# Strata International Journal of Social Issues

Vol. 2 No. 1, February 2025, Pages. 68-79 | P-ISSN: 3046-7047, E-ISSN: 3046-7039

## Fiscal Policy in Islamic History: from *Baitul Mal* Management to the Tax System

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***DOI: 10.59631/sijosi.v2i1.319***

**Abstract**
Fiscal policy is a crucial aspect of economic management in a nation. In Islamic history, fiscal policy has functioned not only as a revenue collection mechanism but also as an instrument for achieving social and economic welfare. This study explores the evolution of Islamic fiscal policy, from the management of *Baitul Mal* to the development of modern taxation systems. This study employs a qualitative approach using heuristic and historiographical methods, analyzing secondary literature sources from various historical periods. The findings indicate that Islamic fiscal policy has historically aimed to achieve economic balance and social justice. *Baitul Mal* functioned as a wealth redistribution tool, while taxation systems were developed to finance public infrastructure. Despite challenges such as corruption and unequal resource distribution, the fundamental principles of Islamic fiscal policy remain relevant in the modern economic context. Therefore, this study recommends the implementation of transparency, accountability, and fiscal balance as guiding principles for contemporary economic policies to achieve stability and sustainable development.

**Keywords** : *Baitul mal*, islamic economic history, fiscal policy, taxation, *zakat*.

## 1. Introduction

Fiscal policy is a crucial aspect of a nation's economic management. In the context of Islamic history, fiscal policy has not only functioned as a revenue collection mechanism but also as an instrument for achieving broader social and economic objectives. Since the early days of Islam, the management of financial resources has been a primary concern for Muslim leaders, who have sought to ensure the welfare of society.

One of the most well-known forms of fiscal management in Islamic history is Baitul Mal. Baitul Mal can be understood as a financial institution responsible for managing public wealth, including zakat, infaq, and other voluntary contributions. This institution played a vital role in wealth redistribution and ensuring that resources were utilized for the public good (Khairunnisa et al., 2022). During the time of Prophet Muhammad (PBUH), financial administration was conducted in a simple yet effective manner. Zakat, a mandatory obligation for every Muslim, served as one of the primary sources of revenue for Baitul Mal. Through zakat, wealth was distributed to those in need, thereby reducing social inequality (Aini, 2019).

Following the Prophet's era, the Baitul Mal institution continued to evolve. Caliphs Abu Bakr and Umar ibn Khattab expanded its functions and responsibilities, establishing better record-keeping systems and enforcing strict financial oversight. This development indicates that fiscal policy in Islam was not merely reactive but also proactive in fostering societal well-being. In addition to zakat, taxation also became a significant component of Islamic fiscal policy. Various forms of taxation were imposed on wealth and income, including land tax (kharaj) and wealth tax (jizyah). These tax systems were designed to ensure that all members of society contributed to the development and maintenance of public infrastructure (Rahayu, Janwari, & Jubaedah, 2022).

The social objectives of Islamic fiscal policy extend beyond mere revenue collection to achieving broader societal goals. Effective financial management ensures that funds accumulated through *Baitul Mal* and taxation can be utilized for building schools, hospitals, and other infrastructures that support public welfare. The principle of economic balance is also a fundamental aspect of Islamic fiscal policy. In Islamic thought, expenditures must be proportionate to income. This encourages governments to avoid excessive debt and ensures that every project or program has a strong financial foundation (Oktaviana & Harahap, 2020).

Innovations in Islamic fiscal policy continues to develop. In the modern era, many Muslim-majority countries have adopted more complex and diversified taxation systems to address the evolving needs of their societies. This demonstrates that the core principles of Islamic fiscal policy remain relevant despite the dynamics of the contemporary global economy. However, challenges persist in the implementation of Islamic fiscal policies. Corruption, lack of transparency, and inequities in resource distribution often pose significant obstacles to achieving fiscal policy objectives (Zakiyatul Miskiyah, Arif Zunaidi, Sodiq Almustofa, & Mahrus Suhardi, 2022).

The relevance of Islamic fiscal policy in the modern era is increasingly significant. Given the growing complexities of the global economy, new approaches must be adopted while upholding the fundamental principles established in Islamic teachings. Therefore, research on Islamic fiscal policy is essential to assess its effectiveness and adaptability in rapidly changing economic environments.

This study aims to explore the evolution of fiscal policy in Islamic history, from the management of Baitul Mal to the development of modern tax systems. By analyzing these various aspects, this research seeks to provide new insights into how fiscal policies can be effectively implemented to enhance societal welfare. The research methodology involves qualitative analysis of historical literature as well as case studies of various Muslim-majority countries that have implemented fiscal policies based on Islamic principles.

The expected contribution of this study is to enhance the understanding of fiscal policy within the context of Islamic history and its implications for contemporary economic policies. Furthermore, this research aspires to serve as a valuable reference for policymakers and scholars in formulating more effective economic development strategies. Consequently, this journal will present an in-depth analysis of how fiscal policy has evolved throughout Islamic history and how its principles remain relevant in the present day.

## 2. Research Method

This study is a qualitative research employing a heuristic approach. The research technique used focuses on historiography, emphasizing the ability and skill to discover and recognize the topic in depth. The heuristic approach in this study is utilized to determine the research theme related to the historical evolution of Islamic fiscal policy over time.

In this research, the data sources are derived from secondary literature, specifically books and scholarly journals that discuss Islamic fiscal policy across various historical periods. Data collection is conducted through a literature review, examining relevant and credible academic references. This process aims to obtain a comprehensive understanding of the evolution of Islamic fiscal policy and the fundamental principles underlying it.

Data analysis is carried out using a descriptive-analytical method, where information obtained from various sources is systematically examined to identify patterns, concepts, and developments in Islamic fiscal policy. This approach allows the study to reveal the dynamics of changes in Islamic fiscal policy and its relevance to the modern economic context. Additionally, the heuristic method in this research is used to address issues in information retrieval and to formulate solutions or conceptual syntheses that serve as the basis for validating the research findings (Rahardjo, 2018).

## 3. Results and Discussion

### 3.1 The Development of Fiscal Policy in Islamic History

The evolution of fiscal policy in Islamic history has undergone significant transformations from the time of Prophet Muhammad (peace be upon him) to various Islamic dynasties. This policy was not merely a tool for managing state revenues and expenditures but also played a crucial role in ensuring economic stability and social welfare. This section examines fiscal policies during the Prophet's era, the period of the Rightly Guided Caliphs, and the developments during the Umayyad, Abbasid, and other Islamic dynasties.

### 3.1.1 Fiscal Policy During the Era of Prophet Muhammad (PBUH)

During the early days of governance in Madinah, state revenues and expenditures were minimal, primarily because most administrative tasks were performed voluntarily, without fixed salaries or wages. However, the inhabitants of Madinah were permitted to take spoils of war as a source of livelihood. At this stage, the financial management system was simple, with zakat and charity (sadaqah) serving as the primary sources of state revenue (Zakiyatul Miskiyah et al., 2022).

The financial management of Baitul Mal (the state treasury) during the Prophet's time was highly effective, ensuring that deficits were rare. However, an exception occurred before the Battle of *Hunayn*, when a fiscal deficit arose. To address this, Prophet Muhammad (PBUH) borrowed funds from his companions and promptly repaid them after the war ended once the Muslim army had secured war spoils. This approach reflected the Islamic economic principle of avoiding budget deficits (Heru, Atikah, & Nurlaila, 2022).

In addition to financial adjustments, Prophet Muhammad (PBUH) also formulated policies to create employment opportunities for the Muhajirun (migrants from Mecca). This initiative aimed to enhance state revenue through contractual agreements such as *muzara'ah* (sharecropping) and *mudharabah* (profit-sharing partnerships). The Muhajirun provided labor, while the Ansar (residents of Madinah) supplied land, mines, and plantations. This cooperative system boosted production, expanded Muslim trade networks, and optimized the use of resources such as labor, land, and capital.

A significant portion of state revenue—one-fifth of total wealth—came from war spoils following the Battle of Badr in the 2nd century Hijri. Additionally, Prophet Muhammad (PBUH) implemented *jizyah*, a tax imposed on non-Muslims in exchange for protection, and *kharaj*, a land tax levied on non-Muslims residing in Muslim-controlled territories.

The Prophet's public economic policies included several key initiatives: (1) infrastructure development and economic regulations, including market supervision and guarantees for economic activities; (2) prohibitions against practices conflicting with Islamic principles, such as hoarding (*ihtikar*), fraud (*tadlis*), and uncertainty (*gharar*); (3) fostering an ethical market environment that facilitated religious observance, such as congregational prayers; (4) promoting a strong work ethic, discouraging begging, and creating employment opportunities; (5) developing and sustaining various professional sectors; and (6) appointing competent public officials with fair salaries based on their roles (Karbila, Helim, & Rofii, 2020).

### 3.1.2 Fiscal Policy During the Era of the Rightly Guided Caliphs

The fiscal policies during the Rightly Guided Caliphs' era exhibited substantial advancements in financial management, beginning with the leadership of Abu Bakr As-Siddiq. Following the death of Prophet Muhammad (PBUH), Abu Bakr, the first caliph, played a crucial role in stabilizing the Islamic economy by addressing major challenges such as apostasy movements, tax refusal, and false prophets, culminating in the Ridda Wars. In terms of financial policy, Abu Bakr enforced strict zakat collection, ensuring compliance even among Bedouin tribes that resisted payment. His fiscal approach emphasized equal distribution from Baitul Mal, where all companions of the Prophet received the same allocation, fostering economic justice and social stability in Madinah (Musyaddad, 2013).

Umar ibn Khattab, the second caliph, introduced significant reforms that led to economic prosperity. He institutionalized Baitul Mal to systematically manage state finances, including zakat, war spoils (*ghanimah*), and taxation (*ushr*). Umar also established a structured administrative system, ensuring effective financial governance by creating regional branches of Baitul Mal. The rapid territorial expansion under his rule led to a surge in state revenues, and he strategically allocated funds progressively rather than depleting them all at once (Octavia Habie, 2022). Uthman ibn Affan, the third caliph, maintained and further developed the policies introduced by his predecessors. Notably, he declined a salary for his role as caliph, alleviating the financial burden on the state treasury. His economic strategies included fortifying the Mediterranean naval fleet, expanding trade routes, and distributing aid based on public needs, thereby preserving economic stability negara (Area, n.d.).

Ali ibn Abi Talib, the fourth caliph, initiated reforms in governance by dismissing corrupt officials and reclaiming state land for Baitul Mal. His fiscal policies included levying taxes on forest owners and imposing zakat on vegetables used as cooking ingredients. Despite political challenges, Ali ensured financial allocations aligned with previous governance principles, promoting social justice and economic welfare ("Pemerintahan Ali Bin Abi Thalib dan Permulaan Konflik Umat Islam: Peristiwa Tahkim," 2020).

Overall, the fiscal policies of the Rightly Guided Caliphs reflected efforts to sustain economic stability and social equity through effective financial resource management. Each caliph contributed uniquely to the development of Islamic financial institutions, particularly Baitul Mal, which played a pivotal role in economic growth.

### 3.1.3 Fiscal Policy During the Umayyad and Abbasid Dynasties

The Umayyad and Abbasid periods marked significant advancements in Islamic fiscal policy. The Umayyads introduced a more complex taxation system, incorporating new tax categories to fund infrastructure and administrative projects. Additionally, they enhanced financial accountability by improving Baitul Mal's accounting mechanisms, ensuring efficient public fund management.

The Abbasid dynasty continued financial reforms by prioritizing public infrastructure, including roads, bridges, and essential facilities. Their fiscal policies extended beyond revenue collection to strategic investments aimed at improving societal well-being (Dwiyanti, Wahyudi, & Setianto, 2023). The Abbasids also implemented a fairer and more transparent taxation system, facilitating accurate records of state income and expenditures.

### 3.1.4 Fiscal Policies in Other Islamic Dynasties

Beyond the Umayyad and Abbasid caliphates, other Islamic dynasties, such as the Fatimid, Seljuk, and Ottoman empires, made notable contributions to the development of fiscal policies. The Fatimid dynasty emphasized an equitable tax system and the use of zakat as a primary wealth redistribution instrument. Meanwhile, the Seljuks fostered economic growth by supporting trade and industry through fiscal incentives.

The Ottoman Empire introduced innovative taxation methods, including a more efficient land tax system and a modernized financial administration. They further institutionalized financial bodies like Baitul Mal to manage state revenues effectively (Zakiyatul Miskiyah et al., 2022). These developments illustrate how Islamic fiscal policies evolved into sophisticated systems while remaining rooted in principles of social justice and economic welfare.

## 3.2 Instruments and Sources of Fiscal Revenue in Islam

Zakat, ghanimah, fay', kharaj, jizyah, and other revenue sources in the *Baitul Mal* are essential instruments in the Islamic fiscal system, playing a crucial role in economic redistribution and poverty alleviation. Zakat, as one of the pillars of Islam, functions not only as an individual obligation but also as a wealth redistribution mechanism that helps reduce social inequality (Abdullah et al., 2024). According to Muhammad Nejatullah Siddiqi, zakat serves as the core and foundation of state finance, possessing strong moral, social, and economic aspects. Siddiqi emphasizes that zakat is not merely charity or a tax but a binding obligation for those who are financially capable, ensuring support for the less fortunate members of society (Aravik, 2017).

Ghanimah and fay' are also significant sources of revenue in Islamic history. Ghanimah refers to war spoils obtained through armed conflict, while fay' consists of assets acquired through conquests without resistance. Both types of wealth were utilized for public welfare, such as funding social projects and infrastructure development to enhance societal well-being. The allocation of ghanimah and fay' in this manner reflects the principles of social justice in Islam (Zakariya, 2018).

Kharaj and jizyah are taxes imposed on non-Muslims within an Islamic society. Kharaj is a land tax, while jizyah is a poll tax. Both serve as sources of state revenue and contribute to economic stability by ensuring protection for non-Muslim communities under the governance of an Islamic state. Historically, the implementation of kharaj and jizyah demonstrates how Islam structured relationships between Muslim and non-Muslim communities based on principles of justice and welfare (Aravik, 2017).

Additionally, the *Baitul Mal* manages various other sources of revenue, such as waqf, hibah, and investment returns. Waqf is a permanent endowment for public benefit, often allocated to social and educational projects (Saprida, Barkah, & Utari, 2021). Hibah refers to voluntary donations that also support social initiatives. The investment returns from these funds play a crucial role in financing state expenditures and supporting development programs.

Thus, all these instruments work together to establish a fair and sustainable fiscal structure within an Islamic society. By understanding these mechanisms, we can see that the Islamic fiscal system is not solely focused on tax or zakat collection but also on creating collective prosperity and addressing poverty holistically.

### 3.3 The Dynamics and Challenges of Fiscal Policy in Islamic History

Fiscal policy in Islamic history exhibits complex dynamics influenced by social and political conditions across different periods. In the early days of Islam, under the leadership of Prophet Muhammad and the Rashidun Caliphs, fiscal policy was based on principles of social justice and wealth redistribution. The primary sources of state revenue at that time came from zakat, ghanimah (war spoils), and voluntary contributions from society. These policies reflected the need to build a prosperous and just society (Markavia et al., 2022). However, as time progressed and Islamic territories expanded, new challenges emerged, including the need to manage larger and more complex resources. In this context, fiscal policy had to adapt to contemporary challenges, such as demographic changes, uneven economic growth, and internal conflicts. For example, during the Umayyad and Abbasid dynasties, the government faced difficulties in managing wealth acquired from conquered territories, necessitating innovations in taxation and public expenditure systems to ensure the continued welfare of society (Rahmawati, 2008).

Islamic fiscal policy throughout history also faced both internal and external challenges. Internal challenges, such as corruption and administrative weaknesses, often hindered the effective management of public finances. Public dissatisfaction with rulers sometimes led to rebellions that affected economic stability. For instance, during the Abbasid rule, corruption among government officials became a serious issue that disrupted the fair distribution of wealth (Aini, 2019). On the other hand, external challenges, such as foreign invasions and geopolitical changes, also had significant impacts on fiscal policy. The Mongol invasion in the 13th century devastated many Islamic economic centers, resulting in substantial losses to state revenues. Similarly, geopolitical changes brought about by European colonization reshaped the economic structures of Muslim countries, forcing them to adapt to new fiscal systems (Karim, 2008).

The values embedded in Islamic fiscal policy remain highly relevant in the modern context, particularly concerning social justice and economic equity. Principles such as wealth redistribution through zakat and fair taxation can be applied to contemporary fiscal systems to address widening social inequalities. In the face of globalization and modern capitalism, Islamic fiscal policies offer a more equitable alternative by emphasizing the collective welfare of society (Rahmawati, 2008). For instance, implementing a progressive tax system that imposes higher contributions on the wealthy can create a more effective redistribution mechanism. Additionally, the concept of waqf, a permanent charitable endowment, can be integrated into modern social policies to support education and public healthcare (Markavia et al., 2022). Thus, the fiscal values of Islam can serve as a guiding framework for policymakers in developing a fairer and more sustainable economic system.

Overall, fiscal policy in Islamic history reflects a complex interplay of socio-political factors and internal and external challenges. Despite evolving over time, the core principles of social justice remain relevant today. Implementing these values in modern fiscal systems can contribute to creating a more prosperous and equitable society.

## 4. Conclusion

The historical development of fiscal policy in Islamic governance demonstrates a continuous evolution in financial management, transitioning from the simplicity of the Prophet Muhammad's era to the more structured and complex systems under the Rightly Guided Caliphs, the Umayyads, the Abbasids, and subsequent Islamic dynasties. The implementation of fiscal policies in Islamic history was fundamentally aimed at ensuring economic stability and social welfare. The management of *Baitul Mal* played a pivotal role in collecting and distributing financial resources, ensuring that public needs were met. The main sources of revenue, including *zakat, ghanimah, fay', kharaj, and jizyah*, were designed to uphold justice and equitable wealth distribution. However, as Islamic territories expanded, new challenges emerged, necessitating continuous adjustments and refinements in fiscal policies. The Umayyads and Abbasids introduced significant administrative reforms, establishing systematic taxation mechanisms and financial governance structures to maintain economic prosperity. Despite these advancements, fiscal policy faced internal and external challenges, including corruption, administrative inefficiencies, political instability, and foreign invasions, which impacted the effectiveness of financial management.

Based on historical observations, several recommendations can be made for contemporary fiscal policy implementation. First, the principles of fairness, transparency, and accountability in fiscal management, as demonstrated in historical Islamic governance, should serve as a reference for modern economic systems. Strengthening institutions similar to *Baitul Mal* in contemporary settings can enhance equitable resource distribution and social welfare. Second, the integration of moral and ethical values in financial governance, as emphasized in Islamic economic principles, should be reinforced to prevent corruption and ensure justice. Finally, governments should adopt innovative fiscal policies that are adaptable to changing economic and geopolitical conditions, learning from the historical experiences of Islamic governance. By applying these lessons, fiscal policy can contribute effectively to economic stability, social justice, and sustainable development.

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