



## **The Role and Function of the State in Advancing Islamic Economic Systems: A Global Perspective**

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### **ABSTRACT**

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The state has a significant responsibility in creating prosperity and welfare for its people in accordance with sharia principles. This concept has been discussed by prominent thinkers such as Al-Ghazali and Al-Mawardi, who emphasized the importance of market supervision, fairness in resource distribution, and economic stability. This paper outlines the role of the state in managing economic factors such as allocation, distribution, and stabilization, as well as the state's essential role in addressing market failures and negative externalities. Furthermore, the discussion includes the relevance of Ibn Taimiyyah's thoughts to the modern economic system in Indonesia, including monetary policy strategies, infrastructure development, and equitable resource management. In conclusion, the role of the state is crucial in fostering public welfare and achieving the primary objectives of Islamic economics, namely *falah* and *maslahah* for all members of society.

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### **A. INTRODUCTION**

Improving the standard of living is an inevitability that is always desired by everyone. The many needs that must be met require everyone to work and produce in order to meet the needs of life. However, not all succeed in meeting the necessary needs.

In these economic activities, the government has a big role in creating the stability of the people's economy. Even in his book *Ihya Ulum Ad-Din*, Imam al-

Ghazali stated that the state has a big role and responsibility in ensuring the prosperity and welfare of all its people.

In addition, al-Ghazali also mentioned al-hisbah, whose function is to supervise market practices so that they continue to run in accordance with existing regulations. According to al-Ghazali, this institution is one of the important components in supervising the running of the market and keeping it away from practices prohibited by Islam such as usury, gambling, and others (Al-Audi, 1985: 65).

Not only the great figure al-Ghazali, Imam al-Mawardi also said that a country plays a big role in creating economic stability for the people and plays a role in realizing good goals, both material and spiritual, of each person. In his view, al-Mawardi suggested that fulfilling the economic needs of each person is not only related to realizing the role of the state in economic activities (Ade Linda, 2022).

The principles of Islamic economics apply in life with the aim of achieving common interests and blessings. Economic activities and goals are seen as a way to achieve life and harmony from an economic perspective. Economic activities are commonplace and are a necessity of life, because it is a human problem to be able to fulfill their life needs.

Economic issues are homework for all countries, including Indonesia. Economic issues that arise in Indonesia are always on the agenda every year and are seen when we approach religious holidays, Christmas, New Year, and other big days that occur every year, such as the problem of increasing prices of basic necessities from Ramadan to Eid al-Fitr and other big days that occur every year.

Several causal factors that are often mentioned by traders in the market, due to limited stock, expensive distribution costs because they have to be imported from abroad to meet market demand, to unscrupulous sellers who deliberately hoard basic necessities to gain double profits.<sup>5</sup> In this case, the Indonesian government must play an active role in the economy so that Indonesian people can feel justice when there is turmoil in the market mechanism. (Zaki & Islam Negeri Sulthan Thaha Saifuddin Jambi, 2023)

## **B. THEORITICAL FRAMEWORK**

### **Functions Of The State**

According to M. Nejarullah Siddiqi, there are several functions of the state from an Islamic perspective, which consist of:

1. Sharia-based derivative functions based on social and economic conditions at a certain time, namely; Conservation, Research, Provision of facilities for the benefit of the general public, Capital increase and economic development.
2. The tasks that are explicitly assigned by the Sharia are; Defense, Law and order, Truth, Fulfillment, Da'wah. Fulfillment of social obligations.
3. the functions assigned at the same time are based on the counseling process (syara), which includes all activities entrusted to the community to the Shura process. And according to Siddiqi, all processes use open or varied methods depending on the circumstances of each country.

According to Islam, the state has the right to carry out economic activities carried out by individuals. As for the state that had economic activities at the beginning of Islam, it was very lacking because economic activities were still simple due to the poverty of the environment where Islam emerged.

### **THE ROLE OF ISLAMIC ECONOMIC GOVERNMENT**

The role of government is very broad in a socialist economic system and very limited in a pure capitalist economic system because the capitalist system developed by Adam Febriyani Natari Manik Smith states the theory that government only has three functions;

1. The function of government to administer justice
2. The function of government is to maintain domestic security and defense
3. The function of government is to provide goods that are not provided by the private sector such as dams etc (Tengku Khairina, 2024).

## **C. METHOD**

The type of research used is qualitative, where qualitative research is a type of research whose findings are not obtained through other forms of calculation and tries to understand the situation or an event of behavioral interactions in certain situations according to its own perspective. Qualitative methods in research can produce a study of a more comprehensive phenomenon.

The data collection method in this study was carried out using basic theory, literature review, books, journals, articles and modules. While the data analysis in this study is by using basic theory analysis. Basic theory is research conducted to find a theory or to strengthen an existing theory with existing basic principles and rules. Furthermore, basic conclusions are made that form the basic principles of a theory.

## **D. FINDINGS AND DISCUSSION**

### **1. Understanding Islamic Economics**

Islamic Economics Economics, broadly defined as the study of human activities in using and exploiting scarce resources to produce goods and services needed by humans.

According to Chapra, Islamic economics refers to the allocation and distribution of limited resources within a corridor without guaranteeing individual freedom, sustainable macroeconomic behavior or environmental imbalance, referring to Islamic teachings, it is said that science is what supports efforts to achieve human welfare through the dissemination of knowledge and science.(Inayati, 2013).

From the explanation above, it can be concluded that Islamic economics is a human activity in utilizing resources to produce goods and services in accordance with Islamic principles.

As for the principles of Islamic economics, namely Muslim H. Kara, Khurshid Ahmad categorizes the principles of Islamic economics into: The principles of monotheism, rubbiyyah, khilafah, and tazkiyah. Mahmud Muhammad Bablily established five principles relating to economic activities in Islam, namely: al-ukhuwwa (brotherhood), al-ihsan (doing good), al-nasihah

(giving advice), al-istiqamah (steadfast standing), and al- piety(Arfah, 2020).

Islamic economics is defined as the science and use of the commands and rules of the Shari'a to protect against injustice in the procurement and use of natural resources for the purpose of meeting human needs and to enable them to carry out their responsibilities to Allah SWT and society as a whole. Islamic economics as a social science that studies the economic problems of a group of people who hold Islamic values, with these Islamic values humans can achieve al-falah.

According to Masudul Alam Choudhury, Islamic economics is a historical, empirical and theoretical study that will analyze the needs of humans and society in the guidance of the Islamic value system.(Nofrianto et al., 2021).

## **2. The role of the state and government in Islamic economics**

The state is a very important instrument in determining the lives of the people including economic activities. In the Islamic economic system, the state has a big role in the economic development of the people. This aims to create welfare in the life of the nation and state.

The lack of government role in paying attention to the people's economy will cause the economy not to progress from time to time. This is what causes a country to only reach the level of a developing economy. A developing economy is an economy that has a lower standard of living and is less developed.

Currently, Indonesia is still classified as a developing economy where the income of the population is an average income or even lower. This is due to the large number of Indonesians who are classified as unemployed. Even the Central Statistics Agency (BPS) noted that the unemployment rate in Indonesia continues to increase.

The high unemployment rate is due to the lack of government attention to the people's economy. In addition, the large number of foreign workers entering Indonesia narrows the job market for the population. The role of the government is very much expected in the formation of a better economy.(Ade Linda, 2022).

The role of the state in the economy according to Ibn Tamiyyah and its relevance to the economic development system in Indonesia, includes:

- a. The role of the state explained by Ibn Tamiyyah focuses on the concept of comprehensive justice in every circle, so that where there is a fair and

comprehensive opportunity that is owned by each group and individual, because the existence of equal opportunities owned by each group or individual causes the circulation of funds for community activities and the role of the government so that there are no market monopoly activities so that they do not cause high prices for certain goods, so that this will have a good impact on the existing economic system, the government must also think about how to eliminate the gaps that exist in a country, control market regulations, determine monetary policy so that inflation and deflation do not occur, and carry out economic planning so that social and group decisions can be met, by building state infrastructure.

- b. Furthermore, regarding the relevance of the development system according to Ibn Tamiyyah in Indonesia, there are several things that have occurred in the Indonesian government, namely the implementation of a fair currency value, infrastructure development, monetary policies carried out by the government and the implementation of the existing education system for the benefit of future generations.

Here we can conclude that policies regarding the state economy actually existed during the time of the Prophet and continued during the time of Ibn Tamiyyah, until now in the context of policies that help provide contributions and meet the needs of individuals or groups.(Zaki & State Islam Sultan Thaha Saifuddin Jambi, 2023).

### **3. The function of the state and government in the economy**

In any economic system, be it a capitalist economic system or a social economic system, the government always has an important role. The role of government is very broad in a socialist economic system and very limited in a pure capitalist economic system because the capitalist system developed by Adam Smith states the theory that the government only has three functions:

- a. The function of government is to maintain domestic security and defense
- b. The function of government to administer justice
- c. The function of government is to provide goods that are not provided by the private sector, such as roads, dams, etc.(Fadila, 2010).

### **4. Responsibilities of the state and government in Islam**

- a. Monitoring the main factors that drive the economy. The government must monitor the movement of the economy, such as monitoring and prohibiting

improper practices, both in the system of buying and selling, and in production, consumption, and circulation. The checks must be carried out by an independent team (ahl al hisbah). This team monitors the bodies, factories, and other properties so that they do not gain benefits that are not touched by the people by using their innocence and ignorance to satisfy the greedy desires born of the spirit of zero morality.

b. Stopping the expected muamalah

What is meant by haram category muamalah is various forms of muamalah that are prohibited because they contradict the principles of Islam, which are based on morality and maintaining public benefits such as usury, hoarding and monopoly. Islam is very concerned with the people's economy, so Islam is a guarantee to protect everyone's property, so that it is not used carelessly or officially. Islam completely prohibits the cruel use of property in the country's economy. As far as landfills are concerned, the state is obliged to fight it fiercely and cruelly, even if it is obtained by forcibly removing the goods it stores, then selling them to people in need at a fair and reasonable price and a reasonable profit.

c. Set a price if necessary

Fiqh does not agree regarding price fixing, whether it is legal or illegal. There are some who argue why there are a number of texts that prohibit price fixing. Among these is the story of Anas from Rasul SAW: something where there was a crisis at the time of the Prophet, so the companions asked him to fix the price of goods: "suppose you want to fix the price of goods"? he answered: actually Allah SWT is Almighty, all-encompassing, honest and fortunate. Of course there is no reward if God ordained, so no one asked me to commit the crimes I did to someone who was against blood and fortune. Legal basis and areas where the state can and cannot intervene (Fadila, 2010).

## **5. The role of the state and government in the economy**

In a modern economy, the role of government can be classified into three main groups, namely:

a. Role of Allocation

The role of the government is very necessary, especially in terms of the supply of goods that are not supplied by the private sector, such as public goods which are also commonly referred to as public goods. Because in a

country's economic system, not all goods are supplied by the private sector and can be obtained through the market system. So in this case the government must be able to provide these public goods. If the government cannot provide these public goods through market mechanisms, this is called market failure. Because the benefits of these goods cannot be enjoyed and felt by the community and are not even owned by yourself, in other words goods do not have the nature of exceptions like private goods. For example, clean air, public roads, bridges and so on. Activities allocate factors of production or goods or services to meet the needs of the community. So the purpose of this activity is to effectively meet personal or individual needs as well as community needs that cannot be met by market mechanisms such as education, defense and security activities and justice.

b. The role of distribution

The role of distribution is the role of government as a distribution of capital income. It is not easy for the government to play this role, because this distribution is closely related to the issue of justice. While the issue of justice is too complex, because justice is one of the issues that can be considered by various perceptions, the question of justice also depends on the vision of justice of the community itself, because justice is a relative and dynamic issue. Activities to achieve income redistribution or income transfer provide corrections to the distribution of income that exists in society. The government can change the distribution of income in society directly or indirectly. A direct example is progressive taxation, which imposes relatively higher taxes on the rich and relatively less on the poor. While indirect examples such as government spending policies, for example, the construction of simple and very simple types of houses that have more luxury house rations, for certain income groups, subsidies for fertilizer farmers, etc.

c. The role of stabilization

The role of stabilization is an activity that stabilizes the economy by combining monetary policy and policy with other policies such as fiscal and trade policies to increase and reduce aggregate demand to maintain full unemployment and also avoid inflation. The role of government stabilization is needed if there is a disturbance in stabilizing the economy, such as:

deflation, inflation, decreased demand or supply of goods, which later these problems will result in other problems in succession, such as unemployment, stagflation and others.

Meanwhile, Barton said the main role of government in general is:

a. The role of resource allocation

The role of resource allocation includes questions of determining the absolute and relative size of government in the economy (the balance between society and private sector) and the provision of public goods and social assistance services to society.

b. The role of regulators

The role of regulators This includes laws and regulations necessary for society, including laws governing the business world sufficient to facilitate commercial activities and private property rights.

c. The role of social security policy

The role of social security policies that encourage social equality in the country such as taxation, social security (transfer payments) and the provision of a number of public goods that are mixed with society.

d. The role of managing macroeconomics

Facilitating general stability and economic prosperity of the country through policies aimed at promoting stable economic growth, full employment, low inflation and stability in the payment system.

From the description above, several conclusions can be put forward related to the role of government in the economic development of a country. First, the role of government in the economy is something absolute, however, this role is limited to certain aspects, such as those related to the provision of public goods and overcoming market failures.

Second, the implementation of the government's role in the economy has experienced ups and downs related to how much the role can be accepted. At present, the government's role is accepted within moderate limits, without disrupting or hindering the course of economic activities carried out by the private sector.

Third, in the moderate role of the government, strong institutional support is needed, both from institutions that concern the wider community and within the government itself and sectors that are less attractive to the private

sector, institutions outside the government. to complement and control its course, however, there needs to be an effort from these government institutions. to carry out privatization and corporatization.

Fourthly, the existence of bodies for state-owned enterprises is still needed for those that are inefficient or become a burden to complement state-owned enterprises, without providing private contributions, especially for sectors that are significant for the economy as a whole.(Fadila, 2010).

In the foundation of Islamic economics, the government has an important role in creating public welfare. The principle of the caliph explains the role of humans as representatives of Allah. Therefore, every action carried out by humans has consequences that will be obtained. This basic idea provides certainty to all humans about their function and existence on earth as agents of development.

In terms of scope, the role of the government covers a broad aspect, namely efforts to realize the overall goals of Islamic economics and efforts to realize the concept of an Islamic market. The goal of Islamic economics is to achieve falah which is realized through optimizing maslahah. Therefore, the goal of the government's role is to create maslahah for the entire community.

The government is the holder of the mandate to carry out collective tasks in realizing justice and welfare and a good way of life for the entire community. As the holder of the mandate, the existence and role of this government have a solid foundation in the Qur'an and Sunnah both explicitly and implicitly.

The role of government is clearly reflected in creating an efficient market that is able to produce maximum maslahah. The role of government in Islamic economics is also reflected in overcoming externalities. Externalities are the impacts of an economic activity received by other parties, both positive and negative. (Zaki & Islam Negeri Sulthan Thaha Saifuddin Jambi, 2023).

## E. CONCLUSION

The state and government have a very large role in the prosperity and economic welfare of its people. Where the state and government are the holders of power over the prosperity and economic welfare of its people.

According to Al-Ghazali, the government has a role in supervising market practices to ensure they continue to run according to the rules, while Al-Mawardi said that the government plays a role in creating economic stability for the people.

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