

An Analysis of Economic Policies Implemented by Prophet Muhammad during His Governance in Madinah

(A Comparative Study with Capitalist and Socialist Economic Systems)

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ABSTRACT

This study aims to examine and analyze the economic policies implemented by Prophet Muhammad during his governance in Madinah, and to compare them with capitalist and socialist economic systems. Through an analysis of historical sources and existing research on Islamic economics, capitalism, and socialism, this study aims to shed light on the distinct characteristics of Prophet Muhammad's economic policies. The research focuses on seven crucial aspects, including the market mechanism, prohibition of interest, uncertain transactions, hoarding and monopoly, and more. By uncovering these aspects, the study reveals the unique principles of Islamic economics, which prioritize ethical and moral considerations in economic transactions and reject the notion of interest. Additionally, it highlights the Prophet's implementation of a market system that fosters free competition, cooperation, and equitable exchange, while discouraging monopolistic practices. By presenting these findings, the study contributes to a better understanding of the disparities between Prophet Muhammad's economic policies and the frameworks of capitalism and socialism.

Penelitian ini bertujuan untuk menganalisis kebijakan ekonomi yang diterapkan oleh Nabi Muhammad selama pemerintahannya di Madinah dan membandingkannya dengan sistem ekonomi kapitalis dan sosialis. Metode penelitian yang digunakan adalah studi literatur terhadap sumber-sumber sejarah serta penelitian terdahulu tentang ekonomi Islam, kapitalisme, dan sosialisme. Fokus penelitian ini adalah pada tujuh aspek utama kebijakan ekonomi Nabi Muhammad, yang terdiri dari mekanisme pasar, larangan riba, larangan transaksi yang tidak pasti, larangan menimbun barang dan monopoli, dan lain-lain. Hasil penelitian ini menunjukkan prinsip-prinsip khas ekonomi Islam dari kebijakan ekonomi tersebut, yaitu penekanan pada prinsip-prinsip etis dan moral dalam transaksi ekonomi dan penolakan terhadap bunga. Selain itu, penelitian ini juga melihat bagaimana Nabi mengatur sistem pasar yang didasarkan pada persaingan bebas dengan kerjasama dan pertukaran yang adil, sambil melarang praktik monopoli. Berdasarkan temuan tersebut, penelitian ini berkontribusi untuk membantu menambahkan penjelasan tentang perbedaan kebijakan ekonomi Nabi Muhammad dengan model ekonomi kapitalisme dan sosialisme.

Introduction

This paper aims to conduct a comparative study of the economic policies implemented by Prophet Muhammad during his governance in Madinah with capitalist and socialist economic systems. The objective is to shed light on the unique aspects of the Prophet's economic policies and their relevance in today's economic landscape. This study builds upon and extends previous research on the topic by examining the Prophet's economic policies through a comparative lens.

When migrating from Mecca to Yathrib (in the 13th year of his prophethood) and being received by the people of Yathrib with open arms and joy, Prophet Muhammad gained their trust and was appointed as their leader. He swiftly established a state called "the State of Madinah" and was entrusted with the role of its head. Thus, Prophet Muhammad possessed two authorities: religious authority as a prophet and political authority as the head of state and government.

As a prophet and head of state, Prophet Muhammad developed the State of Madinah in various aspects, considering the prevailing circumstances of the time. One area that received his attention was the field of economy. He focused on building a strong economic foundation by implementing key principles that became the basis for the development of Islamic economy in subsequent periods. The economic principles he established are then reflected in several policies he implemented to ensure a healthy, fair, high-quality, and religiously guided economic system.

Previous researches discussing Islam and capitalism focused on compatibility of Islamic economics with modern capitalism. Banaji (2007) revisited the origins of capitalism, in which was thought to be emerged from feudalism in Europe after the 11th century. He suggested periodizing this early capitalism into distinct 'Mediterranean' and 'Atlantic' phases, acknowledging the incorporation of Islam which played a significant role in shaping capitalism through its preservation of a monetary economy and its early development of partnership structures. Karim (2010) also highlighted that some principles of modern capitalism are in line with Islamic economics, particularly in terms of supporting free markets, economic globalization, and profit. However, Islamic economics incorporates distinct ethical and moral principles that govern economic transactions. It rejects the concept of interest or *riba*, which involves making money from money, and prohibits the transfer of risk from financiers to entrepreneurs. Kourgiotis (2018) explored the complex relationship between contemporary Islamist thought and the modern capitalist economy, focusing specifically on the case of Egypt. His study revealed intricate dynamics between Islamist thought, capitalism, and religious piety, and highlighted how the intersection of these factors has shaped economic ideologies and practices in Muslim societies of Egypt.

As for socialism, previous researches discussing it with Islam focused on their relationship in broader social context, which was brought by important historical figures. Seddon (2017) studied the life of Abdullah Quilliam and his unique perspective as a socialist. Quilliam was known of his involvement in the working-class trades union movement, and his reputation as a lawyer for the poor further highlight his strong connection to the struggles of the working class. Seddon highlighted that while Quilliam's religious and political activism was primarily driven by his conversion to Islam, it was also shaped by the emerging proletariat and revolutionary socialism of the time. Fogg (2019) and Makin (2017) similarly explored the intellectual origins of Islamic socialism in Indonesia, focusing on the influential role of

H. O. S. Tjokroaminoto. His engagement with Mushir Hosein Kidwai's work, likely facilitated by the Ahmadiyah community, laid the groundwork for future Islamic socialist thought in Indonesia, including the publication of his book "Islam and Socialism", which has resonated in secular nationalism, political Islam, and even Islamism.

Few scholars also tried to Islamic economy with both capitalism and socialism. Nuredini & Matoshi (2022) compared business ethics and corporate social responsibility within capitalism, socialism, and Islamic economic system, and presented the similarities and differences between the three. They stated that Islamic doctrine strives to establish equilibrium between the material and spiritual requirements of individuals while also considering the welfare of both the individual and the broader social community. Similarly, Chowdhury (1999) explored resource allocation in the context of capitalism, socialism, and Islam. His study suggests that efficient resource allocation in an interest-free economy can be achieved by introducing the concept of "accounting price" for capital based on Islamic opportunity cost.

There are many more studies discussing Islam and capitalism (Botoeva, 2018; Brown, 2008; Farooq & Ahmad, 2022; Madi, 2014; Salimi, 2012; Şengül, 2015; Tripp, 2006) or Islam and socialism (Bernholz, 2017; Brede et al., 2015; Enayat, 1968; Hale, 2019; Hanna, 1968; Kamran, 2016; Murphy, 2010; Najjar, 1968; Ybert, 2013) in various perspectives. However, economic policies of Prophet Muhammad in Madinah compared to capitalism and socialism is yet to be discussed.

While Yaka (2022) has also emphasized the Prophet's economic policies in abolishing practices which led to unlawful profits, a comparative study can provide a comprehensive understanding of how his economic principles differ from those of capitalist and socialist frameworks. This research aims to contribute to the existing body of literature by exploring the distinctive elements of the Prophet's economic policies, and comparing it with both capitalism and socialism.

Economic Policies Implemented by Prophet Muhammad

In building a healthy, good, high-quality, and religiously guided economy, Prophet Muhammad implemented several important policies in the field of economics, including the following:

1. His Attention to Business and Economic Affairs

History records that Prophet Muhammad showed great concern for economic matters. This concern was evident from his early years. He did not want to remain idle while his uncle, Abu Talib, worked hard to provide for his large family, including the Prophet himself. As a result, Prophet Muhammad worked to alleviate his uncle's burden by herding sheep. The wages he earned from shepherding were handed over to his uncle, Abu Talib.

Sheikh al-Hudhari Bek (2006) narrates: "*When Prophet Muhammad reached a suitable age for work, he began herding sheep with his foster brother in the rural areas. Upon returning to Makkah, he also worked as a shepherd for the people of Makkah, receiving a few qirat of gold as payment.*" The rural area referred to here is the region of Bani Sad when Prophet Muhammad was under the care of his foster mother, Halimah bint Abdullah bin al-Harits as-Sadiyyah, also known as Halimah bint Abu adz-Dzuaib or Halimah as-Sa`diyyah.

According to Sheikh Haekal (2001), Prophet Muhammad carried out the job of shepherding sheep with great joy. This joy is reflected in several of his sayings, including his statement, "*The prophets sent by Allah were all shepherds.*" He further said, "*Moses was sent as a shepherd. David was sent as a shepherd. And I too was sent as a shepherd to my family in Ayyad.*"

At the age of 12, Prophet Muhammad was taken by his uncle, Abu Talib, on a trade journey to Syria, and at the age of 25, he was entrusted with the merchandise of the prominent merchant of Makkah, Khadijah bint Khuwailid, to be traded in Syria. In this trading mission, accompanied by Khadijah's slave, Maisarah, he achieved great success. This success was one of the factors that eventually led to Prophet Muhammad marrying Khadijah.

Sheikh Al-Mubarakfury (1997) narrates that after Prophet Muhammad arrived in Makkah and Khadijah learned of the abundant profits from her merchandise, which she had never seen in such abundance before, especially after Maisarah informed Khadijah of the noble qualities, intelligence, and honesty of Prophet Muhammad during their trading mission, it was as if Khadijah had regained her lost and highly anticipated belongings.

Through her companion, Nafisah binti Munyah, Khadijah requested her assistance in communicating with the Prophet and proposing marriage. After obtaining approval from his uncles, Prophet Muhammad agreed to marry Khadijah. The marriage, accompanied by a dowry of 20 young camels, took place and was attended by the Banu Hashim and other prominent figures of the Banu Mudhar. This event occurred two months after Prophet Muhammad's return from Syria. He was 25 years old at the time, while Khadijah was 40 years old.

After marriage, Prophet Muhammad continued his business activities with his wife. He held the position of manager and business partner to Khadijah. Their trading activities were not limited to Makkah and Syria, but also extended to Nejd and Najran. Furthermore, during the pilgrimage season, he actively participated in the major trading festivals at the Ukaz and Dzul Majas markets.

From the brief account above, it is evident that before being appointed as a prophet, Prophet Muhammad was a business practitioner. He showed considerable attention to the world of business. The experiences gained during his involvement in the business world served as invaluable assets for him to develop and nurture the Islamic economy under the guidance of divine revelation from Allah.

2. Market Mechanism

Markets played a crucial role in the economy of the Muslim community during the time of Prophet Muhammad. There are many rules in the Quran that are related to trade and explain the concept of markets.

Imam Ahmad stated that the market concept implemented by Islam during the time of Prophet Muhammad was a free market system. Islam rejects concepts such as socialism, asceticism, egalitarianism, and authoritarianism in economics (Shah, 2007).

In a hadith narrated by Anas bin Malik, it is mentioned:

عَنْ أَنَسٍ قَالَ قَالَ النَّاسُ يَا رَسُولَ اللَّهِ غَلَا السَّعْرُ فَسَعَّرَ لَنَا فَقَالَ رَسُولُ اللَّهِ صَلَّى اللَّهُ عَلَيْهِ وَسَلَّمَ إِنَّ اللَّهَ هُوَ
الْمُسَعِّرُ الْقَابِضُ الْبَاسِطُ الرَّازِقُ وَإِنِّي لِأَرْجُو أَنْ أَلْقَى اللَّهَ وَلَيْسَ أَحَدٌ مِنْكُمْ يُطَالِبُنِي بِمَظْلَمَةٍ فِي دَمٍ وَلَا
مَالٍ

From Anas, he said, "People said, 'O Messenger of Allah, prices are becoming expensive. Set a price for us!' The Prophet said, 'Indeed, it is Allah who sets the prices, who narrows and widens sustenance. And I truly hope to meet Allah when none of you will demand from me any injustice regarding blood or wealth.'" (Narrated by Abu Daud, at-Tirmidhi, Ibn Majah, and asy-Syaukani).

During the early development of Islam in Makkah, the Prophet and the Muslim community faced opposition from the polytheists, making struggle and propagation the priority. Issues related to governance and interpersonal relations (muamalat) had not received much discussion. It was only when the Prophet and his companions migrated to Madinah and established an Islamic government that the Prophet assumed the role of a market overseer or *al-muhtasib* (Farida, 2012).

With a free market system, markets in Islam must be based on the principles of free competition (perfect competition) with characteristics of cooperation, fair exchange, and prohibition of monopoly. Markets in Islam are enveloped within the framework of Shariah. In Islam, transactions occur voluntarily ('an taradin minkum/mutual goodwill), as mentioned in the Quran, Surah An-Nisa, verse 29:

يَا أَيُّهَا الَّذِينَ ءَامَنُوا لَا تَأْكُلُوا أَمْوَالَكُمْ بَيْنَكُمْ بِالْبَاطِلِ إِلَّا أَنْ تَكُونَ تِجَارَةً عَنْ تَرَاضٍ مِنْكُمْ وَلَا تَقْتُلُوا
أَنْفُسَكُمْ إِنَّ اللَّهَ كَانَ بِكُمْ رَحِيمًا

"O you who believe, do not consume one another's wealth unjustly but only [in lawful] business by mutual consent. And do not kill yourselves [or one another]. Indeed, Allah is to you ever Merciful."

Thus, even though Islam follows the principle of a free market, markets in Islam emphasize justice based on the Quran and the Sunnah. A just market will give rise to fair prices and reasonable profits, without involving forbidden practices such as usury.

Justice in Islam is not limited to markets alone but applies to all economic conditions. Therefore, one of the core principles of Islamic economics is to establish distributive justice. Any economic condition based on injustice or imbalance should be replaced with a state of justice and balance (*al-'adl* and *al-ibsan*) (Naqvi, 2003).

3. Prohibition of *Riba*

Important policies adopted by Prophet Muhammad in the development of the economy of the Muslim community include the prohibition of usury in all its forms. Literally, usury means "increase." In the context of the shariah brought by the Prophet Muhammad (peace be upon him), usury refers to "an increase on the principal amount, whether small or large." This policy is based on the words of Allah in the Quran, including verses 275 and 278-279 of Surah Al-Baqarah and verse 130 of Surah Ali Imran.

In Surah Al-Baqarah, Allah affirms that He has made trade lawful but prohibited usury. In verses 278 and 279, Allah commands the believers to fear Him and to give up the remaining usury that is still due. The verse also threatens those who continue to collect

remnants of usury with war against Allah and His Messenger. Then, in Surah Ali Imran, verse 130, Allah firmly prohibits the believers from consuming multiplied usury and commands them to fear Him in order to attain success. This non-usury economic system has become one of the distinct characteristics of the Islamic economy.

4. Prohibition of *Bai al-Gharar*

Bai al-Gharar (ambiguous sale) refers to a sale transaction that involves uncertainty or elements of gambling. Such transactions were often practiced by the people of the pre-Islamic era (*Jahiliyyah*). Prophet Muhammad prohibited such transactions. Sabiq (2003) identified several types of transactions that fall into this category:

- a. *Bai` al-khabash*, which involves the sale of land with an unclear measurement. The boundary of the land being sold depends on where a pebble falls. It also includes the sale of certain items whose specifications are determined by the pebble's location.
- b. *Dharbatul ga`ish*, which involves purchasing from a diver whatever he may find in the sea. The buyer is obliged to pay the agreed-upon price regardless of whether he obtains anything, and the seller must deliver whatever he finds, even if its value is several times higher than what he received in exchange.
- c. *Bai` an-nitaj* (sale of future goods), which includes transactions related to livestock offspring before the parent gives birth. It also includes the sale of milk within a nursing animal.
- d. *Bai` al-mulamasah* (touching sale), where both the seller and buyer touch each other's garments or possessions, and the sale is conducted without knowledge of the condition of the goods or satisfaction with them.
- e. *Bai` al-munabadzah* (casting sale), where each party throws an object and the sale is based on what they throw without their approval.
- f. *Bai` al-mubaqalah*, which involves the sale of grains in their unprocessed state along with processed flour.
- g. *Bai` al-mubaznah*, which involves the sale of fresh, moist dates in their cluster with dry dates.
- h. *Bai` al-mukhadharah*, which involves the sale of fruits while they are still unripe and not showing signs of ripening.
- i. Sale of wool while still attached to the back of a sheep.
- j. Sale of butter while still in milk form.
- k. *Bai` habal al-habalah*, which involves the sale of an animal that will conceive offspring while it is still in the mother's womb. In the pre-Islamic era, people used to sell animals prepared for slaughter until *habal al-habalah* (a pregnant female camel gives birth to a young one still in its womb)

5. Prohibition of Hoarding and Monopoly

One of the strategic policies implemented by Prophet Muhammad to develop the Islamic economy is the prohibition of hoarding and monopoly, particularly for essential goods needed by the majority of the society. In the terminology of Islamic law, hoarding is referred to as *ibtikar*, which means "buying goods and keeping them in order to reduce their availability in the market and raise their prices, causing harm to the community."

In this context, the Prophet emphasized that anyone who hoards goods is committing a wrong (*khathi*).

In another hadith, the Prophet stated that anyone who hoards food for forty days has distanced themselves from Allah, and Allah will distance Himself from them. The Prophet even described hoarders as the worst of people. He said, "*The worst of people is the hoarder. When prices are low, they are saddened, and when prices rise, they are delighted.*"

The Prophet also affirmed that those who cause prices to rise in the market through hoarding will be placed in the midst of the fire of Hell. He said, "*Whoever manipulates the prices of the Muslims to raise them, it becomes Allah's right to place them in the middle of Hellfire on the Day of Resurrection.*"

With the Prophet's policy prohibiting hoarding and monopoly, the market can be freed from injustice. Regardless of the reasons, monopoly disrupts the mechanism of the market. In the context of the Islamic economic system, all economic practices that result in the concentration of wealth in the hands of a few individuals are not permitted. This is because the concentration of wealth among a few individuals can hinder wealth distribution, leading to inequality and inequity (Aziz, 2008).

6. Prohibition of Buying Stolen Goods

Another policy of Prophet Muhammad is the prohibition of purchasing stolen goods. In a hadith narrated by Baihaqi, he said, "*Whoever buys stolen goods, knowing that they are stolen, shares in the sin and disgrace.*"

This policy has a positive impact on the growth and development of the Islamic economy for several reasons. First, the goods circulating in the market are safe from stolen items. Second, the economy of the community operates in a clean and pure realm. Third, the space for criminals to maneuver becomes limited because no one dares to buy their stolen goods, knowing that they will face the same consequences as the criminals themselves.

7. Prohibition of Selling Goods for Criminal Purposes

Prophet Muhammad's policy in the field of buying and selling transactions is not only limited to the prohibition of buying stolen goods but also includes the prohibition of selling goods for criminal purposes. In a hadith narrated by ath-Thabrani, the Prophet said, "*Whoever keeps grapes until they are ripe and then sells them to a Jew, Christian, or someone who will make them into wine, then he has thrown himself into the fire of Hell, even though he sees it.*" Umar bin Hushain said, "*Prophet Muhammad forbade the selling of weapons during times of turmoil.*"

Essentially, the sale of grapes is permissible, but when the seller knows that by selling them to a particular buyer, the grapes will be turned into wine (intoxicating drink), such transaction becomes forbidden. Similarly, with the sale of weapons, it is permissible in principle, but if the buying and selling occur during times of turmoil, where the weapons will be used for criminal activities, such a transaction is considered forbidden.

8. State Revenue and Expenditure

When Prophet Muhammad was entrusted with leadership in Madinah, this new state did not inherit any wealth. Therefore, the Prophet and his companions made great efforts to create a prosperous and developing economy in Madinah.

State revenue was obtained from the residents within the jurisdiction of Madinah, both Muslims and non-Muslims. The income from the residents was the main source of revenue because other sources were very limited, and even revenue from natural resources did not exist yet.

State revenue from Muslims included zakat (obligatory alms), *'ushr* (agricultural tithe, including fruits), *'usyr* (import and export duties/taxes imposed on traded goods crossing borders), zakat *fitriah* (charity given during Ramadan), *waqf* (endowment), *amwal fadhilah* (unclaimed wealth left by deceased Muslims with no heirs), and *nawaib* (taxes imposed on wealthy Muslims, implemented in emergency/urgent state conditions).¹

State revenue from non-Muslims included *jizyah* (personal tax as compensation for the protection provided by the Islamic state to non-Muslims),² *keharaj* (tax on land managed by non-Muslims), and *'usyr* (import and export duties/taxes).³ Additionally, other sources of income included *ghanimah* (spoils of war obtained from non-Muslims), *fai* (spoils of war obtained without fighting as the enemy abandoned their territory),⁴ ransom money,⁵ loans, and gifts from leaders or other countries (A. Karim, 2008).

Regarding state expenditure, based on the practices of Prophet Muhammad (peace be upon him), there were two categories: primary expenditure and secondary expenditure. Primary state expenditure included defense costs, distribution of zakat and *'usyr* to eligible recipients according to the provisions of the Quran, payment of salaries for guardians, judges, teachers, imams, muezzins, and other state officials, payment for voluntary services, debt repayment, and assistance for travelers.

Secondary state expenditure included support for those studying religion in Madinah, entertainment for religious delegations, entertainment for tribal and state delegates, and their travel expenses, gifts to other governments, payment for the liberation of enslaved Muslims, payment of compensation for unintentional killing by Muslim forces, payment of debts for those who died in poverty, allowances for the Prophet's relatives, household expenses of the Prophet (a small amount, 80 dates and 80 measures of wheat for each of his wives), and emergency reserves (a portion of the Khaibar income).

A remarkable policy in state financial management was the establishment of the *baitul mal* (public treasury). Through this institution, all state revenue was collected and then spent according to the needs of the state. This policy held great value as it was something new in the world of governance and administration at that time. A. Karim

¹ This tax is imposed on wealthy Muslims when the state is in urgent need of funds for expenses. During the time of the Prophet, this tax collection was carried out during the Tabuk expedition (630 AD/9 AH).

² The protection provided by Prophet Muhammad (peace be upon him) to non-Muslims includes protection of life, property, freedom of worship, and exemption from military service.

³ *'Usyr* applies to both Muslims and non-Muslims

⁴ The *fai* property famously known during the time of the Prophet was the inheritance of the Banu Nadhir (a Jewish tribe residing on the outskirts of Madinah). They violated the pact of Madinah. The Prophet, along with the Muslim forces, besieged them until they surrendered and left the city. They were allowed to take all the belongings they could carry, while the rest was seized by the state.

⁵ In the Battle of Badr, the Muslim community successfully captured a number of polytheists from Makkah. To secure their release, Prophet Muhammad (peace be upon him) set a ransom of 4,000 dirhams per captive. For the captives who were poor, the Prophet (peace be upon him) stipulated that their ransom would be teaching ten Muslim children how to read and write.

(2008) stated, "*Prophet Muhammad was the first head of state to introduce a new concept in state finance in the seventh century.*" The concept referred to is the baitul mal, which was "located" in the Prophet's Mosque.

Before the advent of Islam, the government of a country was seen as the sole ruler and treasury. The government had the freedom to take as much wealth from its people as possible and spend it as it pleased. Therefore, before Islam arrived, there was no concept of public finance and state treasury.

With his economic policies, Prophet Muhammad introduced a new innovation. He did not want to take the people's money arbitrarily and use it at his own discretion. All activities related to the management of state funds were based on the rules set by Allah. Hence, state revenue was collected and spent through the baitul mal and managed properly according to the guidance from Allah.

In subsequent developments, the baitul mal played a vital role in the management and administration of the Islamic state's finances. Muslim rulers established the baitul mal as a state institution responsible for managing state revenue and expenditure.

Discussion

1. Comparative Analysis between Economic Policies of Prophet Muhammad in Madinah and Capitalism

This paper aims to examine the economic policies of Prophet Muhammad during his time in Medina, focusing on seven key aspects: Market Mechanism, Prohibition of Riba, Prohibition of Bai al-Gharar, Prohibition of Hoarding and Monopoly, Prohibition of Buying Stolen Goods, Prohibition of Selling Goods for Criminal Purposes, and State Revenue and Expenditure. In this discussion, we compare these policies to capitalism, to analyze their similarities and differences.

- a. Prophet Muhammad implemented a free market system in Medina, aligning with capitalism's emphasis on free trade and minimal government intervention (Ghorashi, 1995; Gray & Gray, 1981). However, his approach was guided by ethical considerations, aiming for fairness and community well-being.
- b. The prohibition of Riba in Islamic economics, unlike capitalism's acceptance of interest (Nielsen, 2017), reflects the Islamic principles of justice and wealth distribution.
- c. The prohibition of Bai al-Gharar, which involves uncertain transactions, reflects both Prophet Muhammad's policies and capitalism's focus on transparent contractual agreements (Fried, 2012). While capitalism does not explicitly prohibit Bai al-Gharar, both systems aim to ensure fair market dealings.
- d. Policies against hoarding and monopoly in Prophet Muhammad's approach share similarities with capitalism's anti-trust regulations (Stahl et al., 2023), such as The Sherman Antitrust Act of 1890 which was enacted to protect consumers and regulate monopolistic practices (Sawyer, 2019). However, his policies also consider moral aspects, discouraging wealth concentration, while capitalism relies on legal measures to prevent monopolistic behavior.
- e. Both Islam and capitalism discourage trading in stolen goods, but Prophet Muhammad's prohibition also reflects Islamic principles of honesty and integrity.

Capitalism addresses this issue through legal measures, but ethical dimensions may vary.

- f. Prophet Muhammad's stance against selling goods for criminal purposes aligns with capitalism's principles of lawful commerce. However, his approach emphasizes ethical conduct and societal well-being.
- g. Regarding state revenue and expenditure, both systems have similarities in financing public goods and services. However, Prophet Muhammad's policies prioritize redistributive justice and meeting the basic needs of society.

Thus, it can be concluded that while Prophet Muhammad's economic policies and capitalism both emphasize market mechanisms and economic activities, Prophet Muhammad's approach integrates ethical considerations and social justice. Understanding these differences can contribute to the discourse of Islamic economics and foster economic systems that prioritize both economic progress and societal well-being.

2. Comparative Analysis between Economic Policies of Prophet Muhammad in Madinah and Socialism

Here I will discuss the economic policies implemented by Prophet Muhammad during his time in Madinah. These policies will be compared to socialism in order to analyze their similarities and differences.

- a. The Prophet introduced a free market system in Madinah, which can be contrasted with socialist principles that advocate for state control over the means of production (Normand & Lemmen, 2021). In the Prophet's system, individuals had the freedom to engage in economic activities and trade without excessive government intervention. While both systems aim to allocate resources and distribute goods and services, the level of state control differs.
- b. The Prophet's prohibition of *riba* (usury) can be seen as a similarity to socialist principles that seek to reduce inequality and exploitation (Lindblom, 2023). *Riba*, viewed as unjust accumulation of wealth through interest, was considered exploitative in Islamic economics. By prohibiting *riba*, the Prophet aimed to create a more equitable economic system that prioritized fairness and justice.
- c. The Prophet also prohibited *bai al-gharar*, which aligns with socialist principles that emphasize planning and stability. By prohibiting such transactions, the Prophet aimed to ensure transparency and fairness in economic dealings.
- d. The Prophet's prohibition of hoarding and monopoly aimed to prevent wealth concentration and promote equitable distribution of resources. While socialism seeks to eliminate private ownership and control over resources (Stroup, 1991), the Prophet's economic policies allowed for private ownership and economic activities. However, by prohibiting hoarding and monopoly, he aimed to prevent excessive accumulation of wealth.
- e. The Prophet's prohibition of buying stolen goods aligns with socialist principles that aim to eradicate crime and promote social justice (O'Neill, 2022). By discouraging the trade of stolen goods, the Prophet sought to prevent criminal activities and maintain a just society.
- f. The Prophet's prohibition of selling goods for criminal purposes reflects the goal of socialism to ensure social harmony and prevent misuse of resources. By prohibiting such transactions, he aimed to safeguard societal well-being and prevent harm.

- g. The Prophet established various sources of state revenue, such as zakat, `usyr, jizyah, and ghanimah. These funds were used for state expenditures, including defense, distribution of zakat, and funding education. While socialism often advocates for state control and allocation of resources, the Prophet's system allowed for different sources of revenue and expenditure.

While there are similarities between Prophet Muhammad's economic policies and socialist principles, such as the focus on social justice and fairness, there are also notable differences. The Prophet's system embraced free market principles, private ownership, and economic activities, while socialism aims to eradicate private ownership and centralize control over resources. However, both systems prioritize equitable distribution of wealth and aim to prevent exploitation.

Prophet Muhammad's economic policies during his time in Medina can be viewed as a distinct fusion of capitalism and socialism, guided by Islamic principles. These policies aimed to establish a just and harmonious society, incorporating elements from both systems.

On one hand, his policies align with capitalism is the implementation of a free market system. The Prophet recognized the importance of trade and commerce, allowing market mechanisms to operate without undue interference. Fair trade practices were emphasized, and unfair practices such as *riba*, *maisir*, and *gharar* were prohibited. These measures ensured transactions were conducted with fairness and transparency, key tenets of a free market.

Moreover, Prophet Muhammad promoted individual economic freedom, encouraging voluntary exchange and cooperation. Transactions were expected to be conducted with mutual consent, fostering trust and cooperation in the marketplace.

The Prophet also endorsed perfect competition, discouraging monopolies and hoarding. Multiple sellers and buyers were encouraged, ensuring a diverse market and providing consumers with choices. These policies fostered economic efficiency, innovation, and growth.

On the other hand, Prophet Muhammad's policies exhibited elements of socialism, focusing on social justice and equality. Wealth redistribution was implemented through the collection and distribution of zakat and other forms of assistance. These measures aimed to address wealth inequality and support those in need, reflecting socialist ideals.

The establishment of zakat exemplified the commitment to social justice, narrowing the wealth gap and providing aid to the less fortunate. The Prophet emphasized the importance of caring for vulnerable members of society, promoting community support for orphans, widows, and the poor. These actions emphasized collective responsibility and egalitarian principles.

Prophet Muhammad discouraged excessive accumulation of wealth and encouraged sharing resources, fostering a sense of brotherhood and mutual support within society. These principles aligned with the socialist notion of collective well-being and community-centered economic policies.

Hence, it can be concluded that Prophet Muhammad's economic policies were rooted in Islamic principles, striving to create a just and equitable society. While drawing some parallels to capitalism and socialism, his approach represented a unique Islamic economic system that incorporated elements from various ideologies.

Conclusion

The economic policies enforced by Prophet Muhammad during his rule in Madinah established a distinctive Islamic economic system that blended principles from various ideologies. His approach combined the tenets of free market with a focus on ethics, aiming for fairness and the welfare of the community. The prohibition of interest, uncertain transactions, hoarding, and monopoly reflected his commitment to justice, wealth distribution, and transparent economic practices. Guided by his dual role as a religious authority and political leader, the Prophet aimed to build a robust and resilient economic foundation.

This comparative study provides insights into the unique elements of the Prophet's economic policies and their relevance in today's economic landscape. It emphasizes the importance of further research to gain a deeper understanding of how Prophet Muhammad's economic policies diverged from both capitalist and socialist frameworks. Future studies can delve into the specific mechanisms and practical implications of implementing Islamic economic principles, evaluate their efficacy, and explore their compatibility with contemporary economic systems. Additionally, researchers can explore the potential integration of these Islamic economic principles into modern economic policies, addressing the challenges and opportunities within the global context.

Conducting comprehensive research in this field allows scholars to contribute to the existing body of literature and offer valuable insights to policymakers, economists, and academics who are interested in alternative economic systems that prioritize ethical considerations, justice, and community well-being. Ultimately, a deeper comprehension of Prophet Muhammad's economic policies provides valuable perspectives for shaping sustainable and equitable economic frameworks in the present era.

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