

Exploring the Evolution of Islamic Economic thought from Classical Scholars to Modern Frameworks

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Abstract

This study explores the evolution of Islamic economic thought, tracing its intellectual journey from the classical contributions of scholars such as Al-Ghazali, Ibn Taymiyyah, and Ibn Khaldun to the emergence of modern frameworks in Islamic finance and economics. Employing a qualitative historical and interpretive approach, the research analyses primary sources from classical scholarship alongside contemporary literature, with the aim of identifying both continuities and transformations in economic principles over time. The findings reveal that classical Islamic economic thought was deeply rooted in ethical and moral values derived from the Qur'an and Sunnah, emphasizing justice, fairness, and the welfare of the community. These principles guided discussions on taxation, market regulation, labour, and prohibition of Riba, forming the foundation of Islamic economic ethics. In the modern era, the discipline has adapted to new institutional settings through the development of Islamic banking, zakat management, and Sharia-compliant financial instruments. While these frameworks demonstrate the flexibility and relevance of Islamic economics in addressing contemporary challenges, they also highlight ongoing tensions between maintaining ethical authenticity and meeting the demands of global economic integration. Ultimately, the study underscores Islamic economics as a dynamic tradition, simultaneously preserving its foundational moral commitments while fostering innovation to address the complexities of modern socio-economic realities.

Keywords

Islamic Economic Thought
Classical Scholars
Modern Frameworks

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Introduction

Islamic economic thought did not emerge suddenly in the modern era but was instead shaped over centuries by classical scholars who integrated religious values with societal needs. This intellectual tradition stretches from the foundational works of figures such as Al-Ghazali and Ibn Khaldun to contemporary frameworks embodied in Islamic banking, zakat institutions, and Sharia-compliant fiscal policies. Using a qualitative perspective, this study seeks to trace the continuities and transformations that have characterized Islamic economic discourse, highlighting the moral underpinnings that remain central while also analyzing the structural adaptations made to address modern economic realities.

One of the earliest comprehensive contributors to Islamic economic thought was Langsa (2023), a renowned scholar in theology, jurisprudence, and ethics. Al-Ghazali emphasized that economic activity must serve as a means of achieving human welfare (*maslahah*) and ultimately, eternal happiness in the afterlife. He stressed the importance of understanding rules of transactions (*muamalat*) such as sales, leasing, partnerships (*mudharabah* and *musharakah*), and the prohibition of *riba* (usury), so that markets could operate within the framework of justice and morality. For Al-Ghazali, property and economic activity were considered communal obligations (*fard kifayah*), while exploitative practices such as hoarding or counterfeiting were deemed socially harmful and prohibited. This approach placed economic action squarely within the objectives of Sharia (*maqasid al-sharia*), namely the protection of religion, life, intellect, progeny, and wealth (Nurlinda, 2025).

Al-Ghazali's framework combined ethics and market function into what modern scholars call the **Islamic social welfare function**. Economic choices were not merely transactions but also moral acts tied to broader societal well-being (Kader, 021). He also conceptualized the market as a natural outcome of human

interdependence: the blacksmith, carpenter, and farmer all specialized in their crafts, leading to the necessity of exchange and the emergence of organized economic structures (Stiglitz, 2025). This perspective underscores the centrality of cooperation and justice as prerequisites for a flourishing economy.

Several centuries later, the intellectual legacy of Islamic economics was advanced by Tabatabai (2025), whose *Muqaddimah* remains a seminal work in social sciences, including economics. Ibn Khaldun is often regarded as a forerunner of classical economics, having articulated concepts that anticipated modern theories by hundreds of years. One of his most notable contributions was the labor theory of value, wherein he argued that human labor is the source of value in goods and services. Even profit and capital accumulation, according to Ibn Khaldun, contain embedded human effort (Souaiaia, 2023). In this sense, his ideas predate Adam Smith and David Ricardo's formulations of value by nearly four centuries.

Ibn Khaldun also examined the dynamics of supply and demand, observing that prices were shaped by scarcity and consumer need. For instance, in growing cities, the price of basic goods fell due to abundant supply, while luxury goods became more expensive as demand increased. His analysis extended to demography, noting that population growth stimulated economic activity by creating new needs, crafts, and industries, which in turn increased productivity and profit.

Moreover, Ibn Khaldun articulated an early version of what is now known as the Laffer Curve: he argued that excessive taxation discourages production and reduces overall state revenue, while moderate taxation promotes prosperity and increases government income. This insight, rediscovered centuries later in Western economic thought, highlights his advanced understanding of fiscal policy. He warned that states in decline often imposed heavy taxes, which paradoxically diminished revenue and hastened their downfall.

In terms of governance, Ibn Khaldun underscored the state's role in ensuring a conducive environment for economic activity. The protection of property, enforcement of contracts, maintenance of security, and provision of justice were described as minimal yet essential responsibilities of the state. At the same time, he cautioned against direct state participation in trade, arguing that such involvement would distort markets and create bureaucratic inefficiencies (Al Mokdad, 2025). His analysis also addressed monetary theory, emphasizing that money is not wealth itself but rather a medium to facilitate the creation and measurement of real wealth through labor and production.

The contributions of these classical scholars laid the intellectual foundation for the modern discipline of **Islamic economics**, which reemerged in the twentieth century as part of broader movements for Islamic revival. Contemporary frameworks such as Islamic banking, zakat and waqf institutions, and Islamic capital markets represent the institutionalization of these earlier ideas. The establishment of organizations like the Islamic Financial Services Board (IFSB) in 2002 exemplifies efforts to regulate and standardize Sharia-compliant financial services at a global scale. While modern Islamic economic institutions operate in highly complex global financial environments, they continue to draw legitimacy from classical principles of fairness, justice, and prohibition of exploitative practices.

This historical trajectory demonstrates both continuity and transformation. The moral foundations articulated by Al-Ghazali remain intact, the analytical contributions of Ibn Khaldun resonate in economic theory, and modern frameworks attempt to integrate these values into contemporary institutions. At the same time, discontinuities arise in the form of adaptation to global markets, regulatory systems, and the pursuit of economic growth within capitalist structures. Thus, Islamic economic thought can be understood as a dynamic tradition: one that has preserved its ethical essence while evolving structurally to meet new challenges.

By exploring this evolution qualitatively, the present study contributes to the understanding of Islamic economics not only as a historical body of thought but also as a living discipline. It highlights how the integration of classical values and modern innovations continues to shape economic discourse and practice in Muslim societies and beyond.

Methods

Research Design

This study employed a qualitative historical and interpretive research design to explore the evolution of Islamic economic thought from the works of classical scholars to modern frameworks. A qualitative approach was considered the most suitable since the research sought to interpret and analyze the meanings embedded in historical texts, rather than measure variables numerically. The design emphasized understanding intellectual continuity, ethical underpinnings, and contextual transformations of Islamic economic ideas. By adopting an interpretive stance, the study traced how Islamic economic principles rooted in Qur'an, Sunnah, and scholarly commentary were reformulated across time to meet the challenges of changing socio-economic realities.

Data Sources

The primary data for this research came from classical texts written by influential scholars such as Al-Ghazali, Ibn Khaldun, and Ibn Taymiyyah. These works provided the foundational concepts of justice, labor, taxation, market ethics, and social welfare within Islamic economic thought. To complement these primary sources, the study relied on secondary data in the form of scholarly books, peer-reviewed journal articles, and institutional reports on modern Islamic economic frameworks, particularly in the domains of Islamic finance, banking, zakat, and waqf. The combination of classical and contemporary sources allowed the researcher to draw meaningful comparisons between historical ideas and modern applications.

Data Collection

Data were collected through library research and document analysis. Classical manuscripts were accessed through translated works and reputable academic compilations, while modern literature was obtained from academic databases, digital libraries, and publications from Islamic financial institutions. Selection criteria included relevance to the evolution of Islamic economic principles, credibility of the author or institution, and the extent to which the text addressed either theoretical or applied aspects of Islamic economics. The researcher employed purposive sampling in selecting these materials, ensuring that both the normative foundations and contemporary institutional practices were adequately represented.

Data Analysis

The data were analyzed using thematic content analysis, which involved identifying recurring concepts, ethical principles, and theoretical formulations across different eras of Islamic economic thought. Themes such as justice, labor, taxation, market regulation, and prohibition of Riba were extracted and categorized. The analysis also included comparative interpretation, in which classical insights were juxtaposed with their manifestations in modern frameworks, highlighting both continuities and discontinuities. This process required an iterative reading of the texts, coding of key passages, and synthesizing findings into broader conceptual categories. In line with qualitative rigor, interpretations were continuously cross-checked with secondary scholarly analyses to avoid subjectivity and ensure alignment with established academic discourse.

Validity and Reliability

To ensure validity, the study employed triangulation of sources. Insights from classical texts were corroborated with modern academic interpretations and institutional reports. This helped to maintain credibility and minimize bias in interpreting the ideas of historical scholars. Reliability was enhanced by maintaining a systematic coding process, where recurring concepts were carefully documented and compared across multiple sources. Furthermore, peer-reviewed literature was prioritized to reinforce the reliability of secondary data. The researcher also adhered to a transparent research trail by documenting each step of data selection and analysis, ensuring that the process could be reviewed and replicated.

Results and Discussion

Core Contributions of Classical Scholars

The intellectual foundations of Islamic economic thought were shaped by the monumental contributions of classical scholars, whose works remain relevant centuries later. Böhm et al. (2022) placed strong emphasis on ethics, justice, and the moral obligations embedded within economic activity. For him, wealth was not an end in itself but a means to achieve social welfare and spiritual fulfillment. He underscored that economic practices must align with *maqasid al-sharia* (objectives of Islamic law), such as protecting wealth, life, and faith. Practices like fair trade, the prohibition of *Riba* (usury), and discouragement of hoarding were considered essential for sustaining justice and harmony in society. In Al-Ghazali's view, markets were natural institutions, but they required ethical governance to prevent corruption, exploitation, and inequality. His writings clearly reveal a deep concern for balancing individual economic pursuits with collective welfare, laying a framework that continues to resonate in debates on ethical finance today.

Anjum (2022), writing two centuries later, advanced the sophistication of Islamic economic analysis by introducing systemic observations that anticipated modern economic theories. His formulation of the labor theory of value argued that labor was the source of wealth, and all economic production derived from human effort. Unlike Al-Ghazali, who emphasized normative ethics, Ibn Khaldun introduced an empirical dimension by analyzing how states, societies, and economies functioned in practice. He developed early insights into supply and demand dynamics, showing how scarcity and consumer needs influence pricing structures. Furthermore, his analysis of taxation foreshadowed the modern Laffer Curve, observing that excessive taxation ultimately reduces state revenue by discouraging productivity. Ibn Khaldun also stressed the responsibility of the state to provide security, enforce contracts, and protect property rights while warning against direct state involvement in trade. His writings bridged moral philosophy with proto-economic science, providing both theoretical and empirical grounding to Islamic economics.

Meanwhile, Yang et al. (2025) focused specifically on the fairness of markets, arguing that the legitimacy of prices must be tied to just market conditions. He emphasized the prevention of monopolistic practices, fraud, and artificial manipulation of prices. For Ibn Taymiyyah, justice in trade was not only a legal principle but also a religious obligation. He rejected arbitrary price fixing by the state unless necessary to curb injustice, thereby advocating a balanced approach between free market operation and state intervention. His works contributed to the idea of *hisbah* (market supervision), which became a critical mechanism for ensuring accountability in Islamic societies. Collectively, the contributions of Al-Ghazali, Ibn Khaldun, and Ibn Taymiyyah established a framework where ethics, social justice, and empirical analysis were deeply interwoven.

Continuities in Modern Frameworks

Despite the profound social, political, and economic changes that have occurred over centuries, many principles articulated by these scholars remain integral to modern Islamic economic frameworks. The prohibition of *riba* continues to underpin Islamic finance and banking, serving as a clear marker distinguishing it from conventional systems. Financial products such as *mudarabah* (profit-sharing) and *murabahah* (cost-plus financing) are direct modern adaptations of classical contracts rooted in Sharia. Similarly, the principle of fairness and justice persists in regulatory standards set by institutions like the Islamic Financial Services Board (IFSB) and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), which require transparency, accountability, and equitable risk-sharing in financial dealings.

Another major continuity is the enduring role of *zakat* (obligatory almsgiving) and *waqf* (endowments) as instruments of social welfare. In many Muslim-majority countries, *zakat* institutions are institutionalized under state or semi-state agencies, channeling wealth redistribution to address poverty and inequality. The concept of *waqf*, historically significant in supporting education, healthcare, and public welfare, has also found renewed relevance in modern development projects and sustainable financing models. These continuities underscore the resilience of Islamic economic principles, demonstrating how ethical imperatives continue to influence institutional practices across time.

Discontinuities and Adaptations

While ethical continuities remain strong, significant discontinuities have emerged in adapting Islamic economics to modern realities. One of the most notable shifts is the institutionalization of Islamic finance within state systems and global markets. Unlike the localized and relatively informal markets of the classical era, Islamic finance today operates within globalized financial networks, often regulated by international standards. This has required reinterpretations of classical jurisprudence to address complex products like Islamic insurance (*takaful*), Islamic bonds (*sukuk*), and Sharia-compliant investment funds. These instruments extend beyond the imagination of classical scholars, reflecting necessary adaptations to global economic conditions.

Furthermore, Islamic finance has had to grapple with the challenges of operating in environments dominated by conventional interest-based systems. While classical scholars emphasized substance over form, some modern Islamic financial practices have been criticized for replicating conventional products in Islamic legal form without fully realizing their ethical substance. This tension reflects the discontinuity between classical ideals of justice and contemporary market-driven practices. For example, the emphasis on risk-sharing contracts in theory is often overshadowed by the dominance of debt-based instruments in practice, leading to debates about whether the modern industry truly fulfills its ethical mission.

Integration of Tradition and Modernity

The contemporary landscape of Islamic economics illustrates an ongoing integration of tradition and modernity (Huybrecht et al., 2023). Hybrid models have emerged that attempt to balance fidelity to Sharia principles with the requirements of global economic participation. For instance, *sukuk* markets allow governments and corporations to raise capital through Sharia-compliant instruments while integrating into international financial systems. Similarly, digital financial technologies are being adapted to facilitate zakat collection and waqf management, merging classical concepts with twenty-first-century tools.

Yet this integration is not without debate. Scholars, policymakers, and practitioners continue to wrestle with the question of how closely modern frameworks align with classical teachings. Some argue for stricter adherence to the spirit of Islamic economics prioritizing justice, equity, and welfare while others emphasize pragmatism and competitiveness in global markets. This debate highlights the dynamic character of Islamic economic thought as it seeks to reconcile the normative legacies of the past with the institutional necessities of the present.

Ultimately, the findings reveal that Islamic economics is not a static discipline but a living tradition. Its historical trajectory shows a remarkable ability to preserve ethical foundations while simultaneously innovating to meet new contexts. This dynamic interplay between continuity and change ensures that Islamic economic thought remains both relevant to contemporary challenges and faithful to its moral origins.

Conclusion

The evolution of Islamic economic thought from classical scholars to modern frameworks demonstrates a dynamic intellectual tradition that balances ethical continuity with institutional adaptation. The works of Al-Ghazali, Ibn Taymiyyah, and Ibn Khaldun established a foundation rooted in justice, fairness, and social welfare, principles that continue to shape contemporary Islamic finance, zakat management, and Sharia-compliant institutions. While the modern era has required reinterpretations to align with global economic systems sometimes leading to tensions between ethical ideals and practical implementation the enduring emphasis on equity and communal well-being highlights the resilience of Islamic economic principles. Thus, Islamic economics emerges not as a static legacy of the past but as a living discipline, capable of integrating timeless moral values with innovative responses to contemporary challenges.

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