

## Islamic Economics for Social Justice and Welfare Excerpt from Seerah of Prophet Muhammad SAW

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### Abstract

Extraordinary progress and expansion of Islamic banking and finance in the last two decades have made people around the globe starting to acknowledge the role of Islamic economics. Despite many research and studies on Islamic economics been pursued by using different approaches and methodologies, studies on economics based on Seerah of Prophet Muhammad SAW are still in limited number. In fact, Prophet Muhammad SAW had applied economic and political policies which later created a just, stable and well-balanced society and a new prosperous civilization. Prophet Muhammad SAW laid organizing concepts and fundamentals of an Islamic economy. He established Baitul Maal (Federal Reserve) and adopted an anti-inflation currency. He declared a war against corruption and *riba* and pushed Ummah's creativity and innovation in every field of industries and global trade. Using historical methodology, this paper attempts to extract the concepts of Islamic economy and business that were introduced by Prophet Muhammad SAW in the Madinah Period. With a deep scrutiny of the Prophetic Seerah, this paper will address the core economic principles based on Islamic teachings, which advocate social justice and welfare for the society.

Keywords: *social welfare, Islamic economics, Madinah economics, economy in Prophet Muhammad's time*

### I. INTRODUCTION

Welfare is a condition that requires fulfillment of basic needs for individual or group either in the form of food, education and health; whereas welfare is the antithesis of misery, ill-being and suffering. Islamic concept on welfare, generally involves both physical and spiritual welfare. The manifestation of social welfare in Islam is that every individual should enjoy protection that includes four things: religion (*al-din*), soul or body (*al-nafs*), intellect (*al-'aql*), honor (*al-'irdh*), and wealth (*al-mal*). *Hifz al-Mal* means protection of the financial life of person by the obligation to obtain rizq (provision), through working, trade and business. Islam also protects wealth by the prohibition of stealing, deception, treachery, taking someone else's property by unlawful means, damaging the property of others, and reject usury.

From Islamic framework for socio-economic dynamics, a government should be able to guarantee the welfare of the citizen, by providing a suitable environment for the actualization of social development

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and justice, through the implementation of *Sharia*. It manifests itself in the well-balanced distribution of wealth that is done for the common good of the people in the long run. As a messenger of Allah, and the leader of the Ummah, Prophet Muhammad SAW's duty is to guide them toward prosperity in this world and happiness in the hereafter. In an effort to get worldly welfare, the implementation of a smooth, fair and conducive economic life is very important and decisive. Therefore, in the field of economics, Rasulullah SAW tried to ensure the fulfillment of sufficient and adequate basic needs of every individual and provide the opportunity for them to gain their life necessities according to their own capacity.

In order to meet the expectations, the Prophet SAW laid the foundations of economic policy that was developed based on the instructions from Allah in the Qur'an. Some of the Quranic verses on social justice are Al-Nisaa (4) vs. 58, Al-Ma'ida (5) vs. 8, Al-An'aam (6) vs. 152, Al-Nahl (16) vs. 90. The Prophet SAW identified all the existing economic problems, including violations of norms and business ethics. Then, slowly but convincingly, the Prophet laid the outlines of economic policy and the ways of solving the social welfare problems. This paper started with an excerpt of the economic reforms undertaken by Rasulullah SAW in his early days in Madinah, and followed by an outline of his economic principles, policies, and the concept of economic welfare and finally closed with the brief survey on the *Seerah* works that were written from economic perspective.

## **II. PROPHET MUHAMMAD'S EARLY DAYS IN MADINAH: IDENTIFYING THE SOCIO-ECONOMIC PROBLEMS**

Prophet Muhammad SAW, a charismatic figure and dubbed as *al-Amin* (trustful) was instantly more supported by the Madinah people as the leader of the inborn city-state, than to the other tribal chiefs in Madinah such as Abdullah ibn Ubayy, the hypocrite. This position enabled Prophet Muhammad SAW to focus on analyzing the condition of Madinah. Social injustice and ill-being in the Madinian society had brought Prophet Muhammad SAW to ponder upon several strategic measures for the improvement of the economic condition of that city which initially before *hijrah* was in major disorder and had no supreme leader. In the early period of *hijrah*, while the Jews dominated the agricultural-based market and economy, the Arab tribes, Aus and Khazrah were less aware, incompetent and constantly fought against each other in enmity. Lack of public revenues and non-existence of taxation system were among real problems that he had to solve and required an immediate address, in addition to the issue of

rehabilitation and integration of the Maccan refugees (*Muhajiriin*) into Madinian society.

As the head of the state, Prophet SAW realized that the migration in a large scale will weaken the economy and the stability of Madinah. There were at least three economic problems arising from Meccan refugees: the problem of shelter for the immigrants, equal wealth distribution because of the Makkah immigrants who had left all of their assets in Makkah, and lastly the problem of unemployment. As known, the Meccan *Muhajirin* did not master the technique of farming like the Ansar because they mainly depended on trade as source of income. Prophet Muhammad was able to address these problems by *Makkah*, uniting and tying the immigrants and the Ansar of Madinah in a brotherhood. This effort was to maintain internal stability of the country and solve aforementioned economic problems. For maintaining external stability, Prophet Muhammad SAW entered into an agreement with the Jews in Madinah. Among the contents of the agreement is that the people of Madinah, whether Muslim or Jew must maintain the security of the Madinah from outsider attacks in addition asked them to uphold the tolerance among the people of Madinah.

All foundations of Islamic economics reform have been practiced in those days, of course, in a very simple stage in accordance with Prophet SAW's time. Financial institutions such as banks and large companies certainly had not been established. However, the monetary institution level of government had existed, in the form of Baitul Mal. Prophet Muhammad painstakingly began from zero with no financial resources, together with Muslim voluntarily building the *masjid* as the center of the new state. A piece of land purchased by Abu Bakr which later became a mosque which had functions "as the parliament, the secretariat, high court, army headquarter, foreign office, guest house, centre of learning, training school for the missionaries, their hostel, *baitul mal*, council hall or in short the Islamic centre".<sup>(1)</sup> It was a brilliant idea to build the mosque as the nucleus of all governmental activities and to retrench country's fund to develop state infrastructure.

Many strategic reformation were undertaken by the Prophet SAW in Madinian society, especially on the economy, such as setting a standardized weigh measurement, prohibiting monopolistic system, empowering land (*Ihya-ul Mawat*), which serves to add public income, prohibiting the practice of usury which can paralyze the economy, enforcement of *zakat*, *ghanimah* (spoils of war), *fa'i*, and *dharibah* (tax)

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1- Sabzwari, M.A., "Economic and Fiscal System during the Life of Holy Prophet (P.B.U.H)," *Journal of Islamic Banking and Finance* 1, no. 4 (1984), 170.

that serves as an income for the country, prohibiting cheating in trade and business, advocating honesty and justice, establishing *Bait al-Mal* as a monetary institution and the state treasury, opening Muslim market, and building water irrigation for farmers.

### III. ESTABLISHING ECONOMIC PRINCIPLES BASED ON DIVINE LAW

Rasulullah SAW, as mentioned by the Qur'an in the Surah al-Ahzab vs. 21, is the perfect example (*uswatun hasanah*) for human being. He did not just give ideas of how the economy of the country should be built, but also gave a direct example of the application of these ideas although in relatively low population and small scale of territory. Islamic country at his time only covered a small part of Arabia, based in Madinah. However, he had provided the fundamental underpinnings of the economic system with broader size and scale. Therefore, the economic management under the Muslim community is arguably the basic model for the future development of Islamic economics at any time, including the present.

To respond to the economic problems in early Madinian period, the Prophet SAW laid the foundation of political economy that comes from the Qur'an, among others were: the implementation of the human duty as a *khalifah* to achieve prosperity in this earth, to ensure the principles of *Sharia* being enforced in the process of economic development; and optimization of all natural potentials for prosperity and human well-being. Based on those foundations, the Prophet SAW solved all economic problems by making various policies which are then used as a core principle in the Islamic economic system. Key principles include: conducting a lawful business; implementing life-saving and no extravagance life; upholding the principle of fair economic and encouraging a balance between the real and financial sectors; implementation of the social security system through the implementation of *zakat*.<sup>(1)</sup>

Early administration of Madinah under Prophet Muhammad SAW was simple, but it already demonstrated the principles that are fundamental to economic management. Due to Qur'an as source of the economic principles, the character of the economy during that period was a high commitment to ethics and norms, as well as concern for justice and equality of the people. Each activity should include the concept of *maslahah* (public interest) that leads to *ukhuwah Islamiyah* (Islamic brotherhood). Economic

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1 - Muhammad Syafii Antonio, *Encyclopedia Leadership & Management of Muhammad SAW, the Super Leader Super Manager* (Jakarta: Tazkia Publishing, 2011), 194-196.

activities must be done ethically within the framework of Islamic *sharia*. Financial resources should not accumulate in one person alone but must be divided between the communities. This is done so that issues such as the gap between the poor and the rich are resolved in the economy at the time of the Prophet Muhammad SAW.

The first most fundamental step that Rasulullah SAW performed in managing the economy is to restore transcendent aspect of economic and business activity like in pre-*jahiliyyah* era which often associated the provision with the divine will. However, the *jahiliyah* society at that time, thinking quite secular, had put the economic and business activities solely as mundane activities in order to gain material prosperity. Prophet Muhammad SAW restored the spiritual perspective on economy, by upholding Islamic values and ethics as fundamental element in building Madinah's economy. Today Islamic ethics have proved to be fundamental in creating an economic system that is fair and stable. Countless modern scientists, both Muslims and non-Muslims, have tested the validity and rationality of Islamic ethics on the economic system. He abolished the prohibited economic transactions and practices such as *riba* (usury or interest), *gharar* (excessive uncertainty and speculation), *maisir* (gambling), *tadlis* (manipulation & dishonesty), *ihtikar* (hoarding and monopoly) and so forth that today are proved as the causes of economic instability. Prophet Muhammad SAW enforced cooperation, mutual help, honesty, efficiency and productivity in *halal* and lawful economic transactions such as *mudharabah*, *musharakah*, *murabahah*, *ijarah*, *rahn*, *muzayyadah*, *al-Qardh*.<sup>(1)</sup>

Generally, the economic management exemplified by Rasulullah SAW is the synergy or harmonization of three sectors; the market, government, and society. Islam determines all the proportional functions and roles of these three sectors. This mechanism is different from capitalism which is more reliant on the role of the market (liberal market) by minimizing the role of government and society, and in contrast to socialism which is more reliant on the role of government to minimize the role of the market. The harmonization between three sectors is a must to ensure that economic resources can be managed optimally to create prosperity for the entire community.

The market plays an important role in the economy, because the market is a place of trade and commerce with voluntary and mutual

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1 - Muhammad Syafii Antonio, *Encyclopedia Leadership*, 122-141.

goodwill between buyers and sellers (*antarâdhim minkum*).<sup>(1)</sup> That market mechanisms can work well and provide mutual goodwill for the people, if we enforce Islamic values of absolute morality. Particularly morality such as healthy competition (fair play), honesty, transparency and justice. To ensure the implementation of those Islamic values, Prophet Muhammad SAW used to supervise and monitor the market. He banned the various business models that were contrary to Islam. Even he himself inspected the prices of the goods, accuracy of the scales, the honesty of the seller and warned the traders who cheated. Rasulullah SAW's role as a market inspector or *al-muhtasib* later was continued by his successors, his companions into an institution called *al-hisbah*.<sup>(2)</sup>

The government's role in Islam is not simply to compensate for the shortcomings of market mechanisms but is based on fundamental and permanent reasons. The government is the vicegerent of Allah (*khalifatullah*) that organizes people and economic resources. Governments act as planners, supervisors, producers and consumers for market activity. Formation of *Bait al-Mal* during Prophet SAW's time was a pioneering and revolutionary step, in which state assets were managed by the government. At his time and even until centuries later, in Europe and the various communities in other part of the world, the individual and the state wealth were still mixed. In fact, in many cases wealth was the wealth of the King. *Bait al-Mal* at the time of the Prophet SAW was still very general, managing state property for all purposes. However, at the time of Umar bin Khattab RA, various *Bait al-Mal* with special function had been established, for example, *al-Divan* which served the social benefits.<sup>(3)</sup>

Some of the economic policies of the Prophet Muhammad SAW are briefly stated in three aspects, namely the improvement of all forms of prohibited transactions, revision of the compensation system (wages), and the improvement of fiscal policy and public finance. Settling all forms of forbidden transactions such as transactions that contain elements of *riba* (taking prohibited additional money), *gharar* (excessive uncertainty and speculation), *ihtikar* (hoarding and monopoly), *tadlis* (manipulation or transactions which is not based on honesty), and *zulm* (injustice for one or many parties).<sup>(4)</sup>

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- 1- See, Qur'an Surah an-Nisa', verses 29: "O you who believed, do not Consume one Another's wealth unjustly but only (in lawful) business by mutual consent. And do not kill yourselves (or another). Indeed, Allah is to you ever Merciful."
  - 2 - See Ibn Taymiyah, *Public Duties in Islam: The Institution of the Hisbah* (Leicester: Islamic Foundation, 2007).
  - 3 - Muhammad Syafii Antonio, *Ensiklopedia Leadership*, 239-240.
  - 4 - Muhammad Syafii Antonio, *Ensiklopedia Leadership*, 144.

Madinah led by the Prophet Muhammad SAW also had a unique system of fiscal policy during his rule. Historically, fiscal policy in the early days of Islam can be divided into two periods, namely the period before and after expansion of Islam. The important elements of fiscal policy in the first period were the contribution of the spoils of war and charity. In this first period, the country's financial system was still in progress simply because it concerned an area not so wide. Nevertheless, it is surprising that Muslims already had the idea of creating their own currency. The second fiscal period, precisely was at the time of Umar bin Khattab, he tried to continue the policy of the Prophet Muhammad. However, due to the wider region of the caliphate, the country needed a more systematic operational system like Persian *diwan*. The sources of state revenue of Madinah came from *zakat*, *khums*, *jizya*, *kharaj*, *Fai* ' and other sources.

#### **IV. The Concept of Economic Welfare at the time of Prophet Muhammad in Madinah.**

On individual level, Prophet Muhammad as a head of the family and a businessman was a perfect example for Muslims to follow to ensure individual economic well-being. He shows us that it is a divine duty to work: “By him in whose hand is my soul, if one of you were to carry a bundle of firewood on his back and sell it, that would be better for him than begging a man who may or may not give him anything.”<sup>(1)</sup> Every head of the family must responsibly provide maintenance costs (*nafqah*) of his relatives, such as wife, children and needy parents.

He also enforced the payment of *zakat* (almsgiving duty) that has been sanctioned by Allah in the Qur’an and he also obliged charitable assistance (*sodaqah*). These two things were enforced because Prophet wanted to protect the poor from the economic exploitation of the rich and to distribute the wealth among the people based on the concept of socio-economic justice. In Islam, it is believed that the wealth belongs to Allah alone and human is merely His viceroys in this world and not the real owner. People may acquire the wealth through lawful manner and legal means and their private property is recognized in Islam but must be kept in circulation. He also exemplified the lawful business and financial transactions carrying out the conditions laid down in the Islamic law. Additionally, Muslim must have a high regard for other peoples’ possessions by staying away from unproductive malpractices, disruptive behaviors such as robbery, extortion, deceiving, gambling, hoarding, monopoly, etc.

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1 - Bukhari, Muhammad bin Ismail al-Bukhari, Sahih Bukhari, Book: Obligatory Charity Tax (Zakat), Chapter: To abstain from begging ( كتاب الزكوة ، باب الاستغفاف ) (عن المسئلة), Hadith: 1470.

On the state level, Prophet Muhammad as the leader, constructed the policies that create a prosperous country. He said that it is a duty of the government to protect the freedom and assure a sustenance level of basic needs such as food, clothing, shelter, medical care and education to its citizens. As a leader, Prophet SAW determined the state interference in fiscal policies such as to set up the guidelines and parameters, to command, to protect and to control the economic activities and to supervise the market against hoarding, inflation, and deceit. The state must protect the social security of every citizen regardless of the religion without any discrimination.

#### **V. Prophet Muhammad's Practices of Islamic Economics in the *Seerah* literatures**

The economists hardly use *seerah* or the biography of Prophet Muhammad SAW as one of the reference for solving the economic problems and understanding market behavior. Among the sources for Islamic economics are Qur'an with its *tafsir* (exegesis) books, *hadith* (prophetic tradition), *fiqh* (Islamic jurisprudence), *ijma'* (consensus of Prophet's companions) and *ijtihad* (*shari'ah* expert's analogical reasoning). As far as the present researcher is aware, little attempt has been made to provide a critical analysis of the economic history of the life of Prophet Muhammad SAW. For instance, the work of Afzalurrahman, entitled *Encyclopedia of Seerah Volume III, Muhammad as A Trader*, is a unique approach to discuss the history of Prophet Muhammad as a man and a businessman. This book has discussed the economic aspect of Prophet Muhammad's life but with a limited information. Afzalur Rahman deals mostly with the explanation of his own ideas and understanding, and simply mentions in passing about the economic policies of Prophet Muhammad SAW.

Studies dealing with Islamic economics fail to trace their linkages with Prophet Muhammad SAW economic practices. Furthermore, there is a need to explore some important insights about how did the Islamic economic elements such as *zakat*, *waqf*, *jizyah*, *fa'i*, market and others were functioning according to *Sharia* and social norms during his life.

After a couple of developments in economic activity, in the 2<sup>nd</sup> century AH, the Muslim scholars began to put the rules for the construction of Islamic economic system. These regulations include the lawful ways of transactions, the prohibition of usury, pricing, market regulation, public finance and so forth. However, the rules that have been developed are still in the form of chapters scattered in the books of *fiqh* and history, not into a special book with the title of Islamic economics or even *seerah* written with economic perspective.

Early Muslim works beginning in 7<sup>th</sup> century AD and on Islamic economic are a collection of Prophetic traditions but written in almost juridical approach with less stress on the economic investigation of fiscal policies. For example, the books that must have preceded the works of Western economists today, entitled *Kitab al-Kharaj* (Book of Taxation) by Abu Yusuf (d.182/798) and also by Yahya b. Adam (d.203/818). *Kitab al-Amwal* of Abu Ubayd (The book of Finance) that although contains many *Ahadith* (Prophetic traditions) but are categorized by the scholars as *fiqh* books (jurisprudence). The books of Maliki school of jurisprudence for example: *Al-Mudawwanah al-Kubra* of Imam Malik (93-179 H), *Bidayatul Mujtahid* of Ibn Rushd (d. 595 H), and *Al-Jami' li ahkamil Quran* of Imam Al-Qurtubi (d. 671 H). The books of Hanafi school of jurisprudence: *Tuhfatul Fuqaha* of Imam Alauddin as-Samarqandy (d: 540). The books of Shafi'i school of jurisprudence for example: *Al-Umm* of Imam Shafi'i (150-204 H), *Al Ahkam Al-Sultaniyah* of al-Mawardi (d. 450 H), *Al Majmu'* of Imam Al-Nawawi (d. 657 H), *Al-Ashbah wan Nazair* of Jalaluddin Suyuti (d. 911 H). The books of Hanbali school, such as: *Al-Ahkam al-Sultaniyah* of Qadhi Abu Ya'la (d. 458 H), *Al Mughni* of Ibn Qudamah (d. 620 H), *Al Fataawa al-Kubra* of Ibn Taymiyyah (d. 728 H).<sup>(1)</sup>

When we examine all of these *fiqh* books and other books such as the works of Al-Maqrizi, Al-Aini and even Ibn Khaldun that is similar with the work of Adam Smith; a lot of problems and rules related to Islamic economics and fiscal policies can be found. However, there is no independent *seerah* literature that discusses about the life of Prophet Muhammad SAW from the economic point of view. In sum, the *seerah* that explains about the economic aspect is desperately needed and can lead to enlighten us about the state of fiscal policies and economic institutions during Prophet SAW's days about ten years in Madinah. The *ummah* is in need for a *seerah* written from economic perspective that use the chronological methodology in its narration with great accuracy and tailored together with the supporting reliable *hadith* and *riwayat*.

## VI. CONCLUSION

Prophet Muhammad SAW as a conceptualizer of policies on economic system, integrated economics with values and ethics had made Islamic civilization flourished for centuries. Rasulullah SAW is a great and real economist. He had reformed the wrong fundamental views on the economy and laid the foundations for a just and stable economic system. Amazingly,

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1 - Sabahuddin Azmi, *Islamic Economics: Public Finance in Early Islamic Thought*, (New Delhi: Good word Books, 2002), 30-36.

he did not only convey the ideas of economic reform, but led the reform process directly by his own.

In the modern era, the concept and practice of Islamic economics today both in the Muslims and non-Muslims countries have brought public attention toward Prophet Muhammad SAW. The prophetic or *sharia* economic system has been widely acknowledged and will be relevant in the future. Today, partial reimplementaion has also been carried out, although the deviation from the ideal concept is still a lot going on. We need to work extra hard to achieve the ultimate objective of Islamic economics, which is to create a well-balanced and prosperous society.

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