

ECONOMIC TRANSFORMATION IN THE EARLY ISLAMIC STATE: INSIGHTS FROM THE LEADERSHIP OF PROPHET MUHAMMAD (PBUH)

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Abstract- In the 13th year after the onset of Nubuwwah, Prophet Muhammad (PBUH), accompanied by his ordained companions under Allah's guidance, undertook the historic migration from Mecca to Medina. Upon their arrival in Medina, they were met with a stark economic imbalance stemming from various factors. With the establishment of the Islamic State of Medina, Prophet Muhammad (PBUH) faced a formidable challenge, requiring a comprehensive overhaul of the entire economic framework. The primary objective of this paper is to explore the fundamental principles of Islamic economics. It also seeks to shed light on the imbalanced economic conditions that prevailed in Medina before the arrival of the Prophet (peace be upon him). In doing so, the paper aims to delve into the root causes of these economic disparities and examine the policies and processes implemented by the Prophet to address and rectify them. Additionally, the paper will delve into the technical terminology associated with prophetic economics, providing a comprehensive understanding of the topic. Furthermore, it will explore how the economic strategies employed by the Prophet Muhammad (peace be upon him) in Medina continue to find contemporary applications. Furthermore, this study will demonstrate how the economic strategies implemented by the Prophet Muhammad (peace be upon him) in Medina continue to have relevance in modern applications. To achieve these objectives, the research relies on a blend of primary and secondary sources of data. Primary sources include original texts, often in Arabic, which are translated into English for analysis. Secondary sources encompass translated books of Hadith, Islamic legal literature (Fiqh) in English, scholarly writings, and research journals, all of which contribute to a comprehensive exploration of the subject matter.

Keywords: Leadership, Zakat, Economic Principles, Banishing Usury, Moderation.

INTRODUCTION

In the wake of the Hijrah, the migration of Prophet Muhammad (PBUH) to Medina, laid the foundation for the Islamic State of Medina. This state is often considered an exemplary model for all periods. The Prophet initiated a comprehensive reform effort that encompassed various facets of Medina's society, including its social, religious, economic, and political dimensions. His leadership was characterized by effective strategies aimed at fostering both the potential and sustainability of economic development within the community. In a remarkably short period, he successfully transformed the economic landscape of Medina, establishing enduring principles that continue to hold relevance across the ages.

In the 13th year following the inception of Nubuwwah, Prophet Muhammad (PBUH) and his faithful companions, guided by divine intervention from Allah, embarked on a pivotal migration from Mecca to Medina. Upon their arrival, they confronted a city grappling with profound economic disparities rooted in various causes. The establishment of the Islamic State of Medina marked the commencement of an arduous challenge for Prophet Muhammad (PBUH), who embarked on a comprehensive mission to address and overhaul the economic landscape. This paper examines the fundamental causes underpinning these economic issues and the circumstances surrounding them, with a particular focus on the economic dimensions of Medina and the challenges posed by wealth misuse and capitalism, particularly within the Jewish population.

The paper meticulously dissects the principles of the Islamic economic system and multifaceted strategies initiated by the Prophet (PBUH) to rectify these economic challenges, including:

- 1. Institutionalizing Zakat:** The introduction of obligatory alms-giving to facilitate the equitable redistribution of wealth within the community.
- 2. Promotion of Voluntary Charity:** Encouraging acts of benevolence and voluntary charity to ameliorate the plight of the less fortunate.
- 3. Banishing Usury and Interest (Riba):** The prohibition of usurious practices and interest-bearing transactions, which were contributing to economic disparities.

- 4. Regulating Markets:** Implementation of prudent regulations to ensure fairness and integrity in commercial transactions within the marketplace.
- 5. Establishment of Bait-al-Maal:** The creation of a centralized treasury for efficient management of communal resources.
- 6. Introduction of Taxation Systems:** Implementing taxation mechanisms to support the state and cater to the welfare of its citizens.
- 7. Effective Management of Post-War Assets:** Devising strategies for the equitable distribution and utilization of war spoils and acquired resources from conflicts.
- 8. Equitable Inheritance Rules:** Instituting just inheritance laws to guarantee the fair distribution of wealth.
- 9. Modernizing Business Practices from Ayaam al-Jahiliya:** Adapting conventional business norms to align with the ethical principles of Islam.
- 10. Promotion of Permissible Investments and Discouragement of Begging:** Encouraging lawful investments while discouraging the act of begging as a means of sustenance.

Through these multifaceted reforms and initiatives, Prophet Muhammad (PBUH) established a remarkable model for addressing economic challenges that transcend temporal boundaries and retain relevance across diverse epochs. His methodical approach to economic transformation in Medina provides invaluable insights and timeless lessons for mitigating economic inequalities and fostering a just and equitable society.

FUNDAMENTAL PRINCIPLES OF ISLAMIC ECONOMY

The fundamental principles of Islamic economics are rooted in the spiritual and ethical values of Islam. Islamic economics places a strong emphasis on achieving socio-economic justice, as indicated in the Quran.¹ Unlike secular economic systems that are driven by worldly philosophies, Islamic economics is directly guided by Allah Almighty. The Islamic economic system was developed under the guidance of the Quran and the Prophet Muhammad (PBUH). Being divinely guided, it is inherently spiritual. The Holy Quran comprehensively addresses various critical aspects of the Islamic economic system, including production, consumption, distribution, and the financial system.

In the Quran, Allah Almighty says:

"O! You human beings, pray your own Lord (The Nourisher) who created you and those before you (i.e. the Genies) so that you may fear Him. It is He Who made this Earth as a bed for you and the sky as a canopy for you, and He causeth the rain and creates different types of fruits v and corns from it, so that you may consume them (as your provision). Hence, do not make any copartner with Him; and you know it better."²

In these verses of the Holy Quran, it is mentioned that humans are Allah's vicegerents on earth, and He has provided all the necessary provisions for them to sustain themselves and meet their needs. It is emphasized that humans should worship and fear their Lord, the Nourisher, who created them and the beings before them. Allah has designed the Earth as a place for humans to reside, with the sky as a protective canopy. He provides rain and diverse types of fruits and grains to sustain them. Humans are urged not to associate partners with Allah in His divine creation.

Some key principles of the Islamic economic system, as outlined in the Quran and the Sunnah (the teachings and practices of the Prophet Muhammad), can be summarized as follows:

1. Determination of Right and Wrong

In the Islamic economic system, the determination of what is considered right and wrong primarily revolves around distinguishing between what is permissible (Halal) and what is prohibited (Haram), as well as obligations (Wajib), recommendations (Mustahabb), and disliked actions (Makruh). It is crucial to emphasize that the exclusive authority to declare what falls under these categories rests with Allah alone. Only God possesses the divine prerogative to define what is morally acceptable and what is not. In the realm of economics, Allah has delineated the boundaries between lawful and unlawful activities, allowing individuals to partake in those goods and services that adhere to His divine guidelines while abstaining from those that transgress His commandments.

The Quran underscores this fundamental principle in explicit terms, directing believers with the following admonition: "O you who have faith! Do not forbid the good things that Allah has made lawful for you and do not exceed the limits. Allah does not like those who exceed the limits. And eat of what Allah has provided for you, which is lawful and good, and be mindful of Allah, in whom you have faith."³

It is essential to recognize that no human being possesses the authority to independently declare what is permissible (Halal) or forbidden (Haram). The Quran further elucidates this concept unequivocally when it commands "And speak

¹ Surah al-Hadid : 25

² Surah al-Baqarah: 21 -22.

³ Surah al-Maidah : 87-88

not concerning that which your tongues qualify (as clean or unclean), the falsehood: This is lawful, and this is forbidden, so that ye invent a lie against Allah."⁴

2. Basic Principles of Uses

The principles governing the utilization of God's blessings, as outlined within the framework of what is lawful (Halal) and what is unlawful (Haram) according to Allah's prescriptions, emphasize moderation and prudence. Human beings are granted the privilege of enjoying the abundant gifts bestowed upon them by God. The Quran conveys this message: "O mankind! Consume that which is both lawful and wholesome from the Earth and do not follow the footsteps of the devil, for he is an open enemy to you."⁵ Furthermore, the Quran encourages adherents to partake in lawful and wholesome sustenance provided by Allah, with gratitude: "So consume of what Allah has provided for you, which is lawful and good, and give thanks for the favor of your Lord if it is Him, you worship."⁶

Nevertheless, it is imperative that the principle of utilization not be taken to excess, leading to extravagance and the wastage of economic resources. The Quran underscores this point when addressing humanity: "O children of Adam! Take your adornment at every place of worship and eat and drink, but be not excessive. Indeed, He (Allah) likes not those who commit excess."⁷

All things in existence have been created by Allah for the service and use of mankind. Forbidding oneself or others from enjoying the lawful provisions of food and other items amounts to rejecting the blessings and favors of Allah—a stance that is strongly condemned. The Quran explicitly prohibits such behavior, stating: "O you who have believed, do not prohibit the good things which Allah has made lawful to you and do not transgress. Indeed, Allah does not like transgressors."⁸ In another verse, the Holy Quran questions those who impose restrictions on the use of certain things without divine authorization: "Say, 'Who has forbidden the adornment of Allah which He has produced for His servants and the good [lawful] things of provision?'"⁹ Thus, the Quran disapproves of the practices of monks and ascetics who regard the satisfaction of physical needs as a hindrance to spiritual development.

3. The Principle of Moderation

The principle of moderation is a fundamental concept in Islam, emphasizing the importance of avoiding extremes and maintaining a balanced approach. The Quran describes Muslims as a "justly balanced Ummat",¹⁰ highlighting the significance of moderation, particularly in economic matters. This principle guides true believers in their pursuit of wealth, as well as in its use and distribution.

While Islam permits the accumulation of wealth through lawful (Halal) means, it encourages believers not to become excessively materialistic or obsessed with amassing riches. Instead, Muslims should exercise restraint and earn wealth to fulfill their legitimate needs. Any surplus wealth acquired may be spent in the path of Allah, particularly through acts of charity and aiding the less fortunate.

Similarly, when it comes to spending and consumption, Muslims are advised to strike a balance, avoiding both miserliness and extravagance. Miserliness refers to neglecting one's own and their family's legitimate needs and failing to contribute to charitable causes. On the other hand, extravagance involves wasteful spending on luxuries, gambling, alcohol, and lavish expenditures on celebrations, weddings, and daily living.

Islam unequivocally condemns both miserliness and extravagance, advocating instead for moderation. The Quran praises those who practice moderation in their spending, stating: "And those who, when they spend, are neither wasteful nor niggardly, and there is always a just way between the two".¹¹

4. Principle of Economic Freedom

Economic Freedom in Islam emphasizes individual accountability for one's actions in this world, wherein individuals will be rewarded for their virtuous deeds and punished for their wrongful actions in the afterlife. To uphold this accountability, Islam places significant importance on granting individuals reasonable freedom to act independently across various domains of human activity, encompassing social, political, economic, religious, and moral aspects. The principle of economic freedom in Islam entails that every individual has been granted the liberty by God to earn wealth,

⁴ Surah al-Nahal : 116

⁵ Surah al-Bakarah : 168

⁶ Surah al-Nahal : 114

⁷ Surah al-Araf : 31

⁸ Surah al-Maidah : 87

⁹ Surah al-Araf : 32

¹⁰ Surah al-Bakarah : 143

¹¹ Surah al-Furqan : 67

possess it, derive enjoyment from it, and allocate it as they see fit. It also encompasses the freedom to choose any profession, engage in business, or pursue a vocation to secure their livelihood.

However, it is essential to note that Islam does not advocate unrestricted economic freedom. As previously discussed, Islam distinguishes between what is considered Halal (permissible) and Haram (forbidden). In the realms of production, distribution, exchange, and consumption, only Halal means are sanctioned. Within the boundaries of Halal and Haram, individuals are granted full autonomy to generate income and expend their wealth as they desire. Consequently, Islam acknowledges the concepts of free enterprise, human initiative, and the realization of individual potential. Additionally, it recognizes the roles played by organizations, capital, labor, and market forces within the economic sphere. Islam does not impose unnecessary constraints on individuals or organizations concerning the acquisition or possession of wealth. There are no arbitrary upper limits or ceilings imposed on property ownership or holdings. Further limitations on economic activities, commodity prices, ownership, or monopolies are only introduced when they are genuinely deemed necessary to safeguard the common interests of the Muslim community.

5. Principle of Justice in Islamic Economy

The Islamic principle of justice operates across various dimensions of human activity, encompassing legal, social, political, and economic domains. Notably, the Islamic economic system is firmly rooted in the principles of justice, which guide fundamental aspects such as production, distribution, consumption, and exchange.

In the realm of production, the Islamic principle of justice ensures that individuals are not subject to exploitation by others, and it prohibits the acquisition of wealth through unjust, unfair, unlawful, or fraudulent means. Islamic teachings grant followers the right to earn a livelihood, acquire wealth, own property, and lead comfortable lives, provided these pursuits are conducted through ethical and equitable means. Islam vehemently opposes the amassing of wealth through corrupt practices like bribery, embezzlement, theft, robbery, gambling, narcotics trade, exploitation, usury, fraud, hoarding, black market activities, prostitution, unethical business practices, and other unjust methods.

In the context of wealth distribution, the Islamic principle of justice assumes a paramount role. Islam's contribution to humanity includes its commitment to ensuring fair and equitable wealth distribution among individuals. This form of justice in distribution, referred to as economic justice, social justice, or distributive justice, calls for the allocation of economic resources and wealth in a manner that bridges the gap between the rich and the poor while guaranteeing access to basic life necessities for all members of the community. Islam actively discourages the concentration of wealth in the hands of a few and promotes its circulation throughout the community, not solely through moral education and training but also robust legal mechanisms.

Islamic institutions such as Sadaqat, Zakat (charitable giving), and voluntary alms, in conjunction with inheritance laws, facilitate the redistribution of wealth among a broader spectrum of society. These mechanisms not only promote economic justice but also uphold the principle that wealth should be a source of collective welfare, serving the well-being of the entire community.

DIFFERENT ECONOMIC CHALLENGES AND THEIR SOLUTIONS BY PROPHET (PBUH) AFTER MIGRATION

Before the Hijra, Medina was primarily inhabited by two main groups of people: the Arabs and the Jews. Among the Arabs, two prominent tribes were the Aws and the Khazraj. The Jewish community was divided into three groups: the Banu Qainuqa', the Banu Nadheer, and the Banu Qurayjah. The Arabs, specifically the Aws and Khazraj, relied heavily on agriculture for their livelihoods. They were prosperous, with abundant lands, homes, and successful businesses. Conversely, the Jewish community excelled in commerce and moneylending. They had a virtual monopoly on trading in items such as cereals, dates, wine, clothing, and imports and exports. They provided various services to the Arabs, who paid substantial fees in return. Usury was a common practice among the Jews, often lending substantial sums to notable Arab figures as they indulged in lavish spending on mercenary poets and extravagant pursuits. In exchange, the Jews held fertile lands as collateral (Al-Mubarakpuri).

As a result, economic power became increasingly concentrated in the hands of the Jewish population in Medina, while the Aws and Khazraj, despite being the primary residents, found themselves growing poorer over time. When the Muhajirs, the Muslims from Mecca who migrated to Medina with the Prophet Muhammad (peace be upon him), arrived, they were destitute, jobless, and without financial resources. This influx of needy refugees further strained Medina's economic situation. Consequently, the establishment of the unique Medina state required the Prophet (PBUH) to undertake significant challenges to address these issues and implement effective economic reforms.

Upon the Prophet's (PBUH) migration to Medina, significant transformations unfolded within the socio-economic landscape. With the cessation of Jewish oppression and the commitment of Medina's inhabitants to fulfill their civic responsibilities, a positive shift in the utilization of resources occurred, ultimately restoring economic stability. The Prophet (PBUH) played a pivotal role in addressing and rectifying the economic conditions in Medina through various measures, including the introduction of Zakat as a mandatory form of almsgiving, a strong emphasis on charitable giving, the prohibition of Riba (usury or interest), implementing market regulations, postponing the practice of certain pre-Islamic customs related to trade (Ayaam al-Jahiliyah), and the introduction of new guidelines and laws for

investments and business activities. Thus, the Prophet (PBUH) embarked on a journey of economic reforms in Medina aimed at establishing a stable and balanced financial system and improving the overall socio-economic conditions.

Institution of Zakat

To address socio-economic issues in Medina, the institution of Zakat was established as a mandatory obligation for affluent Muslims. Its allocation and purpose were clearly defined in Surah At-Tawbah:

"The alms are only for the poor and the needy and for those employed in connection therewith, and for those whose hearts are to be reconciled and for the freeing of slaves, and those in debt, and for the cause of Allah, and the wayfarer - an ordinance from Allah. And Allah is All-Knowing, Wise." ¹² The Prophet Muhammad (PBUH) administered Zakat by collecting contributions from the wealthier members of the Muslim community and distributing these funds to the impoverished. Furthermore, he extended the reach of Zakat by sending envoys to neighboring Muslim communities around Medina. In Hadith, it is recorded that Ibn Abbas (may Allah be pleased with him) conveyed the Prophet's instructions to Muadh bin Jabal when he was dispatched to Yemen:

"Call them to testify that there is none to be worshipped but Allah, and I am the Messenger from Him, if they would obey it, then inform them that Allah has made Salat compulsory five times a day, if they would obey it, then inform that Allah made the Sadaqah (Zakat) mandatory for them, which will be taken from their riches and will be distributed among their poor."¹³

These measures illustrate how the Prophet (PBUH) strategically managed Zakat, harnessing the resources of the affluent to alleviate the hardships of the needy, both within and beyond the borders of Medina.

Emphasizing the importance of Charity

In addition to the obligatory practice of giving Zakat, Prophet Muhammad (PBUH) placed great emphasis on voluntary acts of charity, known as Nafl Sadaqah. There were various contexts in which he encouraged and even mandated such charitable acts, whether as a means of expiating sins or as a way to attain success in the Hereafter.

During his time in Medina, the community often faced significant challenges. A noteworthy example is the Tabuk War issue when the state funds of Medina were nearly depleted. In response, the Prophet Muhammad (PBUH) instructed the companions to contribute their Sadaqah, and they willingly complied. This collective effort helped resolve the critical financial situation.

Moreover, the Prophet (PBUH) frequently called upon his companions to provide Sadaqah when newcomers or impoverished individuals arrived in Medina, struggling to meet their basic needs. In these instances, the Prophet's guidance facilitated the resolution of these pressing issues.

Throughout his life in Medina, Prophet Muhammad (PBUH) employed this charitable approach to address a multitude of challenges. It is worth noting that he set an exemplary standard for generosity. As Ibn Abbas once remarked, "The Messenger of Allah (PBUH) was the most generous among men, and his generosity reached its peak during the month of Ramadan when Angel Gabriel would visit him nightly to recite the Quran. During this period, the Prophet's generosity surpassed that of a wind bringing rain".¹⁴

Prohibition of Usury (Riba)

Before the advent of Islam in Medina, usury was prevalent among the Jewish community, leading to economic instability and hardship for the people. Islam aimed to liberate society from the shackles of usury and establish economic stability. The prohibition of usury occurred in four distinct stages:

First Stage: The initial stage of addressing usury began in Mecca when Allah revealed: "[And whatever you give for interest to increase within the wealth of people will not increase with Allah. But what you give in Zakat, desiring the countenance of Allah - those are the multipliers]"¹⁵

Second Stage: The prohibition intensified when Allah declared: "[For wrongdoing on the part of the Jews, We made unlawful for them [certain] good foods which had been lawful to them, and for their averting from the way of Allah many people, And [for] their taking of usury while they had been forbidden from it, and their consuming of the people's wealth unjustly. And we have prepared for the disbelievers among them a painful punishment]"¹⁶

¹² Surah al-Tawbah, 60

¹³ Sahih al-Bukhari, 1395

¹⁴ Sahih al-Bukhari, 3554

¹⁵ Surah al-Rum : 39

¹⁶ Surah al-Nisa : 160-161

Third Stage: The Quran further reinforced the prohibition of usury with the verse: "[O you who have believed, do not consume usury, doubled and multiplied, but fear Allah that you may be successful. And fear the Fire, which has been prepared for the disbelievers]"¹⁷

Fourth Stage: The final and most comprehensive guidance regarding usury was revealed:

[Those who gorge themselves on usury and thereupon desists [from usury], may keep his past gains, and it will be for God to judge him; but as for those who return to it -they are destined for the fire, therein to abide! God deprives usurious gains of all blessing, whereas He blesses charitable deeds with manifold increase. And God does not love anyone who is stubbornly ingrate and persists in sinful ways. Verily, those who have attained to faith and do good works, and are constant in prayer, and dispense charity - they shall have their reward with their Sustainer, and no fear need they have, and neither shall they grieve. O you who have attained to faith! Remain conscious of God. and give up all outstanding gains from usury, if you are [truly] believers; for if you do it not, then know that you are at war with God and His Apostle. But if you repent, then you shall be entitled to [the return of] your principal: you will do no wrong, and neither will you be wronged.]¹⁸

The Prophet Muhammad (PBUH) also vehemently discouraged usury in his teachings. He emphasized its severe consequences, stating: "You people must avoid seven destructive sins." When asked about these sins, he listed them, with one being "taking Riba (usury)." Additionally, he invoked the curse of Allah upon those involved in usury, including the taker, giver, writer, and witnesses¹⁹. Consequently, even before the final Quranic revelations on usury, the people of Medina were guided by the Prophet's teachings and actions to steer clear of this harmful practice.

When the Prophet Muhammad (PBUH) resided in Medina, the marketplace operated under strict regulations that aimed to ensure fairness and prevent corruption. Here are some key measures implemented by the Prophet Muhammad (PBUH) to maintain order and justice in the Medina market:

a. Adulteration: The Prophet Muhammad (PBUH) vehemently prohibited adulteration of food and other products. He demonstrated this by inspecting a bunch of food, which had become wet due to rain, and rebuked the seller for not placing it where buyers could see its condition. He emphasized that those who engaged in adulteration were not considered part of the community.

b. Brokerage: To ensure that sellers received fair prices for their goods and to prevent exploitation, the Prophet (PBUH) discouraged brokerage in the Medina market. He stated that caravans carrying merchandise should not be met on the way to purchase from them, and city dwellers should not sell their goods to people from remote desert areas through intermediaries. Additionally, he prohibited artificial price inflation.

c. Hoarding: The Prophet Muhammad (PBUH) also forbade hoarding (Ih'tikar), especially when essential goods were needed by the local population. He stated that hoarding was a sinful act. However, when goods were readily available in the market and there was no crisis, hoarding was permitted (Al-Mubarakpuri). This ensured that artificial food shortages did not occur in the Medina market.

d. Price Hiking: Price hiking was strictly prohibited in Medina, and severe consequences were associated with it. The Prophet (peace be upon him) warned that those who attempted to increase prices on essential goods for Muslims would face punishment in the Hereafter. Hoarding for price hikes was also considered a sinful act (Al-Shaibani).

e. Forbidden Goods: The Prophet Muhammad (peace be upon him) prohibited the buying and selling of certain goods in the market, including:

i. Intoxicants (Khamr), Gambling (Maisir), Sacrificing to other than Allah (Ansoab), and Lottery (Azlaam): These activities were considered impure and were prohibited by the Quran.²⁰

ii. Price of a dog, Money earned by prostitution, Earnings of a soothsayer: The Prophet (peace be upon him) explicitly forbade taking payment for these activities.²¹

These regulations and prohibitions enforced by the Prophet Muhammad (PBUH) in the Medina market aimed to create a fair, just, and corruption-free economic environment for all levels of society.

Pre-foundation of Bait-al-Maal:

Bait-al-Maal, in its official form, was established during the time of the second caliph of Islam, Umar ibn al-Khattab (Suyuuti). However, the activities related to Bait-al-Maal, including the collection and distribution of wealth and the

¹⁷Surah al-Imran : 130-131

¹⁸Sura al-Baqarah : 275-279

¹⁹ Sahih al-Bukhari, 2766

²⁰ Surah al-Maidah : 90

²¹ Sahih al-Bukhari. 5346

delineation of its sectors, began during the lifetime of the Prophet Muhammad (PBUH). These activities can be categorized as follows:

- i. **Defining Taxes and Revenues:** The Prophet Muhammad (PBUH) initiated the practice of defining various forms of taxes and revenues. This included determining the amount of taxes, revenues, and war spoils (to be discussed in detail later) and ensuring their proper collection and distribution.
- ii. **Appointing Envoys:** The Prophet Muhammad (PBUH) appointed individuals, such as Walid ibn Uqbah and Abu Ubaidah ibn al-Jarrah, to collect Zakat (charitable alms) and Jizya (tax on non-Muslims), respectively, from different regions.
- iii. **Governor Assignments:** The Prophet Muhammad (PBUH) appointed individuals like Muadh ibn Jabal and Umar to positions of authority, where one of their responsibilities was the collection of Zakat and its distribution to the poor.
- iv. **Charitable Giving:** The Prophet Muhammad (PBUH) personally engaged in charitable giving, as evidenced by his bestowal of wealth, including Zakat, to individuals like Umme Atiyah.

Revenue and Taxes:

Revenue and taxes played a crucial role in the financial affairs of the early Muslim community. The Prophet Muhammad (PBUH) instituted various financial regulations in Medina, including:

- i. **Ushr and Nisf-Ushr:** Ushr, equivalent to one-tenth of crops from unirrigated lands, and Nisf-Ushr, one-twentieth of crops from irrigated lands, were introduced as forms of agricultural taxation.
- ii. **Kharaj:** Kharaj was a tax levied on non-Muslims for cultivating Islamic lands.
- iii. **Jizya:** Jizya was a tax imposed on non-Muslims living in the Islamic state in exchange for their protection.
- iv. **Rikaz and Ma'dan:** Rikaz referred to hidden treasures found in the land, with one-fifth of the discoveries payable to the state. Ma'dan denoted valuable items found in the land.

War Booty Management:

The Prophet Muhammad (PBUH) introduced regulations for managing war booty, which included:

- i. **Ghanimat:** Ghanimat represented the acquired property of those who had opposed Islam. One-fifth of Ghanimat was allocated to Bait al-Maal.
- ii. **Nafil:** Nafil, for the most part, was synonymous with Ghanimat.
- iii. **Fai:** Fai referred to property acquired by Muslims from their enemies without engaging in warfare.

Rules of Inheritance:

Islam established a comprehensive inheritance law to ensure economic stability after the death of a family member. This law outlined the distribution of assets among relatives, including parents, siblings, and children, as detailed in the Holy Quran in Surah Nisa.

“Allah commands you regarding your children: the share of the male will be twice that of the female. If you leave only two or more females, their share is two-thirds of the estate. But if there is only one female, her share will be one-half. Each parent is entitled to one-sixth if you leave offspring. But if you are childless and your parents are the only heirs, then your mother will receive one-third. But if you leave siblings, then your mother will receive one-sixth—after the fulfillment of bequests and debts.⁵ ‘Be fair to your parents and children, as you do not fully know who is more beneficial to you. This is an obligation from Allah. Surely Allah is All-Knowing, All-Wise.’²²

Reforming Business Practices in Ayaam al-Jahiliyah:

The Prophet Muhammad (PBUH) initiated a reform of conventional business practices that prevailed during the days of ignorance (Ayaam al-Jahiliyah). He discouraged practices that involved uncertainty, deception, or potential conflicts among buyers and sellers, including:

- i. **Bai al-Mulamasah:** This involved buying without closely inspecting the merchandise, often by merely touching it.
- ii. **Bai al-Munabajah:** Bai al-Munabajah was an agreement to barter goods without prior inspection.
- iii. **Bai al-Hasah & Bai Allaji Feehi Gharar:** The Prophet (peace be upon him) discouraged transactions involving ambiguity and risky sales.
- iv. **Habal al-Habalah:** Selling the unborn offspring of camels was prohibited.
- v. **Bai al-Musarrat:** The Prophet allowed buyers of certain goods, like sheep with accumulated milk, a three-day return window.
- vi. **Bai Qablal Qabd:** Selling products before taking possession was discouraged.
- vii. **Bai al-Mukhadarah:** Selling unripe fruits was prohibited.
- viii. **Bai al-Muhaqalah:** This involved selling wheat in spikes (before harvesting), which had differing opinions among Islamic scholars.

²² Surah al-Nisa : 176

- ix. Bai al-Muzabanah: Selling produce like dates or grapes for dried equivalents by measure was discouraged.
 - x. Bai al-Mukhabarah: This refers to land leased to another party for cultivation in exchange for a share of the produce.
 - xi. Bai al-Mua'wamah: Selling fruits for future delivery before ripening was discouraged.
 - xii. Bai al-Najash: Engaging in price manipulation or negotiation to inflate prices was prohibited.
- By reforming these practices, the Prophet Muhammad (PBUH) aimed to create a fair and just market environment for the people of Medina.

Permitted Investment Practices:

The Prophet Muhammad (PBUH) also recognized and endorsed various investment practices, including:

- i. Mudarabah: Mudarabah involved profit-sharing agreements where one party provided capital, and the other contributed labor.
 - ii. Musharakah: Musharakah refers to agreements between two or more parties to share capital, profits, and losses in a business venture.
 - iii. Bai' al-Salam: This allowed advance payment for goods to be delivered at a later date.
 - iv. Ijarah: Ijarah involves leasing assets or services in exchange for a fee.
 - v. Musaqat and Mujhara'yah: These were agreements for sharing the produce of trees and land, respectively.
 - vi. Bai al-Muajjal: Buying goods on credit for a higher price, with deferred measurement, was allowed.
- Additionally, the Prophet (peace be upon him) introduced concepts like Iqalah (postponed selling), Khiyar (the option to choose between finalizing or postponing a transaction), Shufa'h (the right of first refusal), and H'awalah (debt transfer), among others, to streamline and regulate financial transactions, ultimately promoting economic balance.

Prohibition of Begging:

The Prophet Muhammad (PBUH) strongly discouraged begging and emphasized self-sufficiency through honest labor. He taught that seeking sustenance through one's efforts was highly commendable and that begging should only be resorted to in specific cases of genuine need, such as debt, calamity, or poverty that was verified by wise individuals in the community. This prohibition aimed to promote dignity and self-reliance among the believers.

CONCLUSION

In conclusion, it becomes evident that the economic state of Medina during the time of the Prophet's (PBUH) migration was characterized by extreme criticality, imbalance, and instability. Faced with this formidable challenge, the Prophet (PBUH) took it upon himself to initiate a comprehensive overhaul and reform of the existing economic system. He introduced a unique economic model and demonstrated an unwavering commitment to its implementation in the city of Medina.

Over time, the Prophet (PBUH) adeptly navigated the prevailing circumstances and succeeded in effecting significant economic reforms within just a few years. This transformation not only rectified the economic imbalances but also fortified the economic foundation of the Islamic state in Medina. Importantly, the model he established became the benchmark and exemplar for all subsequent economic endeavors.

In the present day, we can discern the enduring relevance and applicability of the Prophet's (PBUH) economic model. It serves as a source of inspiration for modern interpretations and implementations of Islamic economic principles. Concepts such as Islamic finance, ethical investment practices, and the promotion of fairness and justice in economic transactions all find their roots in the Prophet's (PBUH) pioneering economic reforms. His legacy continues to provide invaluable guidance for the creation of equitable and sustainable economic systems that benefit societies at large.

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