



# Book Review: An Islamic Model for Stabilization and Growth

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The repeated failure of structural adjustment programs (SAPs) and stabilization designed by the IMF and World Bank in developing countries has created an urgent need for an alternative economic paradigm. The book *An Islamic Model for Stabilization and Growth* by Adama Dieye (2020) offers a macroeconomic approach based on Islamic principles, emphasizing a risk-sharing mechanism instead of the risk-shifting that characterizes the conventional model. Through a case study of Senegal, the book demonstrates that applying the Islamic economic model can produce more sustainable economic stability, more inclusive growth, and enhanced social justice. This article elaborates on the conceptual ideas and empirical findings of the book and highlights its relevance for economic policy reform in Muslim and developing countries.

**Keywords: Islamic Economics; Stabilization; Growth; Risk-Sharing; IMF**

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## INTRODUCTION

For more than four decades, international financial institutions like the IMF and World Bank have been the primary reference for designing economic stabilization and adjustment policies in developing countries. However, the results have often been disappointing. Policies based on fiscal austerity and market liberalization have instead deepened social crises—increasing poverty, unemployment, and income inequality. This phenomenon has been experienced not only by African nations but also by many Muslim countries that implemented IMF programs with results far below expectations.

Adama Dieye, an economist from Senegal and an official at the Central Bank of West African States (BCEAO), highlights this issue through an in-depth analysis of the IMF's adjustment model. He argues that these failures stem from the fundamental assumption of the conventional system, which relies on shifting risk (risk-shifting) from creditors to debtor nations. This mechanism reinforces a cycle of dependency and weakens the economic sovereignty of developing countries.

As an alternative, Dieye offers an Islamic Model for Stabilization and Growth—a macroeconomic approach grounded in the principles of justice, balance, and risk-sharing as taught in the Qur'an and Sunnah. Islam is seen not merely as a moral system, but also as an institutional system that governs human economic and social behavior within a framework of distributive justice. This approach becomes increasingly relevant amidst the failure of the Washington Consensus paradigm, the 2008 global financial crisis, and the growing calls for an ethical and sustainable economy. The Islamic economic model developed by Dieye not only targets Muslim countries but can also be applied in any country wishing to achieve economic stability without sacrificing social justice.

Dieye's Islamic economic model departs from five main conceptual pillars:

- a. **Tauhid (Unity):** Affirming that all economic activity must reflect the oneness of God and social justice as the ultimate goal.
- b. **Khilafah (Vicegerency):** Humans are responsible for managing resources justly and sustainably.
- c. **'Adl (Justice):** Every economic policy must ensure a balance between individual rights and societal interests.
- d. **Ikhtiyar (Freedom with Responsibility):** The market is recognized as free but is regulated by moral norms

that prevent exploitation.

- e. **Takaful (Mutual Responsibility):** The Islamic economy emphasizes social solidarity through risk-sharing mechanisms and zakat.

With this foundation, the Islamic economic system rejects *riba* (interest) and speculation, replacing them with partnership-based contracts like *mudarabah* and *musharakah*. In a macroeconomic context, fiscal and monetary policies are directed to support real stability, not just nominal stability, and to balance income distribution.

Dieye's research uses the counterfactual simulation method—an empirical approach that compares Senegal's economic performance under the IMF program (1980–2014) with a hypothetical scenario of applying the Islamic model. This model assumes two main conditions: (1) No interest-based debt instruments; all financing is done via profit-sharing schemes; and (2) The market functions freely but operates within an Islamic value framework that prohibits monopoly and hoarding. Senegal's macroeconomic data (growth, inflation, fiscal deficit, and poverty) were used to assess the different outcomes between the IMF model and the Islamic model. The simulation results show that a risk-sharing-based system can achieve stability more quickly with more inclusive growth and lower levels of inequality.

## RESULTS AND DISCUSSION

### Weaknesses of the Conventional Model: The IMF Paradigm and Risk-Shifting

The Structural Adjustment Programs (SAPs) designed by the IMF since the 1980s assumed that economic crises in developing countries stemmed from fiscal and monetary imbalances due to inefficient domestic policies. Therefore, the solutions offered focused on:

- a. fiscal tightening (reducing subsidies, cutting public spending),
- b. market and trade liberalization,
- c. currency devaluation, and
- d. privatization of state-owned enterprises.

However, this approach is based on a risk-shifting paradigm, transferring risk from creditors (donor countries and international financial institutions) to debtor nations and the poor. The IMF became the "lender of last resort," but also acted as a "gatekeeper" determining a country's eligibility to receive loans or

return to the global financial market. In practice, as Dieye notes, this policy creates a cycle of permanent dependency, because:

External debt increases faster than export capacity.

- a. Tax revenues decline due to excessive economic liberalization.
- b. Social inequality widens due to cuts in social spending and real wages.
- c. The productive sector loses competitiveness due to interest-based capital costs.

The case of Senegal is a clear example. Despite following various IMF programs since 1979, the country continued to experience fluctuating growth, low productivity, and dependence on external debt. Real growth only increased by an average of 3–4% per year, while the poverty rate remained high at over 35%. This demonstrates a paradox of stabilization without welfare.

### **Key Features of the Islamic Economic Model: Risk-Sharing and Distributive Justice**

As an antithesis to the IMF model, Dieye proposes an Islamic Macroeconomic Framework that emphasizes the principle of risk-sharing. This concept is not merely a substitute for the interest mechanism, but an institutional philosophy that demands a complete overhaul of economic policy design. In the Islamic system, risk is considered *sunnatullah*—a natural part of economic activity that must be shared proportionally among the parties involved in a transaction. Therefore:

- a. No party bears the burden of risk unilaterally, as in an interest-based debt system.
- b. Profit and loss are shared based on capital and labor contributions and participation.

This model encourages social involvement and economic solidarity, as affirmed in the concepts of *takaful* (mutual guarantee) and *ukhuwwah iqtisadiyah* (economic brotherhood).

The implementation of risk-sharing is carried out through:

- a. *Mudarabah* and *musharakah* instruments for productive investment.
- b. Development *Sukuk* based on tangible assets.
- c. Integration of *zakat*, *waqf*, and *sadaqah* into fiscal policy.
- d. Enforcement of the principle of justice in prices, wages, and contracts.

Dieye's simulation results show that by

replacing interest-based financing with risk-sharing, Senegal's economy would have higher macro stability and a lower fiscal deficit compared to the IMF scenario.

### **Critical Analysis: Efficiency, Stability, and Justice**

In Islamic macroeconomic theory, efficiency is not measured solely by output (GDP), but also by allocative efficiency—the system's ability to allocate resources fairly and productively. The Islamic model eliminates the distortion of interest, so investment is directed more toward the productive real sector. This creates a stronger multiplier effect on job creation and welfare.

The interest system in the conventional model is pro-cyclical: during a crisis, interest rates rise and worsen the recession. Conversely, a risk-sharing system is counter-cyclical—because risks are borne jointly, economic activity does not come to a drastic halt when a shock occurs. Thus, the Islamic economy has a stronger automatic stabilizer mechanism.

The concept of *'adl* (justice) is central to Dieye's analysis. In the IMF model, austerity policies often sacrifice the poor. In contrast, the Islamic model incorporates redistributive instruments like *zakat*, productive *waqf*, and social grants into the fiscal policy framework, ensuring vertical justice (between rich and poor) and horizontal justice (between regions and sectors).

Dieye (2020) emphasizes that the Islamic economy is not just technical, but also normative-institutional. Economic stability can only be achieved if individuals and institutions submit to moral values such as *amanah* (trust), honesty, and social responsibility. Therefore, institutional reform is a primary prerequisite. The government must function not as an "instrument of the market," but as a "guardian of justice".

Interestingly, Dieye asserts that the risk-sharing-based model is not just for Muslim countries. In the global context after the 2008 financial crisis, these principles have received widespread attention from Western economists, including Stiglitz and Blanchard, who have called for a reformulation of macroeconomic theory to be more ethical and humane. Thus, the Islamic model has the potential to become a new universal economic paradigm, not just a sectoral alternative.

Overall, this discussion shows that:

- a. The main weakness of the IMF model is its imbalance between economic efficiency and social justice.
- b. The Islamic economic model offers an integration

of both through risk-sharing, distributive justice, and ethics-based governance.

- c. Empirically, the simulation results in Senegal prove that the Islamic system is capable of producing higher growth, lower inequality, and more resilient stability against external shocks.

Thus, the Islamic Model for Stabilization and Growth can be seen as a prototype towards "Ethical Macroeconomics"—an economic paradigm that unites efficiency, justice, and sustainability.

## CONCLUSION

The Islamic stabilization and growth model developed by Adama Dieye offers a new paradigm in macroeconomics that favors justice and balance. By replacing the risk-shifting mechanism with risk-sharing, this model places moral and social values at the core of economic policy. The Senegal case study shows that applying Islamic principles is not only compatible with modern economic growth but is also capable of overcoming the roots of inequality and external dependency.

This model is relevant for Muslim countries wishing to escape the debt trap and IMF dependency, as well as for other countries seeking a more ethical and sustainable economic model. Thus, Dieye's work is an important contribution to contemporary Islamic economics literature, affirming that true stability and

growth can only be achieved through social justice, economic solidarity, and adherence to Divine values.

To implement this model, Dieye recommends gradual reforms including:

- a. Institutional reform, by strengthening the rules of economic behavior based on the values of justice and accountability.
- b. Real sector and trade reform, to encourage value-added production and halal exports.
- c. Fiscal reform, through a zakat and waqf system integrated with income redistribution policies.
- d. Monetary and banking sector reform, by eliminating interest and expanding Shariah financing.

This gradual approach is expected to create a balance between macroeconomic stability and social welfare.

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