

Islamic Thought On The Prophet's Leadership And The Khulaf Al-Rashidin: The Real Sector And Public Finance And Its Relevance To The Modern Economy

Saeed Fayzul Hayat¹, Siradjuddin², Fatimah³

^{1,2} Universitas Islam Negeri Alauddin Makassar, Indonesia

E-mail:fayzulhayats@gmail.com, siradjuddin@uin-alauddin.ac.id, fatimah.fdk@uin-alauddin.ac.id

Abstract

Keywords:

Modern Economy, Public Finance, Islamic Leadership, Caliphs (Rashidun Ulama), Real Sector

This study aims to analyze the economic leadership of the Prophet Muhammad (peace be upon him) and the Caliphs (Rashidun Ulama) in managing the real sector and public financial system, and their relevance to the modern economy. Using qualitative-descriptive methods with a historical and analytical approach through literature review and content analysis techniques, this study examines classical and contemporary sources related to Islamic economics. The results indicate that the principles of justice, transparency, and social responsibility were the foundation of economic policy during that period, manifested through the ethical management of trade, agriculture, and industry, as well as the strengthening of fiscal institutions such as the Baitul Mal (the Islamic Public Treasury) and the Divan (the Islamic Treasury). This system successfully rejected exploitative practices such as usury, gharar, and maysir (trading), while creating a stable economic structure oriented towards the welfare of the people. These findings demonstrate that classical Islamic economic values are relevant to addressing issues of social inequality, fiscal crises, and weak governance, and can serve as a foundation for developing ethical, inclusive, and sustainable modern economic policies.

INTRODUCTION

One important aspect in Islamic history is the leadership practices of the Prophet Muhammad SAW and Khulafaurrasyidin who not only emphasized spiritual aspects, but also mainstreamed economic development. Islam orders its followers to carry out economic activities as exemplified by the Prophet sallallaahu 'alaihi wa sallam and his companions(Suci Ardi et al., 2023) As a religion of rahmatan lil 'alamin, Islam makes the Qur'an and Hadith a guide to life, so that all social, spiritual and economic aspects are covered in its teachings.(Hannanong et al., 2024) This confirms that Islam does not merely emphasize spiritual worship, but also provides a systemic foundation for economic practices and social welfare.

Theoretical problems arise when Islamic economic principles, which emphasize monotheism, justice, and balance, are confronted with modern economic conditions characterized by social inequality, financial crises, and structural poverty. Capitalism prioritizes individual profit, creating inequality, while socialism ignores individual ownership and creates efficiency problems.(Kato, 2022). Thus, a comprehensive review of the classical Islamic economic model as

applied during the time of the Prophet and the Caliphs is needed to address contemporary economic problems and find a just and sustainable economic model structure.

Various studies have emphasized that from the beginning, Islamic economic thought has been an integral part of Islamic civilization. The values of monotheism, justice, and balance are fundamental principles in the economic system implemented by the Prophet Muhammad (peace be upon him) and his companions, including the prohibition of usury, optimization of the real sector, and the management of zakat as a mechanism of social solidarity.(Hasibuan et al., 2024; Sarifudin & Amarsya, 2025)These studies also emphasize that the revelation of Qur'anic verses related to economics marked the emergence of a theoretical foundation for the Islamic economic system since the beginning of the Shari'a.(Jenawi et al., 2025). This idea was then developed more widely during the time of Khulafaur Rasyidin through the formation of Baitul Mal, management of kharaj, jizyah, ghanimah, as well as regulation of the trade and agricultural sectors.(Hafid Sidiq et al., 2024; Wani & Azhar, 2023).

Contemporary studies also highlight the success of state financial management carried out during the time of the Prophet Muhammad and the Khulafaur Rasyidin in creating economic stability and equal distribution of welfare.(Utami et al., 2025)Research on the leadership of Abu Bakr, Umar, Uthman, and Ali shows the continuity of the values of justice, trustworthiness, and efficiency of state administration, including the development of the diwan, tax system, and currency printing.(Akbar et al., 2022; Hasanah et al., 2023)These findings reinforce the historical picture that the Islamic economic system is adaptive to changing times without abandoning sharia principles.

However, most studies still focus on descriptive-historical issues. Recent studies focus on specific aspects such as leadership, the real sector, or fiscal policy, but have not yet integrated these into a single, integrative concept of Islamic economics. This situation highlights the need for further research that not only describes Islamic economic practices during the classical period but also establishes analytical links between fiscal instruments, real sector policies, and Islamic leadership principles.

Although research on Islamic economics during the time of Rasulullah SAW and Khulafaur Rasyidin is quite abundant(Aisyah et al., 2024; Hasibuan et al., 2024; Ramlah et al., 2025)However, most of these studies remain fragmented and fail to examine the relationship between the real sector and the public financial system as a unified economic model. Discussions of leadership and fiscal policy are also often separated, even though these two aspects have historically been integral in determining distributive justice and public welfare.

These limitations of previous research have created theoretical and empirical gaps, particularly regarding how economic practices during the time of the Prophet and the Rightly Guided Caliphs can be reconstructed into an integrative economic framework relevant to the modern context. In other words, studies are needed that can bridge normative values, historical aspects, and contemporary phenomena through a more comprehensive analytical approach.

Based on the research gap, this study aims to analyze in an integrative manner Islamic economic thought during the leadership of the Prophet Muhammad SAW and the Khulafaur Rasyidin by emphasizing the correlation between the real sector and the public financial system, as well as reconstructing a conceptual model of Islamic economics that is relevant for modern economic governance. The novelty of this research lies in the effort to develop an Islamic economic model based on justice, transparency, and social responsibility that is not only historical-

descriptive, but also analytical-operational so that it can be used as a reference in the development of a modern economic system.

METHODS

This research uses a qualitative-descriptive approach with historical and analytical methods, because it specifically examines the economic thought of the Prophet Muhammad SAW and the Khulafaurrasyidin, and its relevance to the modern economy. The historical approach is used to trace data from primary literature such as the Qur'an, hadith, tafsir books, sirah nabawiyah, and historical literature on the Khulafaurrasyidin government, while the analytical approach is used to examine the relationship between Islamic economic principles and contemporary economic issues. Research data was obtained through library research using a purposive sampling technique, namely selecting relevant, authoritative, and credible literature. Literature samples include classic books, academic books, scientific journal articles (2018–2025), and previous research. Data collection was carried out through digital platforms such as Google Scholar, Scopus, DOAJ, Perpusnas, and al-Maktabah al-Syamilah. Research tools include analytical notes, coding sheets, and reference management tools such as Mendeley or Zotero to ensure systematic data organization.

Data analysis was conducted using content analysis techniques through the following stages: data reduction, coding, categorization, interpretation, and historical-modern synthesis. Each key idea regarding leadership, fiscal instruments, and the real sector was identified, coded, and then grouped into analytical themes such as justice, trustworthiness, the public financial system, and economic policy. Data validity was strengthened through source triangulation, comparing information from classical texts, commentaries, hadith, academic journals, and modern research. Conceptual condensation was conducted critically to ensure that the findings were not only historically accurate but also theoretically relevant to the contemporary economic context. With a clear design, procedures, and analytical techniques, this study meets replication standards and provides a robust analytical framework for developing an Islamic economic model based on the values of justice, transparency, and social responsibility.

RESULTS AND DISCUSSION

Based on a historical-qualitative analysis of primary and secondary literature, this study found four main findings related to economic practices during the time of the Prophet Muhammad SAW and the Khulafaur Rasyidin.

A. Leadership of the Prophet Muhammad SAW in the Economic Sector

The economic leadership of the Prophet Muhammad (peace be upon him) emphasized ethical free markets, the prohibition of usury, gharar, and ihtikar, and the enforcement of justice through hisbah. The prohibition of fraud, price manipulation, and non-transparent transactions demonstrates that market freedom in Islam remains within a moral and sharia framework.(Faturrahman, 2025; Nurul Ichsan et al., 2023) Distribution instruments such as zakat, infak, and sedekah are also effective mechanisms for income equality.(Fitria et al., 2025).

B. The Role of Khulafaurrasyidin in Economic Development

The Rashidun Caliphs developed a more structural fiscal system and economic governance. Abu Bakr emphasized the rapid distribution of public funds; Umar established the diwan, established the kharaj and jizya taxes, and strengthened the infrastructure.(Rofiah & A'yuni, 2024),

Uthman encouraged the expansion of trade, and Ali enforced social justice through market supervision and the eradication of nepotism(Kurniadi et al., 2023; Kusuma & Zahwa, 2024). Previous research shows that their fiscal policy is a continuation and strengthening of the Prophet's economic foundations.(Hasanah et al., 2023; Rosmah et al., 2025).

C. Real Sector in the Perspective of Islamic Leadership

The real sector is the foundation of the Islamic economy through trade, agriculture and service activities that emphasize real production and halal added value.(Sarifudin & Amarsya, 2025) This activity was developed to create economic sustainability and avoid speculative activities such as usury, gharar, and maysir, which can undermine stability.

D. Public Financial System during the Time of the Prophet and Khulafaur Rashidin

The public financial system through Baitul Mal developed rapidly during Umar's time, with sources of income zakat, kharaj, jizyah, usyur, fai', and ghanimah, as well as distribution mechanisms for the welfare of the people(Aisyah et al., 2024; Rahma & Hadi Imawan, 2025).

Discussion

This discussion links the research findings to Islamic economic theory and previous studies, in accordance with journal guidelines. Overall, the results of this study reinforce the understanding that the Islamic economic model during the time of the Prophet Muhammad emphasized a balance between free markets and moral regulation. The findings regarding the prohibition of usury, gharar, and ihtikar align with contemporary Islamic economic theory, which states that a real asset-based system can maintain stability and prevent market distortions. This is consistent with research.(Sarifudin & Amarsya, 2025) which emphasizes the importance of the real sector in building economic resilience.

The findings on the role of the Caliphate demonstrate conceptual continuity with the Prophet's era, as well as more systematic administrative development. The enforcement of kharaj and jizyah during the time of Umar in this study(Rofiah & A'yuni, 2024) strengthen the fiscal base and reflect the principle of distributive justice in Islamic public finance theory. These results support the findings(Rosmah et al., 2025) who assessed that the Islamic fiscal system developed institutionally during the time of the Khulafaur Rasyidin. Cross-regional trade policies during the time of Uthman in the research (Kusuma & Zahwa, 2024) strengthens the theory that regional economic integration is part of the dynamics of classical Islamic economics.

This research also demonstrates the relevance of the classical Islamic economic model to the modern economy. The principles of transparency, accountability, and social justice that underpin the Baitul Mal parallel the concept of modern good fiscal governance.(Agustin et al., 2025). Distribution of wealth through zakat, infaq, and waqf has been proven to be in line with the function of progressive taxation and the social security system in the welfare state.(Fitria et al., 2025) This finding aligns with theoretical expectations that Islamic economics can address inequality and increase social stability through a structured wealth distribution mechanism. Furthermore, this study demonstrates that the prohibition of speculative economic practices such as maysir and gharar is not only theologically grounded but also economically rational, preventing bubble economies and financial crises. This strengthens the argument that Islamic economics is more resilient to global crises due to its real-sector basis and equitable distribution of wealth. Thus, this study supports previous Islamic economic theories and provides an original contribution in the form of a historical-conceptual integration between the era of the Prophet and the Caliphate, relevant for modern economic reform.

CONCLUSION

This study concludes that the economic leadership system of the Prophet Muhammad (peace be upon him) and the Caliphs (Khalaf al-Rasyidin) was based on the principles of justice, transparency, and social responsibility, which were implemented in the management of the real sector and public finances. Through instruments such as zakat, infaq, sedekah, waqf, and strengthening institutions such as the Baitul Mal (Islamic trust) and Diwan (Islamic board), they built a stable, inclusive, and collectively welfare-oriented economic structure. Ethical free market mechanisms, prohibitions on exploitative practices such as usury, gharar, and maysir (stock market), and supervision through hisbah demonstrate that the Islamic economic system combines spirituality with material sustainability. These findings demonstrate that Islamic economic values in early Islamic history have strong relevance in addressing various contemporary issues, such as economic inequality, weak fiscal governance, and a crisis of confidence in public institutions.

Scientifically, this study contributes by integrating historical analysis of the real sector and public financial systems into a single conceptual model of Islamic economic leadership. This study expands the literature by demonstrating continuity between the era of the Prophet and the Caliphate, while also emphasizing the universal values of Islamic economics that remain relevant for modern policy. However, this study is limited by its entirely literature-based nature, which precludes modern empirical data or applicability testing in specific country contexts. This limitation opens up opportunities for future research to develop comparative or implementation studies in more specific contemporary economic contexts.

Based on the research findings, it is recommended that the principles of Islamic economic leadership implemented by the Prophet Muhammad (peace be upon him) and the Caliphs (Kulafaur Rasyidin) be used as a reference in formulating modern economic policies, both at the national and global levels. The government and financial institutions need to strengthen the real sector as the foundation of the economy, expand the implementation of social distribution instruments such as zakat, infaq, and waqf, and implement transparent and accountable fiscal governance. The Baitul Mal and Diwan models can inspire fiscal reforms that are more oriented towards social justice and public welfare.

For the academic world, it is recommended that further research deepen the empirical analysis of the effectiveness of Islamic fiscal instruments in a modern context, as well as conduct comparative studies across countries to determine the extent to which Islamic economic values can be adapted to various political and economic systems. Further research could also explore the integration of Islamic financial systems with sustainable development policies, so that the values of justice, balance, and social responsibility can form the foundation for inclusive and sustainable economic solutions in the future.

REFERENCE

Agustin, PD, Dinanty, D., Nasution, JH, Aditya S, R., & Hayati, F. (2025). The Economic Thought of Khulafaur Rasyidin. *Riggs: Journal of Artificial Intelligence and Digital Business*, 4(2), 2213–2219. <Https://Doi.Org/10.31004/Riggs.V4i2.833>

Aisyah, A., Arsyadi, B., Siradjuddin, S., & Bin Sapa, N. (2024). Economic Thoughts of Rasulullah and Khulafā' Al-Rashidīn in Islamic Economic Development. *Tajdid: Journal of Islamic and Humanitarian Thought*, 8(2), 85–99. <Https://Doi.Org/10.52266/Tajdid.V8i2.3199>

Akbar, A., Misbah, A., & Arisandi, Y. (2022). Economic and Fiscal Systems During the Caliphate Era. Dies: Journal of Dalwa Islamic Economic Studies, 1(1), 29–42. <Https://Doi.Org/10.38073/Dies.V1i1.598>

Faturrahman, A. (2025). The Transformation of Islamic Economic Thought from the Classical Period to the Modern Era. Ab-Joice: Al-Bahjah Journal of Islamic Economics, 3(1). <Https://Doi.Org/10.61553/Abjoiec.V3i01.242>

Fitria, L., Azwi Nurrahma, D., Ramadhan, AW, & Hayati, F. (2025). The Relevance of Islamic Economic Thought during the Time of the Prophet Muhammad SAW to the Contemporary Economic System: A Study from the Perspective of Maqashid Al-Shariah. Santri: Journal of Islamic Economics and Finance, 3(3), 175–189. <Https://Doi.Org/10.61132/Santri.V3i3.1553>

Hafid Sidiq, A., Anwar, S., Herlina, E., Rivaldo, T., & Rizko, M. (2024). Literature Study: The Concept Of Leadership In Islamic Perspective. Oikonomia: Journal Of Economics And Management Science, 2(3). <Https://Doi.Org/Https://Doi.Org/10.59165/Oikonomia.V2i3.84>

Hannanong, I., Ambo Masse, Abd. R., & Nur Haslin, MI (2024). Ibn Taimiyah's Islamic Economics: The Context of Market Mechanisms, Price Justice, and Monetary Policy. Solusi, 22(3), 239–251. <Https://Doi.Org/10.26623/Slsi.V22i3.9408>

Hasanah, RA, Husna, R., Anjasya, G., Tanjung, FA, & Nasution, M. (2023). Economy During the Al-Khulafa' Al-Rasyidin Era. Journal of Islamic Economics and Finance, 2(1), 45–53. <Https://Doi.Org/10.59841/Jureksi.V2i1.700>

Hasibuan, P., Alfahrezi, Mhd. R., Zein, AW, & Sianifar, I. (2024). History of Islamic Economic Thought During the Time of the Prophet Muhammad and During the Time of the Caliphs and Their Differences. Initiative: Journal of Economics, Accounting and Management, 4(1), 350–362. <Https://Doi.Org/10.30640/Inisiatif.V4i1.3568>

Jenawi, B., Tarigan, D., Prasetya, MD, & Zein, AW (2025). History of Islamic Economic Thought During the Time of the Prophet Muhammad SAW. Ihsanika: Journal of Islamic Religious Education, 3(1), 239–243. <Https://Doi.Org/10.59841/Ihsanika.V3i1.2187>

Kato, T. (2022). Islamic And Capitalist Economies: Using Comparison Econophysics Models Of Wealth Exchange And Redistribution. Plos One, 17(September 9). <Https://Doi.Org/10.1371/Journal.Pone.0275113>

Kurniadi, Nur Alim Mu'min, Muh. D., Atma Amir, AN, Misbahuddin, & Siradjuddin. (2023). The Relevance of Economic Policy in Khulafal Rasyidin and the Modern Era. Ar-Ribh: Journal of Islamic Economics, 6(2). <Https://Journal.Unismuh.Ac.Id/Index.Php/Ar-Ribh>

Kusuma, F., & Zahwa, EA (2024). The Historical Manifestation of Islamic Economic Thought During the Caliphate Era. Al-Hasyimiyah: Journal of Islamic Economics, 3(1). <Https://Doi.Org/Https://Doi.Org/10.64524/Ah.V3i01.118>

Nurul Ichsan, A., Despileny, I., Zahratul Jannah, N., Herlinda, & Alpizar. (2023). The Economy During the Time of the Prophet Muhammad SAW: Viewed from the Perspective of Fiscal Policy. At-Tajdid: Journal of Islamic Studies, 3(2). <Http://Ejournal.Uin-Suska.Ac.Id/Index.Php/At-Tajdid/Index>

Rahma, A., & Hadi Imawan, D. (2025). The Implementation Of Fiscal Policy During The Caliphate Of Abu Bakr And Umar Bin Khattab: A Historical Analysis And Its Implications For Islamic Economics. Abhats: Ulil Albab Islamic Journal, 6(1). <Https://Doi.Org/10.20885/Abhats.Vol6.Iss1.Art5>

Ramlah, R., Sapa, N. Bin, & Lutfi, M. (2025). Islamic Economic Thought of the Time of Rasulullah SAW and Khulafaurrasyidin: Solutions and Challenges of the Contemporary Time. Khatulistiwa, 15(1), 58–71. <Https://Doi.Org/10.24260/Equator.V15i1.3216>

Rofiah, K., & A'yuni, IK (2024). Economic and Financial Development in Islam: Inspiration from the Khulafaur Rasyidin. Al-Mutsla: Journal of Islamic and Social Sciences, 6(1), 212–227. <Https://Doi.Org/10.46870/Jstain.V6i1.933>

Rosmah, Sirajuddin, & Sudirman. (2025). Early Islamic Economics: A Review of the Practices and Policies of the Prophet Muhammad and the Khulafaurasyidin. *Mauriduna: Journal of Islamic Studies*, 6(1), 667–679. <Https://Doi.Org/10.37274/Mauriduna.V6i1.1384>

Sarifudin, M., & Amarsya, ET (2025). Islamic Economic Thought During the Time of the Prophet Muhammad SAW: Relevance and Implementation in the Modern Era. *Journal of Multidisciplinary Research*, 1(12). <Https://Ejournal.Amirulbangunbangsapublishing.Com/Index.Php/Jpnmb/Index>

Suci Ardi, AR, Rayansi, I., & Syahbudi, M. (2023). Sunan Kalijogo Islamic Institute, Malang: The Development of Islamic Economic Thought in the Modern Era. *Al-Iqtishod: Journal of Islamic Economics*, 5(1). <Https://Doi.Org/Https:// Doi.Org/10.51339/Iqtis.V5i1>

Utami, NF, Aristianti, DA, Kholil, A., Ardifta, SS, & Hayati, S. (2025). Differences in Fiscal Policy in Conventional Economics and Islamic Perspectives. *Jebi: Journal of Economics and Business*, 3(5), 1063–1073. <Https://I-Economics.My.Id/Index.Php/Home/Article/View/461>

Wani, NH, & Azhar, A. (2023). Economic Transformation In The Early Islamic State: Insights From The Leadership Of Prophet Muhammad (Pbuh). *International Journal Of Scientific Development And Research (Ijsdr)*, 8(12). <Https://Ijsdr.Org/Viewpaperforall.Php?Paper=Ijsdr2312040>