumhof & Jakobsson, 2016). But as Zaman (2026) cautions, merely relocating this power to the state does not guarantee justice: without enforceable moral constraints, public institutions can reproduce the same patterns of abuse under a different name. The problem is not ownership alone, but the absence of a governance structure that binds monetary power to public purpose.

From an Islamic perspective, the principle is clearer: monetary authority is an *amānah*—a trust that must be exercised to uphold *ʿadl* (justice) and *maṣlaḥah* (public welfare). As Ibn Mani' (1984, pp. 27–28) notes, the legitimacy of modern money rests on the state's guarantee, which entails a corresponding duty to govern its issuance and use justly. Similarly, contemporary Islamic scholarship emphasizes that money is not neutral; its creation and allocation must be regulated in line with moral constraints (Usmani, 2000). The legal maxim *al-ḥuqūq maʿa al-wājibāt* ("rights come with duties"), rooted in classical Islamic thought and exemplified in Imam Zayn al-ʿĀbidīn's *Risālat al-Ḥuqūq*, applies here with full force: the right to create money imposes a duty to avoid harm and serve the common good.

To make these duties real, not rhetorical, requires institutionalization. As Polanyi observed, collective intentions—such as the longing for peace or justice—remain inert unless translated into politics through institutional forms. The same holds for monetary ethics. Without concrete instruments of enforcement, the moral imperative to use money creation for public welfare will remain aspirational. The next section builds on this insight, proposing an institutional architecture to embed moral authority as a binding constraint on the exercise of monetary power.

A Triangular Architecture For Monetary Governance

The central contribution of this paper is to convert the moral economy critique into a practical governance structure. The proposed solution is a triangular architecture in which a third institutional pillar—a Monetary Justice Commission—is established alongside courts and regulatory agencies to ensure that the power to create money is exercised justly. In Islamic contexts, this Commission would draw on Shariah principles of ʿadl (justice), maṣlaḥah (public welfare), and amānah (entrusted authority). In secular societies, it would reflect dominant ethical traditions of fairness, inclusion, and human dignity. While the sources of legitimacy may differ, the core normative vision converges: the power to create money must be governed by moral standards that prevent harm, promote equity, and serve the public good.

The three pillars of our proposed architecture are:

- **Banks and financial institutions**, as operators of money creation, credit allocation, and payments;
- **State and central bank authorities**, as providers of legal infrastructure, macroeconomic coordination, and regulatory enforcement;
- **Institutionalized moral authority**, grounded in Islamic tradition or secular ethical frameworks, serving as a standing source of legitimacy and enforceable restraint—conceived as governance, not symbolic review.

Pillar	**What it governs**	**Typical failure if isolated**	**What integration adds**
Banks / financial institutions	Money creation; credit allocation; payments interface	Procyclicality; extraction; innovation around rules	Public-interest duties; bounded discretion; service orientation
State / central bank / regulator	Rules; enforcement; LOLR; macro coordination	Capture; technocracy; legitimacy deficit	Transparent constraints; credible sanctions; accountability
Moral authority (institutionalized)	Justice constraints; legitimacy; ethical oversight	If absent: hollow rules; if symbolic: compliance theatre	Macro-ethical governance; legitimacy anchor; capture resistance

This triangular architecture is based on two design principles which emerge from the realization that money creation is a public trust (*amānah*):

1. **Institutionalization principle**: Moral authority must be embedded in formal procedures, not left to informal appeals or moral rhetoric. This includes mandate clarity, published decisions, reason-giving requirements, public transparency, and enforceable accountability. Like a regulatory agency or court, it must function as governance—not as symbolic ornament.

2. **Macro-orientation principle**: Moral oversight must evaluate systemic outcomes—credit allocation, fragility, distributional effects, and legitimacy—rather than simply verifying contract-level permissibility. A financial system can be contract-compliant and still structurally predatory. Macro ethics must therefore be part of the governance mandate.

This architecture clarifies why two-pillar reforms often fail. A system based only on technical mechanisms (pillar i) and legal enforcement (pillar ii) remains vulnerable to circumvention, capture, and legitimacy breakdown. Conversely, moral critique without institutional levers (pillar iii absent or symbolic) results in denunciation and relabeling, but no real governance power. The triangular model converts the moral spine into an operational requirement: a standing, capture-resistant legitimacy mechanism capable of disciplining both private and public monetary power.

Section 4 illustrates how this abstract architecture could be implemented in practice, using Pakistan as a test case given its Islamic banking infrastructure and evolving institutional landscape.

Implementation In Pakistan: From Concept To Institutional Form

Moral-economy critiques are often compelling in diagnosis but vague in implementation. The challenge is not that moral insights are absent, but that institutional levers for realizing them are left unspecified. Pakistan offers an unusually concrete illustration of how the paper's proposed triangular architecture can be operationalized—precisely because the institutional machinery of Islamic finance already exists and the question of system design has been pushed to the fore by legal and policy developments.

A judicial mandate and policy trajectory toward eliminating interest-based finance by end-December 2027 (Federal Shariat Court of Pakistan, 2022) has already forced the question of institutional design onto the agenda. This has transformed the Islamic finance debate from a compliance discourse into a governance question: how should a morally grounded monetary system be built, and what institutions are required to ensure that money creation serves justice and public purpose?

Yet despite the existence of Islamic banks and Shariah oversight mechanisms, Pakistan's current framework suffers from two foundational weaknesses. First, moral authority remains confined to the micro level: Shariah boards evaluate individual contracts for compliance with fiqh, but there is no institutional capacity to assess whether the system as a whole produces just outcomes or generates systemic fragility. Second, these boards are structurally exposed to conflicts of interest: appointed and paid by the banks they oversee, their independence is compromised. These limitations stem from a deeper misframing of banks as private firms entitled to pursue profit, rather than as public agents entrusted with the power to create money. As a result, regulation is focused narrowly on preventing disruption—not on ensuring that money creation aligns with justice and public welfare.

The Concealment Of Monetary Power

The greatest obstacle to monetary reform is a misconception: the widespread belief that banks are private firms engaged in ordinary commercial activity. This belief is sustained by textbook narratives that depict banks as intermediaries—merely lending out pre-existing savings. In fact, as has been clearly established in central bank literature itself, modern banks create money when they lend: new deposits—spendable claims—are generated at the moment credit is extended (McLeay, Radia & Thomas, 2014). These deposits are backed by public institutions: legal enforceability, central bank settlement, and often explicit or implicit state guarantees.

This means that bank money is a publicly enabled franchise. Money creation is a delegated power, exercised by private agents under a publicly constructed and state-supported infrastructure. Banks portray the purchase government bonds as support of the state, ignoring the deeper reality that these purchases are made using credit which is enabled by state authority.

A thought experiment brings this asymmetry into focus. Imagine a world where anyone could issue an IOU that instantly became legal tender, and the government promised to honor it if the issuer defaulted. Such a world would make money abundant, but it would also eliminate the monopoly banks currently enjoy: the exclusive privilege to issue liabilities accepted as money, backed by collective institutions. That privilege, when granted to a select group, transforms money creation into a form of institutionalized power.

Islamic moral economy treats this privilege as an amānah—a public trust. In this view, money creation is not a neutral technical function, but a moral act that must be governed to prevent harm and uphold justice. Recognizing that modern bank money already functions as a public trust reframes the reform question: the issue is no longer whether moral governance is desirable, but what institutional structures are needed to make it binding.

Three Institutional Reforms for Pakistan

Building on this recognition, the paper proposes three institutional reforms to realign Pakistan's Islamic finance trajectory with the moral economy of money.

1. Repurpose Shariah Governance for Macro-Ethical Oversight

Shariah governance should be expanded from contract-level permissibility to system-level accountability. The task requires us to complement micro-certification by adding a macro lens. Governance bodies should be empowered to issue annual macro-Shariah opinions assessing banks' balance sheet structures, credit allocation patterns, risk posture, and public-interest performance. These opinions should be public, reasoned, and paired with conflict-of-interest safeguards and transparency requirements. This will create the necessary institutional integration, making moral authority part of macro-governance.

2. Operationalize Monetary Power as a Public Trust

Once banks are understood as exercising delegated monetary authority, they can be made subject to public-interest duties. These duties would guide credit allocation, restrict demonstrably harmful or speculative lending, and require banks to internalize the distributive effects of their operations. The State Bank of Pakistan (SBP) can enforce these duties through supervisory criteria, licensing conditions, and mandates. Persistent violations—especially those that undermine financial inclusion, contribute to fragility, or produce distributive harm—should trigger regulatory and, where permitted, judicial accountability. The principle is simple: power granted through public trust must be disciplined by public purpose.

3. Insulate Moral Oversight from Commercial Capture

A key risk is that moral governance becomes performative rather than structural. If Shariah boards are appointed and paid by the banks they review, independence collapses. To prevent this, all appointments and remuneration should be pooled under a centralized Shariah Oversight Fund, administered by the SBP. Banks would contribute proportionally, but would have no hire/fire authority over individual scholars. This repositions Shariah oversight as a public-regulatory function rather than a bank-provided service, and enables macro-level review without commercial pressure.

Embedding Public Voice In Monetary Governance

These reforms also address a deeper problem: the democratic deficit in monetary governance. Across the world, central banks make decisions that shape employment, inequality, inflation, and asset values—but ordinary people have little say in those decisions, and traditional accountability mechanisms have failed to keep pace with expanding central bank power (Best, 2016). In Pakistan, this gap is compounded by elite contestation among the military, political parties, and economic oligarchs, leaving the broader public structurally voiceless.

The proposed Monetary Justice Commission, housed within the SBP, is designed to fill this gap. It would include three constituencies: (i) economists and financial experts, (ii) civil society actors focused on public welfare, and (iii) ʿulamāʾ trained in ethical jurisprudence. This institutional triad brings the public interest into the core of monetary governance, giving moral and distributive concerns a structured voice alongside technical and regulatory criteria. It would complement the technical governance already present at SBP by serving as a counterweight that deliberates justice, prevents symbolic reform, and ensures that monetary authority serves the many, not the few.

From Compliance to Justice: Pakistan's Transition as Opportunity

Pakistan's existing Shariah governance framework already recognizes the importance of robust Shariah compliance architecture (State Bank of Pakistan 2022). The proposed reforms extend its ambition from micro compliance to macro justice. They are institutional translations of the ethical architecture developed in Section 3. Pakistan's Islamic transition is often treated as a compliance challenge—how to redesign contracts to remove interest. But the deeper opportunity is conceptual and institutional: to reimagine monetary governance itself as a trust, one that requires moral constraints, public participation, and institutional resistance to capture. These design principles—public trust, macro-orientation, and moral authority as governance—can guide real-world reform in Islamic finance and beyond.

Conclusion: Constitutionalizing Monetary Power

This paper's claim is simple: money creation redistributes purchasing power and structures economic life. In a growing monetary economy, money must be created. Financial Institutions authorized to create it acquire a form of institutionalized power. The Global Financial Crisis made visible what routine textbook accounts conceal: a system can be "well-designed" in ratios and models and still deliver morally catastrophic outcomes through foreclosure, unemployment, and the massive bailouts of those responsible for the crisis. The problem is a missing commitment to justice: ensuring the gains are shared fairly in booms, and losses allocated justly in busts.

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This paper's proposed solution is institutional: monetary governance must be built on a three-pillar structure—banks, the state, and a standing moral authority—to ensure that justice becomes a binding constraint throughout the business cycles of boom and bust.

Pakistan serves in this paper as an illustration because it already contains the institutional raw material for a credible moral pillar: Islamic banking, Shariah governance structures, and a legally salient transition trajectory. But the underlying design logic is not Pakistan-specific. The general point is that moral consensus requires institutional embodiment. Many societies exhibit widespread moral outrage at predatory practices—consider, for example, the routine public anger at exploitative health financing arrangements or price-gouging scandals—yet the typical regulatory response is a technical patch followed by quiet dilution under lobbying and revolving-door pressures. The missing element is an office that can enforce justice as governance: with independence, visibility, and consequence. A Monetary Justice Commission that genuinely constrains monetary power will face resistance—but it would also attract broad public support, making its establishment politically feasible despite elite opposition.

Money creation is power—and power demands accountability. This paper has argued that monetary systems built on public trust must serve public purpose. Technical tools and moral appeals cannot create a just financial order. The power to create money must be matched by a duty to protect the public. Justice must be enforced by institutions across the business cyle: "in sickness, and in health." That is the promise—and the challenge—of moral monetary reform.

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