

Basic Concepts of Islamic Economics

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ABSTRACT

This study explores the foundational principles of Islamic economics, emphasizing ethical values derived from Sharia as the basis for economic activity. Unlike conventional systems that prioritize profit maximization and interest-based transactions, Islamic economics promotes justice, balance, and shared responsibility. Through a qualitative literature approach, the research examines key concepts such as ownership as a trust from God, the role of wealth in achieving social welfare, and the prohibition of riba as a means to prevent exploitation. Money is viewed not as a tradable commodity, but as a tool meant to facilitate productive and fair exchange. The study concludes that the implementation of Islamic values—particularly tawhid, justice, brotherhood, and profit-sharing—aims to establish an economy that is sustainable, equitable, and spiritually oriented.

Keywords: Islamic Economics, Ethical Values, Riba Prohibition, Profit-Sharing, Social Welfare

INTRODUCTION

Economics is a part of human life that is constantly changing and affecting almost every aspect of it. In practice, economic systems are often understood only in the context of market mechanisms, profit and loss, and how to manage daily expenses to generate profits. However, if we look more closely at human life, economics is not only about making money; it also involves understanding the values, ethics, and changing goals of human life that affect almost every aspect of it. In practice, economic systems are often understood only in the context of market mechanisms, profit and loss, and the management of daily expenses to generate profits. However, if we look more closely, economics is not only about making money but also involves understanding values, ethics, and human life goals. Islam, as a comprehensive religion, provides guidance on all aspects of life, including economics. It is not a tool to reduce material needs but a means to encourage social progress and promote a healthy lifestyle. In a broad sense, Islamic economics views the heart as a resource or asset that cannot be arbitrarily used.

Money is not considered a commodity that can be traded for monetary gain. Instead, money is considered a tool that must be used ethically and in accordance with established requirements. The concept of usury is a major concern because it undermines justice and causes inequality in society. Alternatively, Islam offers a profit-sharing system that better reflects justice in business transactions. Furthermore, Islamic economics is built on fundamental values, such as honesty, responsibility, openness, and concern for others. These values are an important foundation in shaping an economic system that is not only efficient, but also sustainable and fair.

METHOD

This study uses a qualitative approach and applies library research methods. Secondary data in this study were obtained from written sources such as books, manuscripts, journals, and documents related to the concept of Islamic economics. The research method used was descriptive, meaning that all data obtained were explained to analyze several basic aspects of Islamic economics. In addition, this study refers to several previous studies that discussed the basic concepts of Islamic economics, thereby enriching the analysis.

RESEARCH RESULTS AND DISCUSSION

Fundamental Values as Pillars of the Islamic Economic System

The Islamic economic system is a normative framework that fundamentally differs from conventional systems because it is explicitly based on religious values and norms (Fauziah & Tamrin, 2024). Its emergence was triggered by deconstructive efforts to overcome the failure of the global economic system to address distributional injustice, moral crises in business practices, and ongoing social problems (Hanifah et al., 2025). Essentially, this system is the embodiment of Islamic values in economic activities, with the aim of creating a humane, secure order in harmony with religious teachings (Latif, 2024). The entire Sharia economic structure is centered on the principle of Tawhid (the oneness of God), which then gives rise to five fundamental values that guide all human economic activities.

The Principle of Ownership and Enforcement of Justice (Al-'Adl)

Property ownership is one of the main pillars that distinguishes Islamic economics. In Islam, true ownership (hakiki) belongs only to the Allah SWT; humans merely have functional rights or rights of use (majaziah) (Fauziah & Tamrin, 2024). This concept prevents individuals from acting arbitrarily, and binds them to social responsibility. This value is closely related to the principle of justice (al-'adl), which is at the core of all activities (muamalah) (Latif, 2024). The enforcement of justice must limit arbitrary practices, ensure that every economic activity is measured based on value and ethics, and aim to form a civil society that is prosperous and legally protected.

The Values of Balance (Al-Tawazun) and Responsible Freedom

To achieve justice, this system emphasizes the value of balance (al-tawazun) or harmony. This value requires economic activities to maintain harmony between worldly and spiritual demands, personal and collective interests, and current and future needs (Hanifah et al., 2025). This emphasis on balance effectively limits wasteful (israf) and exploitative behaviors. On the other hand, the value of freedom is recognized as the right of every individual to strive and seek sustenance, but this freedom is restricted. This means that every economic activity must remain within the corridor of Sharia and must not harm others or the environment, so that this freedom leads to moral and social responsibility (Fauziah & Tamrin, 2024).

The Values of Brotherhood and the Vision of Collective Welfare

The final values that strengthen the social foundation are brotherhood and togetherness (al-ukhuwwah). This value spurs collaboration, prevents excessive individualism, and encourages the achievement of equitable distribution of welfare in society (Latif, 2024). The principle of togetherness is implemented through mandatory instruments, such as zakat, infaq, and sadaqah, as well as the prohibition of usury, which systematically aims to reduce wealth inequality. By implementing these core values, which are oriented towards obedience (Tawhid), responsible use of wealth (Ownership), and equitable distribution of benefits (Justice, Balance, Brotherhood), Islamic economics seeks to realize ethical economic growth and maintain overall harmony in human life (Hanifah et al., 2025).

The Islamic view of wealth and economics

Population growth has led to limited resources, so wealth (property) in Islam is considered a trust that will be accounted for by the Allah SWT. In Islam, wealth is not only considered a means to fulfil personal needs but also a means to get closer to Allah and benefit others. Therefore, the Almighty Owner, Allah SWT, accounts for the wealth possessed in this world.

According to Shalza Yashinta Mayseliandra (2023), al-māl (wealth) is mentioned more than 86 times in the Qur'an. This shows how important wealth is from the perspective of sharia, not only as a physical object but also as a means of worship. Thus, Muslims should use wealth wisely, specifically only for things that create benefits for humanity. Wealth is not merely a means of satisfying desires, but a means for humans to get closer to Allah SWT by using it wisely—not squandering it for sinful purposes but using it to help others (Mayseliandra, 2023).

Islam places great emphasis on proper management and use of wealth. Syauqi, Ilham, and Supiyani (2025) explain that safeguarding wealth (hifdz al-māl) is one of the five main objectives of maqāṣid syarī‘ah. This means that every Muslim is not only encouraged to seek wealth in a lawful manner but must also use that wealth responsibly and fairly. In this context, wealth has a broad meaning encompassing interrelated spiritual, social, and economic aspects. In the spiritual aspect, the wealth that humans possess is not entirely theirs, but rather trust from Allah SWT. Humans are tasked with being leaders who manage wealth in accordance with sharia, including carrying out obligations such as infaq and zakat (Syauqi et al., 2025).

In the social aspect, the wealth owned should be used to strengthen society, not only for personal gain. Fair distribution of wealth can be achieved through zakat, infaq, waqf, and alms. Thus, wealth can benefit others and help reduce social inequality (Syauqi et al., 2025). In economic terms, wealth is considered a means of creating prosperity and economic growth. The Islamic economic system prohibits all means of acquiring wealth that involve usury, gharar (uncertainty), and maysir (gambling).

Masrina (2023) states that Islam not only regulates how wealth is acquired but also how it is used and distributed so that it does not remain solely in the hands of the wealthy. This principle makes Islamic economics not only a banking system but also a tool for achieving social justice. Wealth can also be capital for fair and efficient production, distribution, and investment. In this context, wealth must be circulated in accordance with Islamic rules to benefit all parties (Masrina, 2023). Furthermore, Islam also criticizes the capitalist economic system, which tends to concentrate wealth in the hands of a small group of people.

Sirajuddin and Tamsir (2023) state that the concept of wealth ownership in Islam must be changed so that it does not conflict with the principles of social justice or the blessings of wealth. The manner in which wealth is managed also affects economic growth. Zakat, for example, is not only a religious obligation but also a tool for distributing wealth and improving the community's economy. Gojali, Yakubi, Setiawan, and Rahmah (no year) explained that if zakat is managed properly, it can increase economic growth by reducing poverty and increasing public consumption.

The Concept of Money in Islam

Islamic economics emphasizes the understanding that money is not considered a commodity that can be traded for profit, but rather a medium of exchange that serves to facilitate fair and productive economic activity within society. This view differs from that of the conventional economic system, which treats money as a commodity or capital that generates profit through interest. Al-Ghazali emphasized that money has three main functions: as a unit of value (qiwam al-dunya), a measure of the value of goods (hâkim mutawasith), and as a medium of exchange (al-mu'aawdilah). According to Al-Ghazali, money was not created to be hoarded, but must continue to circulate in economic activities to benefit society. Hoarding money (ikhtinâz) is detrimental to economic circulation, causing scarcity, price spikes, and weakening the economic activity of society in general. This view is in line with Allah's words in Surah At-Taubah verses 34-35, which condemn those who hoard gold and silver without spending it on the way of Allah. For this reason, Islam encourages money to circulate in productive activities such as trade, sharia investment, and infaq and zakat. Some Islamic scholars and economists also appreciate the use of dinars and dirhams because they have a more stable intrinsic value than paper money, although Al-Ghazali focused more on the functional and moral aspects of money use than its physical form. Thus, understanding the concept of money in Islam is important for building a fair, stable, and oriented financial system towards the welfare of people.

Riba in Islam

Usury (Riba) in Islam is defined as any unauthorized addition to a transaction, as it involves elements of injustice and exploitation of others. Linguistically, the word riba means 'addition' (ziyâdah), while technically it refers to an excess that has no basis in a valid compensation agreement. The Qur'an explains the prohibition of usury through a gradual process, starting from moral hints about its evil in Surah al-Rum [30]:39 to a total prohibition in Surah al-Baqarah [2]:275-279. This prohibition demonstrates Islam's commitment to economic justice and the protection of vulnerable groups from oppressive financial practices (Ghofur, 2016: 7-9).

In socio-economic practice, usury is considered a cause of inequality and instability because it provides profits to capital owners without risk. Therefore, the Islamic economic system promotes fair forms of cooperation, such as mudharabah (profit-sharing) and murabahah (open-margin sales). These principles emphasize that Islam does not reject profit but rather rejects profits that are obtained unfairly or without productive contributions to society (Badali & Athaya, 2023: 1150). Furthermore, the public's understanding of usury often stops at the nominal aspect, when, in fact, the substance to be avoided is the inequality of value in transactions.

Apipudin emphasizes that the essence of usury lies in the imbalance of contracts and economic values that are detrimental to one party, not merely in the additional amount paid. Thus, understanding usury in context is important so that the application of Islamic economic principles remains relevant and fair in the modern financial system (Apipudin, 2024: 13075). The prohibition of usury in Islam is not merely a form of economic restriction, but an ethical measure to maintain social and moral balance among people. Through proper understanding, Muslims are expected to build a financial system that is not only profit-oriented but also focused on mutual benefits and justice.

Usury (Riba) In Economy

Usury is one of the factors that greatly influence the structure and direction of a society's economy. In Islam, usury is not merely an addition to transactions but a symbol of economic inequality that hinders justice and the equitable distribution of wealth. An interest-based economic system creates a flow of wealth only to capital owners, thereby widening the gap between the rich and poor. The prohibition of usury in Islam aims to eliminate exploitative financial practices and uphold social balance through instruments such as zakat and productive investment (Komala Dewi & Ritonga, 2025: 9).

Macroeconomically, the existence of usury causes distortions in the production and consumption systems. High interest rates reduce people's interest in investing in the real sector, because more funds are stored in interest-based financial institutions. As a result, the decline in productive activities and economic growth is hampered. Islam offers a solution through a Sharia financial system that emphasizes fair risk and profit sharing, such as mudharabah and musyarakah contracts. In this way, capital is no longer a tool of oppression but rather a means of economic empowerment for the community (Afifah et al., 2023: 153).

From a global perspective, many economists argue that usury is one of the causes of global economic instability, especially in developing countries that depend on high-interest loans. Farooq explains that interest transforms money into a commodity that creates wealth concentration and deepens social inequality (Farooq, 2010s: 266). This view is reinforced by historical research showing that various civilisations and religions, including Islam, Christianity, and Judaism, have long opposed usury because of its destructive effects on economic justice (Visser & McIntosh, 1998: 177; Samad & Sugeng, 2022: 9). Thus, the prohibition of usury in Islam has strong moral, social, and economic bases. Its purpose is not merely to restrict financial activities but to create a fair and sustainable economic system. The application of anti-usury principles is not only the responsibility of Islamic financial institutions but also the collective consciousness of society to build an economy oriented towards mutual prosperity, not merely the accumulation of profits.

Interest and Profit Sharing

A Philosophical Comparison of Interest and Profit Sharing in Financial Systems and Prohibition of Usury and Legal Review in Islamic Law

The concept of interest, which is a pillar of conventional financial systems, is dominated by a universally accepted theory, while Islamic financial systems offer an alternative based on the concept of profit sharing (Merlinda, 2023). The fundamental differences lie in their philosophical and ethical foundations. Conventional interest views money as a commodity that can generate a fixed return regardless of the actual performance of the business being financed. In contrast, profit-sharing in the Sharia system emphasizes that financial rewards must be obtained through active participation in economic activities, so that capital owners and business managers (Gaol, 2023). This principle is believed to be capable of creating more equitable and sustainable economic development.

The prohibition of bank interests or usury is the most fundamental legal basis in Islamic finance. Riba is defined as an addition or profit obtained from the exchange of similar assets without a balance in exchange value or an increase in payment from a predetermined time, which is expressly prohibited in the Qur'an and Hadith (Gaol, 2023). The legal review of Sharia law focuses on the exploitative nature of riba. Islamic jurists view taking guaranteed profits, without considering the debtor's business profits or losses, as an unethical practice that undermines distributive justice in society. Therefore, Islamic law requires alternative financial mechanisms that comply with social and economic justice principles.

Profit-Sharing Mechanism as an Efficient Alternative

As a substitute for interest, profit-sharing was introduced into the Islamic financial system as a model that is theoretically more efficient and stable. This concept involves the sharing of profits and losses (profit and loss sharing) based on a ratio agreement agreed upon at the beginning of the contract, rather than based on a percentage of the principal value of the loan, such as interest (Merlinda, 2023). With the sharing of the risk of loss, banks (capital owners) are encouraged to conduct in-depth business feasibility analyses, rather than focusing solely on collateral. This inherently integrates the financial sector with the real economy, thereby creating productive and responsible circulation of funds.

Ethical Implications and Interfaith Comparisons

The difference between interest and profit sharing has also been explored comprehensively from an ethical and religious perspective, not only in Islam. Although the level of prohibition and definition may vary, the ethical concept of interest has been a topic of debate in various religious traditions, including Christianity and Judaism, as a potentially exploitative practice (Merlinda, 2023). In this context, the profit-sharing system

offers a more ethically acceptable solution because it requires shared responsibility for the investment results. This eliminates the element of certainty of return on capital, which is considered unfair, as it always burdens the borrower regardless of business performance (Gaol, 2023).

Conclusion Application for Economic Sustainability

The application of profit-sharing theory to the Sharia financial system is a concrete effort to offer a sustainable alternative for economic development. This model aims to address the injustice created by interest, in which the rich tend to get richer from capital without risk. A Profit-sharing system is positioned as a fairer and more stable mechanism based on the principle of sharing risks and profits derived from real contributions (Merlinda, 2023). This principle underpins all Islamic financial instruments, from banking to investment, and is considered a mandatory framework for achieving socio-economic balance within the framework of Islamic law (Gaol, 2023).

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