Economic System During the First Formal Islamic State of Madina (622-645 AD): An Historical Insights
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ABSTRACT

The economic system of any state is quite inevitable and an integrated part of life because all other systems revolve around this system. So, Islam paid special heed to this system and the Prophet (PBUH) gave a comprehensive guideline in this regard. There is no possibility of human error in the Islamic System because it is divine while all other prevailing and proposed economic systems are man-made. The Islamic economic system is directed towards the welfare of humanity by Almighty Allah. The Holy Quran categorically states that "Allah has made business legitimate for you (Sura Baqara, Ayat-275)". Islam as a religion primarily allows the economy to run efficiently as per the market forces subject to legal bindings and guidelines on production, distribution, marketing, trade investment, exchange and wages etc. The present study is theoretical in nature using the historical method as the basis for both the primary and secondary sources of data, especially qualitative data. This research examines the formation of the world's first formal Islamic State and the economic system established by the Prophet Mohammad (PBUH). And how the Islamic State created its economic resources of income have also been discussed in this paper. This study is a theoretical piece of research using the historical method and is based on both the primary and secondary sources Including holy Quran and Hadees. Even though there has been a lot of work done on the subject, this study will contribute to the publication of Islamic economic theory by adding knowledge from contemporary economics to a new debate. The ultimate objective of the Islamic economic system, like any other economic system was the realization of efficiency and equity in the allocation and distribution of resources and freedom of individuals in the society.

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1. Introduction

According to Islamic principles, an Islamic democratic and welfare state is the one that meets the needs of its citizens in the light of Sharia to look after the welfare of the society. To be the protector of the lives and property of the citizens, the governments were accountable to the people and while fulfilling their responsibilities, they considered Allah’s pleasure as the
priority. Created legitimate and Halal sources of income to reduce the suffering of the common people. In this paper, an attempt has been made to provide a substantial amount of information about the first formal Islamic State of Madina, its economic system, and the sources of revenue.

2. Historical view of an Islamic State
It took almost six centuries after the word "state" (dawlah) was first used in the Quran before Muslim scholars were able to provide the word with a precise meaning in technical terms. During the Quran (in Surah 59:7), the term Dawlah was used in conjunction with the distribution of Fay.¹ In classical legal thought is usually the collective wealth of Muslims derived from the taxation of conquered peoples. Fay revenue is contrasted, on the one hand, with ghanîma, spoils taken through battle, and, on the other, with sadāqa (or zakāt), alms paid by the Muslims themselves. The fay is usually to be redistributed to Muslim fighters as an ‘aṭāʾ (stipend) and sometimes for other public purposes (maṣāliḥ).

With the dispensation of Islam from the Cave of Hira in 610 A.D. and the first revelation on Prophet Hazrat Muhammad (PBUH) when he started preaching at Makkah and kept continued for thirteen years. Due to the persistent and incessant opposition of Quraish-e-Makkah, he (PBUH) migrated to Madina in 622 A.D. and formed the first formal Islamic State based on the teaching of the Holy Quran and Sunnah (Hadees). The Arabs had well-established customs and traditions that were sanctioned by the laws of their country. Their social interactions were founded on the principles of justice and equality, which they followed. After the Hijra, the Prophet sought to ensure the assimilation of his umma into the new environment, which had been created when the Muhajirin were expelled from their ancestral homes in Mecca. During his life at Madina, he worked for the Islamic Welfare state to bring prosperity for the entire citizens of the state. After the death of Prophet Hazrat Muhammad (PBUH), his caliphs continued in the same direction and set an Islamic State by establishing a proper socio-economic and politico-administrative system under the teaching of the Holy Quran and Sunnah. This system was based on Islamic teachings. The economic resources of the first Islamic State were: Zakāt, Ushr, Jizya, Fay, Khums and Kheraj.

3. Economic sources of the Islamic State
The fundamentals of the Islamic political system and the principle of the establishment of the Islamic welfare state within the state are recognized by the Holy Prophet (PBUH). According to him, the Islamic state will be completely a welfare state and whose motive will be the welfare of the people. All citizens irrespective of religion will have equal rights in this state. It was the duty of the state to provide for the basic needs of the citizens and the government was responsible for their lives, property, and dignity, etc. The state enacted laws that would not discriminate against people of all races and ethnicities. There were clear injunctions in this regard from the Qur'an and Sunnah.

The nature of the welfare state can be gauged from this statement of Hazrat Umar that even if a dog dies due to hunger and thirst on the banks of the Tigris, the concerned people will have to be held accountable.²

After the foundation of an Islamic state, public welfare was at a central point in the economic system which was established during this period. And the economic system introduced by Islam was the opposite of all other economic and financial systems in the world. It was not presented by any individual or philosopher, but it was enacted by Allah Almighty and His Messenger (PBUH) which changed the lives of people in the Islamic State. It was a sign of prosperity that people used to go around with Zakat and there was no one to take it. In the time of Hazrat Umar (may Allah be pleased with him), poverty was eradicated. This was only with the blessings of the Islamic system.

*Bait-ul-Maal* means public treasury. It was the department that dealt with the revenues and all other economic matters of the Islamic State. In the time of Hazrat Muhammad (PBUH), there was no permanent Bait-ul-Maal. Revenues or other amounts were distributed immediately. First caliph Hazrat Abu Bakr Siddique (632–634) established a house where all money was kept on receipt. As all money was distributed immediately, the treasury generally remained locked up; at the time of Hazrat Abu Bakr's death, there was only one *Dirham* in the public treasury. During the period of Hazrat Umar, things changed. With each conquest, revenue increased. After consulting the Companions, Hazrat Umar decided to establish the central Treasury at Medina. Abdullah bin Arqam was appointed as the Treasury Officer. A separate Accounts Department was also set up to maintain spending records. Later treasuries were set up in the provinces. After meeting the local expenditure, the provincial treasuries were required to remit the surplus revenue to the central treasury at Medina. According to *Yaqubi* the salaries and stipends charged to the central treasury amounted to over 30 million *Dirhams*. A separate building was constructed for the royal treasury, the *Bait ul Maal*, which, in large cities, was protected by as many as 400 guards. Hazrat Umar also granted salaries to the army. Special works for social welfare were introduced including a pension in the early Islamic State as a form of *Zakāt* (charity). This is one of the five pillars of Islam. The taxes (including *Zakāt* and *Jizya*) collected in the treasury of an Islamic State were used to provide income for the needy, including the poor, elderly, orphans, widows, and the disabled. According to the Islamic jurist *Algazel* (1058–1111), the government was also expected to stockpile food supplies in every region in case a disaster or famine occurred. The Caliphate was thus one of the earliest welfare states. The main purpose of this treasury was to secure the wealth of the people. This treasure used to belong to the people. Even an ordinary person could at some point ask the caliph for an answer as to where the money was being spent. The ruler was not authorized to spend money on his own, but he was the custodian of that money. The money from the treasury was spent only on the needs of the state or only on alleviating the poverty of poor and needy people. The ruler did not have absolute power to spend on himself. He was only entitled to his salary from the treasury.

The Islamic State has seen a boom in economic prosperity. The caliphs implemented the Islamic economic system with its true spirit. When this concept was only for the subjects, then no one in the subjects was in need. It is as if in the early days, the Islamic economic system based on authenticity proved to be instrumental in establishing a welfare state.

The term Bait-ul-Mal was used only by Islam. Through the treasury, the caliph provided for the orphans, the poor, and the widows in the Islamic state. Salaries were also paid to employees from Bait-ul-Mal. He used to buy arms when needed and also managed the military administration in the state along with welfare work from the amount of this treasury. The ransom taken from the prisoners in the time of the Holy Prophet (PBUH) was also an important part of the economic system of the Islamic Empire. Care of the prisoners was also the responsibility of the state.

During the reign of Hazrat Umar, Bait-ul-Mal was also established at the provincial level and extensive buildings were constructed for them at important places. So that people can easily pay and deposit taxes to the state. The head of the treasury was a person who set an example of piety and protected the public treasury. *Tabari* thinks that there was no treasury before Hazrat Umar, so the wealth used to come was distributed among the Muslims, but after some time when the conquests increased and there were no more people to receive *Zakāt* and charity; the treasury (*Bait-ul-Maal*) was established and the whole income of the Islamic State was deposited there. In addition to money, this income was in the form of gold and
silver. In the same way, the practice of coinage also started in his time. Apart from the government, people were also made into gold and silver coins. The economic system is very important in the Islamic State because Islam is the greatest pioneer of human welfare regarding economics. Ibn-e-Khaldoon says that it is a struggle for sustenance.

3.2. Zakāt
The secret of every country's prosperity lies in its sources of income. If we consider that the biggest and most important element of the Islamic Empire is Zakāt. It is obligatory for those who are rich and have a certain amount of wealth mentioned in the Holy Quran. Such wealth is of three types; it may be either gold and silver (75 grams gold/525 grams of silver) or an equal asset of the business and specific animals. According to Islamic teaching Zakāt is mandatory to purify one's wealth by paying the fortieth part of gold, silver, or other wealth; (two and a half per cent of the cash,) annually, whether they are movable or immovable. Thus, along with the purity of wealth and spirituality; an important aspect is the revenue of the state, through which the poor are supported.

The Holy Quran said, “Establish worship, pay the poor due and bow your heads with those who bow”. Zakāt is a kind of holy tax that is to be compulsory paid by the well-to-do at a fixed rate in proportion to the worth of property and distributed among the poor deserving Muslims. Zakāt is a compulsory charity in its broad sense. It is considered the second great pillar of Islam laid down in the Holy Quran. In literary meaning, Zakāt is to purify the assets. In the Islamic state Zakāt is the most effective economic instrument for ensuring the welfare of the poor and weaker section of the society and it is not only a religious duty but a moral virtue as the Quran Said, “The parable of those who spend their wealth in the way of Allah is that of the grain of corn. It grows seven ears, and each ear has a hundred grains. Allah increases many folds to whom He pleaseth.” Allah also said, Allah destroys wealth obtained from interest and will give increase for the need of charity. Holy Prophet (PBUH) said, “Zakāt is taken from your rich and distributed among your poor”.

Allah Almighty orders to pay Zakāt the people of the following categories who are beneficiaries,

1- Fuqara (The Destitute): People who are poor and who possess more than their basic needs but do not have wealth equal to Nisab.
2- Massakeen (The Needy or indigents): This category refers to those who are very miserable and have hardly anything with them to fulfill their basic needs.
3- Aamileen (Zakāt Collector): Those who are appointed by the head of the Islamic State to collect Zakāt. It may be possible that they are needy or not needy persons, but they will be paid according to workloads.
4- Al-Riqab: Those who are slaves and working for their masters to purchase freedom.
5- Al-Gharimeen: The persons who are in so much debt that the assets owned by them fall below the limits of Nisaab. It is conditional that the debt was not created for any un-Islamic or sinful purpose.
6- Fi-Sabeelillah: To spend in the way of Allah. There are many ways of this section. Persons who are on the way to fight, but haven’t belongings, who are willing to go for Hajj and students, etc. They are eligible for Zakāt.
7- Ibn-us-Sabeel: Those persons who are Musafirs (travellers) according to Shariat and who don’t possess basic belongings.

Zakāt and Sadaqa is a kind of cooperative society for Muslims and a kind of legitimate insurance company, and the accumulated wealth for the poor is the capital on which the profits are paid by Allah Almighty Himself. This is the capital from which the poor, orphans and the needy are supported. Islam offers a concept of fair distribution of wealth that uproots capitalism and feudalism. Islamic economic law has shattered the hidden intentions and veils
of the evils of the feudal and feudal system because such systems are pushing humanity towards oppression and power.

One of the world's various economic systems is the capitalist system, the echoes of which continue to be heard throughout the modern era. When it comes to the capitalist system since all matters of income are in private hands, any individual does business of his own free will and then it is accepted. As a result of which a wide gap is created between the elite and the common people. This system has divided the society in a cataclysmic manner, as a result of which the society has divided into rich and poor. The capitalist system has a big hand in drawing the line between poverty and wealth, which has given birth to an unjust distribution of wealth and has severely affected human equality by restricting wealth to a few families. Similarly, the claimants of the communist system used to say that control over the resources under the auspices of the state and its use on the people is a guarantee of success. But despite this, the success of this system is now in doubt due to the system of interest and the income earned from every legitimate and illegitimate source. It should then be borne in mind that the success of the system also requires the clean basic resources of the state and the equitable distribution of wealth. Only Islam has the honor. Feudalism refers to the feudal system in society and its origins date back to the fall of the Roman Empire when the Germans occupied its scattered territories and subjugated its resources. In time, the feudal system spread throughout Europe. One of the reasons for the expansion of the feudal system in Europe was the racial and religious wars that engulfed many European countries. As a result, social stratification took place, and its subjects were divided into classes. Similarly, after the advent of Islam, Christianity in the West, through false propaganda, engulfed the Islamic world in the form of the Crusades and disturbed the Islamic countries. These crusades severely damaged the economic situation of both sides. The increase in war expenses proved to be important in strengthening the feudal system in Europe. Similarly, another system that Islam has given to the welfare of Muslims is the law of inheritance which has given the Muslims in the society the opportunity to benefit their successors or heirs. Similarly, if he does not have an heir according to the law of inheritance, then this property will be part of the treasury and the poor among the Muslims will be provided it; for which he too will be rewarded. Islam is not just spirituality and not only materialism. Rather, it is a beautiful confluence of the two. Islam does not insist on avoiding materialism. Islam has not only recognized the role of materialism in the welfare and development of man's worldly life; Islam has made Halal earning the most important duty and has emphasized earning one's livelihood through trade, agriculture, industry and employment of the circulation of capital continues in such a way that it reaches people of all classes, then everyone will be happy and if it revolves around only a few people, then happiness will come to a few people and the rest will live a miserable life. With more circulation of capital among the members of the society, its value will go up. Islam wants to create economic equality between individuals and society. Economic equality does not mean that one person has as much wealth as another because such an equation is both unnatural and impractical. Every person in society cannot have the same wealth. Because without it, no truly effective cultural system can be established; but the proportion of this difference between two human beings should not be infinite and the flirtations of positional honors, concessions and frivolous formal reservations should be eliminated. The equality that Islam wants is for all members of society to have an equal opportunity. The second area of proper circulation of capital in society is the business and commercial transactions that take place among the common people. There are now two theories in this regard in the contemporary world; one is the theory of national property, and the other is the theory of unrestricted property or in other words the theory of capitalism. Under the theory of national ownership, all state businesses are made national property and given into national ownership. Therefore, the people work according to their size and then get their share of this
national property. The system of national ownership was implemented vigorously and enthusiastically in Soviet Russia. But it failed because it was unnatural. Islamic State had some important sources of income at its initial stage and these sources strengthened the economy of the Muslims only in a few years.

3.3. Booty/ Loot during Wars

'O Prophet (PBUH) they ask you regarding the spoils of war. Say, “Their distribution is decided by Allah and His Messenger. So be mindful of Allah, settle your affairs, and obey Allah and His Messenger if you are ‘true’ believers.”

The booty refers to the wealth that Muslims gain in the battle against the infidels. This wealth can be snatched from the infidels in war and the second option is for them to flee the battlefield themselves and leave the wealth and the Muslims take over this wealth. War booty includes weapons, animals, gold, silver and money. Loot includes both movable and immovable. The booty was divided into one part of the treasury and the other four parts among the Mujahideen. While immovable, the caliph or ruler has the power to distribute the time as he sees fit. In the early days of Islam, when the state was in the process of formation, resources were scarce. Thanks to Islamic conquests, the first two decades of booty became an important factor in the economic stability of the Islamic State.

3.4. Jizya

The *Jizya* was one of the main sources of income for the Islamic State. *Jizya* is a tax levied on non-Muslims who were called *Zimmees* in the conquered states or territories during the Muslim conquests. Instead of converting to Islam, they paid *Jizya* under the Islamic State, in return for which the Islamic State protected the lives, properties and religious freedom of such people who obeyed the law. The amount of *Jizya* was based on income. *Jizya* was not taken from children, the very weak, the disabled and the helpless. Twelve Dinars were collected annually from the rich, six Dinars from the middle class and three Dinars from the low-income people. Women, children, the elderly, the disabled, and the insane were all exempt. On the contrary, Hazrat Umar appointed scholarships for them from the treasury.

3.5. Kharaj

Another tax collected by Islamic State from the infidels was *Kharaj*. According to Islamic law, this is the income that the Islamic State receives from these non-Muslims. In lands occupied by Muslims, land tax was levied on the owners or rulers in the occupied territories and the land was allowed to remain with them. Provided he obeyed and assured peace. It was collected from them on an annual basis. *Kharaj* was collected in proportion to the income on agricultural land.

3.6. Ushr

*Ushr* was a reciprocal 10% levy on agricultural land as well as merchandise imported from states that taxed the Muslims on their products. *Ushr* is derived from *Ashara* which means ten. In the literal sense, it means one-tenth of production. This is the tax that the Islamic State collects as a tax on production in rainfed areas. In rain-fed areas, due to lower labor costs; one-tenth is taken. However, irrigated lands in canal and canal areas are more labor-intensive and more productive. Therefore, one-twentieth of this production is taken. And this tax is levied only on Muslim landowners. With the deposit in the treasury, the owners themselves distribute it among the poor and needy. Hazrat Umar was the first Muslim caliph to levy *Ushr*. Hazrat Umar issued instructions that *Ushr* should be levied in such a way to avoid hardship, so as not to affect trade within the Caliphate. The tax was levied only on merchandise meant for sale; goods imported for consumption or personal use but not for sale.
were not taxed. Merchandise valued at 200 Dirhams or less was not taxed. Imports by citizens for trade purposes were subject to customs duty or import tax at lower rates. In the case of the Dhimmis, the rate was 5% and, in the case of the Muslims, 2.5%, the same as that of Zakāt. The levy was thus regarded as a part of Zakāt rather than a separate tax.

3.7. Khums
Another source of income is khums. It can be called the same type of Ushr but its value is more than Ushr. It is collected on agricultural produce. There are conflicting opinions on this. According to the Sunni School of thought, this is a tax for non-Muslims, but the Shia School of thought calls it an agricultural tax that is levied on Muslim landowners and is entitled to the Imam of time or the family of the Prophet (PBUH).

3.8. Fay
Fay was the income from State land, whether an agricultural land or a meadow, or land with any natural minerals. It is an income that went to the Islamic Empire without a fight. It is divided into five parts in total and four parts are distributed among the soldiers to buy arms if needed or if they buy the state, they are deposited in the treasury. Rest is divided into five parts, of which one part belongs to the Prophet (PBUH) and his family, while the other four parts belong to the relatives.

4. Secondary Sources of Income
Similarly, there were some secondary sources of primary income. Thus, with legitimate business income, the unclaimed lands in the conquered areas also become the property of the Islamic State.

1. In the same way, if there is a property of which there is no Shariah heir, then such land will also belong to the Islamic State, such wealth is called Rakaz.
2. In addition, the income from forests, crops and orchards on government land is owned by the Islamic State.
3. Due to the national situation, sometimes income is earned by levying taxes.
4. Any lost property that no heir can be found after much searching is also owned by the Islamic State and deposited in the treasury.
5. Some rich Muslims used to donate money or property for the welfare of the poor and the help of the State and this was a big source. This Waqf money was also deposited in the treasury.
6. Similarly, a sum of money was taken with the consent of the landlords which was deducted from Ushr and Khums.

The Islamic State is the champion of the economic rights of the people. The State must take care of not only human beings but also animals. An example of this is the era of Farooqi; when Hazrat Umar used to say that if any animal within the limits of Darul Islam died of starvation, I would have to answer for it. As they say, if a camel dies helplessly on the shores of the Euphrates, Allah will ask me to answer for it.

That is why Hazrat Umar has said: “Whoever has no guardian, his guardian is the King. Anyone of you who want to ask for money comes to me because I am a distributor”.

Along with the equitable distribution of resources, Islam also educated and trained its followers to be content with wealth obtained from legitimate and right sources. For which hard work and labour were encouraged as well as contentment and avoidance of wasteful spending were also taught. It was also forbidden to earn money through illicit and Haraam deeds and to spend money on Haraam deeds.
5. Conclusion
Developing a successful economic system is impossible without first establishing a strong political system. With that in mind, a more in-depth examination uncovers that even a strong political system is impossible to maintain without a fair and stable economic system. If a strong political system protects the economic system, then any established political system can survive as a result of its economic foundations, as all political movements throughout history have had organized and powerful economic interests. Islam is a universal religion that provides a comprehensive code of conduct for all of mankind, particularly for its adherents. Its teachings serve as a torchbearer for the general public. Islam also served as a guide in political affairs, and it stressed the importance of a welfare state. This was the response to which the Prophet of Allah guided the people of Arabia and later established an Islamic state at Madina based on the Islamic Principles. In this state, all citizens are treated equally before the law and have the same rights as one another. Their well-being and prosperity were the responsibility of the state. Islamic state introduced an ideal socio-economic system that was more appropriate than any other economic system in the world in this context. This economic system eliminated all forms of class stratification based on the influence of the wealthy. Bait-ul-Maal was established by Islamic State for the poor and needy, and it provided equal resources based on socio-economic justice, with guarantees of equal distribution of economic resources, among other things. The concept of discrimination based on wealth or poverty was destroyed by the state. While the state took on the role of caretaker for those who were unable to care for themselves. To conduct business, all legitimate sources of income were permitted, while all unfair and illegal methods of obtaining wealth, as well as sinful sources of wealth, were prohibited. There was no concept of disparity or inequality among the people, and the distribution of economic resources followed a parity formula with no regard to economic sources. The state was the custodian and well-wisher of the subject, which explains why this newly formed state became the most prosperous state in the world in only two decades, even though it had very limited sources of income. The system was based on economic justice, which was a revolutionary concept at the time. Even today, this economic system is beneficial to the entire world. For the uninitiated, this refers to the revolutionary Islamic system of livelihood that dominated the world after the advent of Islam and endured for thirteen centuries in all its splendor. Human beings have never experienced a major economic crisis during the existence of this system. The distribution of wealth among all people, as well as the balance of wealth, remained unchanged. Historically, the people's economic well-being during the reigns of various Islamic governments has been demonstrated. Islamic countries in the East have become targets of capitalist and colonial powers in the West because of their economic prosperity and accumulation of wealth, and they have not been able to rid themselves of this burden even today, thanks to the efforts of the international community. Every country and region was provided with a source of livelihood and sustenance at the local level under the Islamic system, and the people did not have to relocate to benefit from this provision. However, the majority of global migration today is driven by economic necessity, and millions of people are constantly moving around the world. Individuals are denied the necessities of life due to excessive economic demands, and they are unaware of the abundance of mental well-being that exists despite the abundance of luxuries available to them. Regarding political authority, there was little difference between the general public and the ruling elites in Islamic society, which was a good thing. The civil rights of the common man belonged to the highest authority in the land and the government. Members of the Cabinet and governors received the same amount of money from the public treasury as ordinary citizens did. As a result, the wealth of the country was shared equally among all members of society, resulting in a wave of prosperity that spread throughout the world. As a result, in Arabia, people used to travel to the cities in
search of alms and found no one to accept their offerings. As a result, the Islamic economic system is the only system that has proven to be effective in transforming lives from poverty to prosperity.

References

Al-Hadeith, Sahih Bukhari, 1201.

(Not to you is a shepherd and each of you is responsible for his flock, Valomir who shepherd people, and is responsible for his flock, and the man is the shepherd of his family, which is their official, women sponsor on the house of her husband and his son, and is responsible for them, and a servant shepherd on the master's wealth, which it is responsible, Are not all of you a shepherd, and each of you is responsible for his flock?)


(If the animal was difficult in Iraq, Omar would be responsible.)


Al-Quran, Surah Al-Baqrah,02, Ayat,43.

Al-Quran, Al-Baqrah, Ayat,276

Al-Quran, Al-Baqrah, Ayat,02, Ayat,261

Al-Quran, Al-Anfal 08, Ayat,01


