

# An Islamic Economic Perspective Of Public Finance In Indonesia Based On Ad-Dawudi's Thought In Kitab Al-Amwal

Fajar Fandi Atmaja, Asmuni, Yuli Andriansyah

**Abstract:** This paper analyzes Ad-Dāwūdī's thought on public finance based on the source of income of a nation, its distribution, and basic ethical assumption underlying his thought. The paper also analyses the current relevance of Ad-Dāwūdī's thought for Indonesia fiscal policy with a hope of potential application. This paper was based on qualitative research using literature review to analyze economic thought of Ad-Dāwūdī in his Kitāb al-Amwāl. The results show that Ad-Dāwūdī devised sources of national income to recurring and non-recurring type. Furthermore, he emphasizes the role of zakah for social and economic purposes. For government spending, Ad-Dāwūdī noted national defense, administrative of public duties and development as main types of spending. Ad-Dāwūdī also noticed the importance of government duties to the people so that state budget should be spent in best ways to ensure welfare.

**Index Terms:** Islamic economics, public finance, Ad-Dawudi, Kitab al-Amwal, national income, government spending.

## 1 INTRODUCTION

PUBLIC finance has been integrated part of the economic dimension of many great civilizations, including Islam. From its dawn in Arabia until its Golden Age, Muslim rulers have tried to implement Islamic principles in fiscal policy to meet the standards envisioned in the Holy Qur'an and Sunnah. On the other hand, many scholars also have paid attention to public finance to meet the challenges they face in different times and societies. Historians noted how Muslim scholars such as Abu Yousuf [1], Abu Ubayd [2], Abu Hamid Al-Ghazali [3], Yahya ibn Adam [4], and others have contributed to economic thought and especially to public finance long before modern economics established. One of the Muslim scholars who has contributed to public finance was Abū Ja'far Aḥmad bin Naṣr ad-Dāwūdī al-Mālikī al-Asadī or famous with ad-Dāwūdī. He wrote a classical treatise on public finance in Islam entitled "Kitāb al-Amwāl." The book consisted of four parts and was the only left of his many works as a great scholar in Mālikī school of his life [5]. The book was praised for being the only remaining scholarly work from Andalusia that emphasizes the usage of hadith on the study of economic justice [6, p. 7]. The book was written using interdisciplinary approach covering economics, politics, ethics and Islamic law and most importantly criticize bad economic policy under Fatimid rule [7]. About public finance, Al-Dāwūdī proposed some insights on how to manage income and expenditure of a country. He categorized source of incomes for a country as two types: periodic and non-periodic. Periodic incomes were in the form of jizya or personal tax [8, p. 254] and kharaj or land tax [8, p. 116].

While non-periodic incomes came from ghanimah [8, p. 67], fay' [8, p. 167] and zakat [8, p. 275]. For government spending, Al-Dāwūdī emphasized five types of activities, i.e. military [8, pp. 266-274], development [9, p. 26], administrative and civil servants [8, pp. 151-155], social support [8, pp. 121-122], and specific spending using zakat. Al-Dāwūdī wrote his famous book to criticize Fatimid rulers of his time by promoting universal values like justice, moderation, and others. Such values were contradictive with practices of rulers in that era who were known for being corruptive, abusing power, and others. For this reason, exploring Al-Dāwūdī's work in relation to Indonesian current context is challenging, and this research aims to deal with such effort. Main purposes of this research are to analyze Al-Dāwūdī's economic thought with the current practice of public finance in Indonesia and to analyze the relevance of his work for best practice in the future. To ensure originality and novelty of the study, review of some related literature is discussed. Researchers have paid attention to fiscal policy in Indonesia concerning some economic thoughts from an Islamic perspective. Nurohman [10] for example noted that many experts argue that main objective of Indonesia fiscal policy was to raise required amount of capital for social services. Providing social services during hardship in the aftermath of disasters and hunger or basic needs such as food, clothing, and housing was in line with maqashid sharia in securing humankind life (hifdz al-nafs). Setianingrum [11] noted that although it neglects zakat and other Islamic social instrument, current practice in fiscal decentralization is still in line with major purposes of Islamic economics. Some exploitation might occur as an indication for mismanagement practice. Supangat [12] highlighted that fiscal policy in Indonesia was still in the same vein with the Islamic perspective. He noted, for example, some taxes as income source were also utilized in early Islamic fiscal policy. Furthermore, he urged zakat as an additional source of income for the government and its administration should be part of Ministry of Finance to be collected with taxes. Such usage of zakat is important as another Indonesian researcher also noted that Islamic fiscal policy has unique characteristics to its counterparts mainly in its purpose to serve people, not rulers [13]. In latest work, Andriansyah & Anto [14] employed Siddiqi's [15] work to analyze Indonesian government spending and concluded that it was generally in line Islamic

- Fajar Fandi Atmaja is currently lecturer in Department of Islamic Economics, Faculty of Islamic Studies, Islamic University of Indonesia, E-mail: [fajar.fandi@uii.ac.id](mailto:fajar.fandi@uii.ac.id)
- Asmuni is lecturer Department of Islamic Family Law, Faculty of Islamic Studies, Islamic University of Indonesia, E-mail: [asmuni@uii.ac.id](mailto:asmuni@uii.ac.id)
- Yuli Andriansyah is currently lecturer in Department of Islamic Economics, Faculty of Islamic Studies, Islamic University of Indonesia, E-mail: [yuliandriansyah@uii.ac.id](mailto:yuliandriansyah@uii.ac.id)

principles of public expenditure. However, they noted some critical issues related to debt payment and corruption that decrease the impact of this spending to social purposes. The structure of this paper can be described as follow to ensure conciseness. This section introduces the topic of study and relevant literature review from previous works, especially in the context of Indonesian public finance. Next section explains materials and methods used in the research process. It was then followed by results of analysis and discussion with relevant previous findings. Conclusion and limitations of research are described afterward.

## 2 RESEARCH METHODS

This research can be categorized as qualitative with purposes to describe writing and thought of specific figure [16, p. 15], which in this case is Al-Dāwudī. A literature review was then conducted on Al-Dāwudī's Kitāb al-Amwāl as the primary source and other writings on the book as secondary sources. Data was collected through documentation method, in which primary and secondary sources are read carefully, annotated and analysed [17, p. 107]. The approach used in this research is normative socio-historical approach with the aim to describe the ideal form of public finance based on Holy Qur'ān and Sunnah. Al-Dāwudī's economic thought is analyzed with the consideration that he was an important thinker, and his thought should be explored to seek a deeper understanding of his life's events [18, pp. 65-66]. Analysis results were described critically to deal with main findings and confront it with other ideas and thoughts or practices of public finance in Indonesia to find a comparison, relation and other rational modes [19, p. 16].

## 3 RESULTS AND DISCUSSION

This section describes the result of analysis on the implementation of public finance in Indonesia and then followed by an analysis of Al-Dāwudī's thought in relation to this implementation and discussion of the results. Public finance in Indonesia can be summarized in its national budget or Anggaran Pendapatan dan Belanja Negara abbreviated APBN in Indonesia. This budget represents an annual accounting of public finance based on a specific law approved by parliament. It consists of income, spending and financing budget for a year started on January 1 and ended on December 31 [20, p. 288]. Income comes from mainly three sources: taxes, non-taxes, and grant. There are two categories of taxes: domestic and international trade taxes. The first consists of a) oil and gas tax, b) value added tax including the tax on luxuries, c) land and property tax, d) ownership of land and building tax, e) customs, and f) other taxes including interest payments. While international taxes come from import and export tariffs [21, p. II, 3-8]. Non-taxes incomes come from a) natural resources income including oil, gas, mining, forestry, and fishing, b) state-owned enterprises dividend, c) other incomes including sale and rent, services income, interest and education, and d) incomes from general services boards. The government also receives grants from domestic or international donors for many purposes such as funding educational programs, village development and urban planning, water and sanitation program, subsidy, and others. Such grants can be administered by the ministry or local governments. Like many other countries, taxes are still the main source of income for Indonesia. Government spending can be categorized based on organization, function, and type

of expenditures. For organizations, spending can be derived from different ministry or commission within the government. Based on its function, spending can be categorized in general services, defense, law and order, economy, environment, housing and public facilities, health, tourism, cultures, religions, education, and social security. As for the type of expenditures, spending can be classified as staff expenditure, purchase of goods, capital investment, interest payment, subsidy, grants, social supports, and other expenditures. Spending can also be allocated for two parties: central government and local governments. Types of expenditures previously discussed are among central government's spending. Local governments receive several types of the fund such as profit sharing fund, general allocation fund, and specific allocation fund. Few local government also receive special autonomy fund as consequences of decentralization [22, p. 4]. For many years, government spending exceeds its income or in other word government runs deficit budget. Such deficit such be financed through two types of financing: a) domestic financing from banking, privatization, government bond, and state capital participation; and b) foreign financing through debt and its payment. Al-Dāwudī's thought on sources of income can be judged as irrelevant for current practice in the modern world. Although in his life, it is commonly accepted and practiced for the government to collect ghanimah and fay' as income for the government, the modern world will see it as backward considering it imply justification for war for wealth purpose. However, the idea behind personal, income and property taxes in Indonesia can still be tracked back to jizya and kharadj he endorsed in his work. Zakat as an annual duty for Muslims is still practiced and managed today, but its utilization is no longer reflect original idea as a source of income for the government. However, its purpose to be distributed to mustahiq in current time is commonly in the same vein as it was in Al-Dāwudī's life. The relevance of Al-Dāwudī's thought can also be viewed from his suggestion on how government should spend national income. Government spending on the civil servant and administrative duties are among Al-Dāwudī's thought that was described in his work. He noted some specific budgeting rule for civil servants, army, and others administrative functions in a country, even how a caliph should take payment [23, pp/ 143-150]. This contribution is still relevant and practiced in modern Indonesia as well as any other countries since its essence is required to ensure continuity of national life. Al-Dāwudī also noted the importance of national defense, especially military expenditure, as rulers' obligation and its source of funding should come from national income or baitul māl. Numerous Islamic texts also suggest that national security is essential and should be prioritized in the financial and political policy of government [8, pp. 266-274]. Although it should prioritize, Al-Dāwudī also emphasizes that expenditure on national defense should be in the balance with other expenditures for social services [22, p. 137]. Al-Dāwudī also contributed to an important aspect of public ownership of scare resources such water, woods, and fire. Using a prophetic basis, Al-Dāwudī noted these resources as common goods that should be utilized for the benefit of people and should be kept sufficient for public interest [8, pp. 137-138]. For Indonesian economy, such notion is clearly indicated in the constitution as the main construction of national welfare. Production resources that matter for the public along with all natural resource beneath earth and sea are all part of public ownership that country

should handle it. Its utilization is mandated to be the benefit of most people. Another significant contribution from Al-Dāwudī is his notion of the danger of corruption for nation and society. Writing in the context of Fatimid rulers, Al-Dāwudī criticized many injustice economic policies of his time mainly in the way resources were circulated only among rulers and their cronies. Al-Dāwudī blamed rulers for abusing their power to exploit society with raising taxes, absorbing lands and other inappropriate conducts [8, p. 78] [7]. The advice Al-Dāwudī provided for Fatimid rulers seems to be very relevant for Indonesia today considering massive problems related corruption and collusion in managing public finance. Corruption has been national and local issues since it spreads not only among governmental agencies in the center of power but also in local context even in village level. Al-Dāwudī also discussed inequality in societies that mainly can be viewed from the separation between the affluent and the poor. Although many scholars in his time debated whether being rich or being poor is more preferable, Al-Dāwudī intended discussion more about what can be done to solve social, economic problems in society. Such efforts for Al-Dāwudī would decrease inequality between the rich and the poor and in the end, would bring more justice in the social life of a country [8, pp. 341-342]. Furthermore, Al-Dāwudī also noted the importance of *kafāf* or sufficient income as a basis for social security. *Kafāf* according to Al-Dāwudī reflects the minimum condition of a Muslim income that allows him to pay Zakat as primary giving obligatory in Islam. Ability to pay zakat is expected to prevent Muslims from being exploited by the misery of poverty [8, p. 348]. Poverty at some point might lead the poor to the streets begging others for help, which has been condemned by Islam. To avoid family members and society trapped in being beggars, Al-Dāwudī pointed the importance of economic supports as part of social solidarity. Having a mean job and preventing begging character also important to avoid begging as the source of income [8, p. 337]. Al-Dāwudī's notion of inequality, social security, and social solidarity still gains momentum in the current practice of public finance in Indonesia. In general, the previous description of research results indicates that the findings in this study are also still in line with previous works [10], [11], [12], [14]. These works mainly highlighted that fiscal policy by Indonesian government meets some important Islamic teaching in public economics. However, some insights can be noted from Al-Dāwudī's thought as described in this research. Al-Dāwudī's main contribution as this research show is in his notion of anti-corruption spirit which is critical for Indonesia today. With massive corruption, many strategic efforts made by government will fail to achieve its target, thus creating many gaps in economic life among citizens. In this context, Al-Dāwudī's contribution on social solidarity and security is also important factors that enable the government to prescribe a more suitable policy for social problems.

#### 4 CONCLUSION

Previous results and discussion of this research show that there are some relevancies of Al-Dāwudī's economic thought with current practices in Indonesian public finance. Several sources of income such as *kharaj* and *jizya* can still be found in another form of current taxes as government income. Distribution of spending to some expenses such as military, civil servants, administrative and public facilities is also relevance with modern public finance in Indonesia.

Furthermore, Al-Dāwudī's economic thought also provides a significant contribution on some critical issues in fiscal policy such as state ownership of natural resources and its utilization purposes for people welfare, anti-corruption, inequality, social solidarity and security and others. This research has contributed to some important insights on how classical Muslims' economic thought can emerge into modern day Indonesia. Such efforts tend to be trends in recent research in Islamic economics and finance especially in the aftermaths of global financial crisis which open economists' eyes on the weakness of capitalism as the current economic model in the world. This type of research can provide an important guidelines in dealing with the economic situation of Muslims society with a consideration that economic problems will always be faced even though its scale and impact might be different for different societies. However, some limitations might also be found in this research and should be addressed for further direction in the field. The usage of Al-Dāwudī's economic thought as for public finance on Indonesia might be justified, but it would be more relevant for example to expand the analysis to include national economy as a whole. Notion should also be taken for the commonly political leadership of Islam or Muslim rulers in Al-Dāwudī's life which would be difficult to be found in nowadays.

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