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Muhammad Hatta's Economic Democracy: Analysis from an Islamic Economic Perspective

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ABSTRACT

This study examines the relevance of Mohammad Hatta's concept of economic democracy through the lens of Islamic economics and the maqāṣid al-sharīʿah. It departs from the persistence of structural inequality, the dominance of large capital, and limited access of lower-income groups to productive resources in Indonesia, conditions that diverge from Hatta's vision of a people's economy. Using a qualitative descriptive method and library research, the study analyzes Hatta's ideas on cooperatives, people's sovereignty over resources, and state control of strategic sectors, and maps them onto the dimensions of ḥifẓ al-māl (protection of property), ḥifẓ al-nafs (protection of welfare/life), and ḥifẓ al-ijtimāʻ/al-ʻadl (social justice). The findings show strong substantive alignment between Hatta's thought and Islamic economic principles while highlighting the need to operationalize them through sharia-based cooperatives, productive zakat, and distribution-oriented fiscal policies to build a more inclusive and just economic model for Indonesia.

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1. INTRODUCTION

1.1. Background

Since its proclamation on August 17, 1945, and through a physical revolution that culminated in the recognition of independence through the Round Table Conference in 1950, Indonesia has faced its worst economic crisis in its history. The unequal colonial economic structure remains firmly entrenched: most of the nation's wealth is controlled by foreigners and a handful of urban elites, while the majority of the population lives in poverty and lacks access to economic resources. At the same time, the unstable political situation has further undermined the country's ability to build a self-sustaining economy.

It was under these conditions that Dr. Mohammad Hatta—the Proclaimer and first Vice President of Indonesia—offered an idea known as economic democracy. For Hatta, economic development should not only prioritize growth but also ensure the welfare of the people as the primary actors in the economy. Therefore, he promoted cooperatives as the cornerstone of the national economy and rejected any form of exploitation that would allow wealth to accumulate in the hands of certain groups.

Hatta's economic ideas strongly resonate with the values of justice in Islamic economics. Islamic economics emphasizes equitable distribution, social welfare, and the prohibition of exploitation, in accordance with the principles of maqasid sharia—the general objectives of sharia in maintaining the sustainability of human life. Therefore, analyzing Hatta's economic thinking from an Islamic economic perspective is crucial to understanding how the values of social justice can be effectively implemented in the Indonesian economic system.

In the post-independence period (circa 1945–1950), the Indonesian economy faced significant structural challenges. The national economy had to recover from the Japanese occupation and the war of independence—which had caused widespread physical and social damage—while colonial economic institutions remained dominant and had not yet been replaced by an effective national system. As a result, economic growth was very slow, with even "little economic growth" recorded between 1950 and 1957.[1]

At the same time, the economy still has a dual character (dual economy) with a limited modern sector and a large traditional agrarian sector, as well as problems of inflation, budget deficits, and limitations in foreign capital flows that worsen the recovery conditions.[2]

Furthermore, the dualism of the economic structure and macroeconomic instability are major obstacles to development. The colonial legacy of economic structures focused on resource extraction and the export of limited commodities has not been rapidly reformed into a sustainable national economy. According to Thee Kian Wie, the collective book "Indonesia's Economy Since Independence" emphasizes that the early independence period was a period of fragile economic conditions and poorly established institutions.[3]

In this context, the newly formed government faces a significant burden to manage the transition, stabilize the rupiah, strengthen the fiscal, and build infrastructure to enable sustainable growth.

Thus, it can be argued that Indonesia's economic conditions in the early years of independence were characterized not only by technical challenges—such as damaged infrastructure, a dual monetary system, and a lack of capital—but also by deep-rooted structural challenges: weak institutions, the dominance of colonial legacies, and the inability to quickly mobilize resources on a national scale. These factors then became the backdrop for various development policies subsequently adopted to transform the "colonial economy" into a self-sufficient and inclusive national economy.

More than seven decades after independence, Indonesia still faces similar challenges: high economic inequality, limited access to business for the lower classes, and the dominance of large players in strategic sectors.[4]The economic policies implemented by the

[1]Thee Kian Wie, ed., Indonesia's Economy Since Independence (Singapore: ISEAS–Yusof Ishak Institute, 2012), xi.

[2]K. Bandyopadhyaya, "The Indonesian Economy in Transition," Asian Survey 17, no. 7 (1977): 659.

[3]Thee Kian Wie, ed., Ibid

[4]World Bank, Indonesia's Rising Divide: Why Inequality Is Rising and Why It Matters (Washington, DC: World Bank, 2016).

government over the past few decades are very far from the concept of a people's economy initiated by Hatta and outlined by the constitution.[5]

Thus, revisiting the relevance of Hatta's thoughts and contextualizing them with Islamic economics can contribute to the discourse on just economic policies today.

Based on this, this study attempts to examine Muhammad Hatta's economic democratic thinking from an Islamic economic perspective, particularly through the maqashid sharia framework, and assess its relevance to the current economic conditions in Indonesia.

1.2. *Problem Formulation*

Based on the background above, the problem formulation in this research is as follows:

1. What are the main points of Muhammad Hatta's economic democracy thinking in the context of the Indonesian economy after independence?
2. How is the analysis of this thought from an Islamic economic perspective through the maqashid sharia approach?
3. To what extent is Muhammad Hatta's economic democracy thinking relevant to Indonesia's current economic conditions?

1.3. *Research Objectives*

This research aims to:

1. Describes Muhammad Hatta's economic democratic thinking and the context of its application in the early days of Indonesian independence.
2. Analyzing the harmony of Hatta's thoughts with Islamic economic values through the maqashid sharia framework.
3. Assessing the relevance of Hatta's economic democracy thinking in responding to the challenges of the contemporary Indonesian economy.

1.4. *Benefits of Research*

1) Theoretical Benefits

   This research contributes to the development of Islamic economic studies, particularly in examining how the values of justice and wealth distribution are reflected in the economic thinking of Indonesian national figures.

2) Practical Benefits

   This research is expected to be a reference for:

   a. Policy makers in formulating economic strategies that are more oriented towards the interests of the people.
   b. Cooperative institutions and Islamic financial institutions in strengthening the role of empowering the people's economy.
   c. Academics and students in developing studies of people's economics based on Islamic principles.

1.5. *Research Limitations*

This research is limited to:

a. The focus of the analysis is on economic democracy and cooperatives in Hatta's thinking.
b. Analysis through an Islamic economic perspective with an emphasis on maqashid sharia.
c. The historical context of Indonesia at the beginning of independence and its relevance in the current economic situation.

1.6. *Research Methods*

This research uses a descriptive qualitative method with

[5]International Monetary Fund, "Financing Barriers and Performance of Micro, Small, and Medium-Sized Enterprises in Indonesia," IMF Working Paper or Article (2024).

a library research approach.[6]Literature study is a data collection technique through a review of various literature sources that are relevant to the research problem.[7]

The data used consisted of books, scientific articles, speeches, and official documents related to Muhammad Hatta's economic thought and Islamic economics. The analysis was conducted by examining the suitability of Hatta's ideas to the principles of maqasid sharia and their application in the Indonesian economic context.

2. LITERATURE REVIEW

2.1. Islamic Economics and Its Social Principles

The main goal of Islamic Economics is to realize maslahah—comprehensive welfare—through fair distribution, need-based production, and prohibition of exploitation.According to Chapra, the concept of Islamic economics positions individual property rights and social interests as two pillars that must go hand in hand within the framework of a just economic system. Chapra asserts that individual property is a natural human right that can motivate increased productivity, innovation, and prosperity. However, from an Islamic perspective, this right is not absolute; it is limited by moral and social responsibilities to prevent exploitation or excessive accumulation of wealth in the hands of a few. Thus, the principle of ownership in Islamic economics is directed towards supporting a more equitable and inclusive distribution of resources.[8]

Furthermore, Chapra emphasized that the balance between private and social ownership is achieved through Islamic economic instruments such as zakat, infaq, sedekah, and waqf. These instruments serve as a means of redistributing wealth to ensure the basic needs of all members of society are met, especially the less fortunate. The government also plays a strategic role in regulating markets, maintaining price stability, and preventing economic practices that lead to injustice or social inequality.

Overall, Islamic economics emphasizes not only economic efficiency but also upholds aspects of justice and social balance. This system seeks to integrate the material and moral dimensions of economic development, so that economic success is measured not only by growth alone but also by the extent to which prosperity is shared widely by all levels of society.[9]Thus, Islamic economics offers a more holistic alternative paradigm in achieving collective well-being and social sustainability.

In Islamic economics, monotheism serves as an epistemological foundation, affirming that all economic activity is oriented toward worship and obedience to God. This monotheistic orientation not only shapes ethical individual behavior in transactions but also fosters an economic order that benefits the entire community. Chapra emphasized that the primary goal of Islamic economics is to achieve human well-being (falāh) while maintaining moral and spiritual dimensions, ensuring that

[6]Sugiyono, Qualitative Research Methods (Bandung: Alfabeta, 2019), 15.

[7]Mestika Zed, Library Research Methods (Jakarta: Yayasan Obor Indonesia, 2014), 3.

[8]M. Umer Chapra, Islam and the Economic Challenge (Leicester, UK / Herndon, VA: The Islamic Foundation / International Institute of Islamic Thought, 1992)

[9]Ibid

economic activity transcends the mere pursuit of material gain.[10]

The principles of justice (al-'adl) and brotherhood (ukhuwah) further emphasize that Islamic economics rejects all forms of inequality that lead to exploitation and social exclusion. The value of brotherhood encourages solidarity and collective work to address disparities, including through wealth redistribution and protection of vulnerable groups. Al-Mawardi stated that the government's role in the economy includes realizing justice and ensuring the fulfillment of social rights so that wealth does not circulate among certain groups.[11]

Furthermore, the concept of ḥifẓ al-māl (protection of property), one of the objectives of the maqāṣid al-sharī'ah, includes a public dimension, namely the protection of collective assets and wealth. This includes prohibiting the plundering of public wealth, corrupt practices, and the trustworthy management of resources for the sustainability of generations.[12]Thus, all these core concepts form a comprehensive framework that makes Islamic economics not only materially efficient, but also just, ethical, and oriented towards overall welfare.

Islamic economics is considered the antithesis of capitalism, which is considered to prioritize capital. It is also the antithesis of socialism, which eliminates property rights. Islam takes a middle path: ownership is permitted but limited by moral justice.

2.2. *Muhammad Hatta's Economic Thoughts*

Mohammad Hatta's thinking on the nation's economic system placed the values of social solidarity and collective work as its primary foundation. He emphasized that the Indonesian economy should be structured as a collective effort based on the principle of kinship—a framework in which cooperation, mutual assistance, and a sense of brotherhood replace the dominance of individual interests or large capital.[13]In this framework, cooperatives are not merely economic entities, but rather social media that foster collective responsibility and fair sharing of benefits.[14]

Furthermore, Hatta's concept rejected the logic of the free market, which purely pursues personal profit without regard for humanity and social justice. Viewing the economy as part of social life, Hatta advocated for large economic institutions to be regulated so that their profits would not only accrue to a few individuals but would also contribute to the welfare of the masses.[15]Thus, Hatta's idea of a people's economy became the meeting point between social ethics and economic institutions, positioning family and solidarity as the core of sustainable and inclusive national economic development.

Mohammad Hatta developed cooperative thinking in

[10]M. Umer Chapra, Islam and the Economic Challenge (Leicester: The Islamic Foundation; Herndon, VA: IIIT, 1992), 25–28.

[11]Al-Māwardī, Al-Aḥkām al-Sulṭāniyyah (Cairo: Dar al-Hadith, 2006), 120–123.

[12]Ibid

[13]Mohammad Hatta, Small Book: Eko Ker & Koperasi (Jakarta: [publisher not mentioned], tt), 12.

[14]Boys Bakhri, "111 Concepts of Bung Hatta's Cooperatives …," Al-Hikmah Journal Vol. 15 No. 1 (2018): 128

[15]Elli Ruslina, "The Principle of Togetherness and Kinship as the Basis of the Indonesian Economy," Sasana Law Journal Vol. 5 No. 2 (November 2019): 170

Indonesia, clearly inspired by the European cooperative movement, particularly the model proposed by Friedrich Wilhelm Raiffeisen and Hermann Schulze-Delitzsch. The Raiffeisen and Schulze-Delitzsch movements were known for their approach, which prioritized the cooperation of rural and urban sectors in joint ventures, emphasizing solidarity, mutualism, and member control over cooperative institutions.[16]Hatta not only adopted the structural aspects of the movement, but critically adapted them to the cultural character of Indonesian society — namely the values of family and mutual cooperation that have long been inherent in the indigenous social order.

Furthermore, Hatta emphasized that the cooperative concept that is suitable for Indonesia must be rooted in the collective spirit of society, not simply an imitation of foreign models that ignore the local context: "Cooperatives are suitable for the spirit of mutual cooperation that is growing in Indonesian society."[17]

This statement demonstrates that for Hatta, cooperatives were not merely a form of economic organization, but rather a social medium that strengthened brotherhood among members and prevented excessive individualism. Thus, Hatta's adaptation of the European model was an intellectual transformation that aligned cooperative economic principles with Indonesia's unique culture of economic democracy.

Mohammad Hatta consistently rejected economic monopolies and exploitative capitalism, which benefit only a select few. He viewed an economic system dominated by a small number of large capitalists as a threat to economic democracy because it created inequality and exploited workers and the nation's resources.[18]As an alternative, Hatta emphasized that in strategic sectors of the economy the state must take over the control function, especially for important branches that determine the fate of the people; this is to ensure that the benefits of economic development do not only transfer to large private parties, but remain under control for the sake of public welfare.[19]

Furthermore, Hatta positioned cooperatives as the "pillar" of the national economy—economic organizations based on the principles of family, mutual cooperation, and joint management by members.[3] In Hatta's view, cooperatives were not only economic instruments, but also social means for distributing wealth equitably and strengthening the role of the people in the economy. The distribution of people's wealth was the primary objective; that is, economic development was measured not only by growth, but also by the extent to which the common people gained access to and benefited from the results of development.[4] Thus, Hatta's vision was the creation of a

[16]SE Achmad Solihin, History of Cooperatives (Jakarta: [publisher not named], tt), 9.2.1; BAT Sugiarto, "Historical and Philosophical Review of the Cooperative Movement," Jurnal Sosial 10, no. 1 (2015): 45.

[17]Boys Bakhri, "111 Bung Hatta's Cooperative Concepts from a Sharia Economic Perspective," Jurnal Al-Hikmah 15, no. 1 (2018): 130

[18]Wulan Wulandari & Asyari Hasan, "Muhammad Hatta's People's Economic Thoughts from an Islamic Economic Perspective," Journal of Islamic Economics 9, no. 3 (2023): 3586.

[19]"Bung Hatta and the People's Ideology: A Reflection on Socio-Economic Thought in the Indonesian Context," LP3ES (February 19, 2025)

people's economic system that upheld social justice, economic democracy, and equality among all citizens.

2.3. *Maqashid Syariah as an Analytical Framework*

The Maqâṣid al-Sharīʿah framework offers a rich normative perspective for analyzing economic policies, because it does not merely look at the legal aspects of transactions, but also explores the broader objectives of sharia, namely the preservation of religion (dīn), soul (nafs), reason ('aql), descendants (nasl) and property (māl).[20]In the context of economic analysis, a policy is considered successful if it is able to secure and advance the five maqâṣid—for example, by guaranteeing religious freedom (dīn), protection of human corporations from poverty and disease (nafs), increasing productivity and innovation ('aql), maintaining social institutions such as the family (nasl), and the fair distribution and protection of wealth (māl).[21]Therefore, when analyzing policies such as market regulation, fiscal intervention or redistribution programs, the Maqâṣid framework allows researchers to look not only at economic efficiency but also at the impact on social justice, sustainability and the public good.

Furthermore, this framework helps identify gaps or distortions between the ideal objectives of Sharia and policy practice. For example, a fiscal policy that promotes high growth but results in exploitative wealth accumulation and environmental degradation actually violates both the maqashid hifẓ al-māl (the principle of maintaining good health) and the hifẓ al-nafs (healthy living).[22]Thus, Maqâṣid al-Sharīʿah serves as a critical evaluative tool for assessing whether economic policies are inclusive and just, supporting the common good, or reinforcing inequality and exclusion. For example, recent studies have shown that the implementation of maqâṣid in Islamic economics requires the integration of the values of justice, sustainability, and social responsibility into financial products and economic regulations.[23]

Table 1. Mapping of Maqāshid al-Sharī'ah and the Application in Mohammad Hatta's Economic Thought

Maqashid Sharia	Application in Hatta's Economy
Hifz al-Mal	Cooperatives, anti-monopoly, protection of people's businesses
Hifz an-Nafs	Reducing extreme poverty
Al-'Adl & Al-Ihsan	Distribution of justice & family economy
The benefit of the community	State control over strategic sectors
Hifz al-Deen	Anti-exploitation moral economy

[20]Abdul Qoyum, "Maqâṣid Ash-Sharīʿah Framework and the Development of Islamic Finance Products: The Case of Indonesia," Tazkia Islamic Finance and Business Review 12, no. 2 (2018): 169-170.

[21]AA Muttaqin, "An Analysis on Aspects of Maqâṣid Shariʿah Framework," Samarah: Journal of Integrated Islamic Studies 4, no. 1 (2023): 45.

[22]Fadilla Syahriani et al., "Application of Maqâṣid al-Sharīʿah in Islamic Economics and Finance as the Development of Products of Islamic Value," HAKAMAIN: Journal of Sharia and Law Studies 2, no. 1 (2023): 151

[23]Darwis Harahap & Mimma Maripatul Uula, "The Implementation of Maqâṣid Shariah in Economic Studies," Journal of Islamic Economic Literatures 4, no. 1 (2023): 10.

3. HISTORICAL CONTEXT: POST-INDEPENDENCE INDONESIA

3.1. Early Indonesian Economic and Social Situation (1945-1950s)

In the period immediately following the Proclamation of Indonesian Independence (August 17, 1945), Mohammad Hatta and Sukarno were faced with the enormous task of building an economic system free from the shackles of colonial rule. The unequal economic system of the Dutch East Indies—marked by the dominance of primary production, dependence on raw material exports, and foreign control of strategic sectors—posed a serious burden on national development.[24]This condition is reflected in the structural dualism in which the modern sector managed by foreigners stands side by side with the traditional economy of the people who are less touched, as well as the burden of external debt and the transfer of sovereignty which actually burdens the state finances.[25]

In this context, Hatta viewed that political independence must be followed by economic independence through the transformation of colonial structures into national structures that sided with the people.[26]His approach included the nationalization of foreign companies, monetary reform, and the development of cooperatives as the backbone of a people's economy to replace foreign domination and domestic oligarchy. Thus, Hatta's framework emphasized that post-independence economic development was not simply about growth, but about restoring economic sovereignty and equitable distribution of benefits for all.

The post-independence period in Indonesia was marked by highly unequal economic conditions: the majority of the population remained in the agricultural sector, with low productivity and limited access to capital, education, and markets. Research shows that despite economic growth, the agricultural sector remained dominant but failed to generate significant welfare changes for farmers due to low productivity and limited access to modern economic instruments.[27]This condition is exacerbated by the legacy of colonial structures that prioritize export commodities and foreign control over strategic sectors, which ultimately maintains dependency and inequality.[28]In addition, political turmoil such as internal conflicts, government transitions, and immature policies increase the nation's economic vulnerability.[29]In such conditions, the urgency to formulate a fairer, more inclusive, and pro-people economic system becomes very pressing — so that economic development is not only oriented towards aggregate growth but also towards the equitable

[24]S. Sofhian, "Genealogy of Mohammad Hatta's Economic Thought: From Colonial Economy to People's Economy," (master's thesis, [University], 2023), 12.

[25]Widi Wardodjo, "Indonesian Economy in the 1950s and State Control of Railway Companies Post-RTC 1949," Ihisea 2, no. 2 (2018): 96.

[26]MA Adlan, "The Urgency of Mohammad Hatta's Economic Thought and Its Relevance for Indonesia's Economic Democracy," International Journal of Islamic Economics and Finance 4, no. 1 (2022): 15.

[27]Jeroen Touwen, "The Economic History of Indonesia," EH.Net Encyclopedia, Indonesia section.

[28]P. van der Eng, "Growth and Inequality: The Case of Indonesia, 1960-1997," MPRA Paper 12725 (2009): 12

[29]Hal Hill, What's Happened to Poverty and Inequality in Indonesia? ADB Working Paper (2021): 5.

distribution of benefits for all people and strengthening national economic resilience.

3.2. *Economic Policies Related to Hatta's Thoughts*

Mohammad Hatta's ideas on people's economics and cooperatives emerged as a pragmatic response to Indonesia's unequal economic conditions after independence. Hatta emphasized that the people should not be merely the objects of development but rather the primary actors in the national economic system.[30]As a concrete manifestation of this idea, he sees cooperatives as a medium for empowering the people, where cooperative members are not just consumers or passive workers, but become responsible for their own companies: "Cooperatives educate each member to live responsibly for their own companies."[31]

In this context, cooperatives are not only economic instruments, but also social and ethical schools—training individuals to act collectively, as well as bridging common welfare through the principles of family, mutual cooperation and shared responsibility.

Furthermore, the position of cooperatives within Hatta's people's economic framework serves as a counterbalance to the economic structural inequalities inherited from colonialism. According to Hatta, an economic structure that relies on large capital and large players is prone to exploitation and monopolies that exclude ordinary people from access to capital, markets, and decision-making.[32]By making cooperatives the cornerstone of the people's economy, Hatta sought to ground the values of inclusion and economic democracy—where economic benefits are not concentrated in the hands of a few, but are enjoyed equally and participatory by all members of the community. Thus, Hatta's cooperative idea encompasses two important aspects: structural transformation from an exploitative economy to a people's economy, and the development of an independent and responsible economic character for the community.

3.3. *Implementation Issues and Gaps*

Although Mohammad Hatta's ideas about a people's economy and cooperatives in Indonesia were ideologically and conceptually sound, the reality of their implementation faced significant structural and institutional obstacles. First, state institutions in the early days of independence were still undergoing a process of consolidation: newly formed state institutions had to simultaneously handle development tasks, political transition, and the confiscation of colonial assets. In this context, the government's technical and financial capacity was limited, resulting in inadequate support for efforts to empower cooperatives and the common people.[33]Second, resistance from the economic elite and big businessmen also acts as an obstacle—the old economic model based on monopolies and foreign interests is still visible, while the orientation of the people as the main

[30]Boy Syamsul Bakhri, "111 Bung Hatta's Cooperative Concepts from a Sharia Economic Perspective," Al-Hikmah Journal 15, no. 1 (2018): 120

[31]Ibid., 127.

[32]MS Pulungan, "Exploring Hatta's Cooperative Thoughts," Legal Arena (2019): 10.

[33]W. Wulandari, "Mohammad Hatta's People's Economic Thought in People's Economic Thought," Scientific Journal of Islamic Economics 9, no. 3 (2023): 3573.

actors of development has not been fully realized.[34]

Hatta himself emphasized that national economic development must be based on the "principle of family," and must not be allowed to move freely like capitalism, which pursues accumulation without regard for social justice.[3] This principle is reflected in the idea that cooperatives should be a "joint effort" and foster a sense of collective responsibility among their members. However, the tension between idealism—cooperatives as the pillars of a people's economy—and the reality of a market that tends to be dominated by large capital makes implementing this idea require effective state intervention, conducive regulations, and changes in the economic culture of society. Therefore, although Hatta's ideological direction is very clear, the complexity of implementation requires the commitment of state institutions, technical readiness, and active participation of the people if the people's economic system is to be truly effective.

As a result, despite a well-developed framework for economic democracy, real efforts to achieve economic equality still face a difficult road. One of the most obvious manifestations is the disparity between urban and rural areas—where villages, largely dependent on the agricultural sector, still face low productivity and limited access to capital, education, and markets. Village-level studies show that the presence of cooperatives is associated with lower levels of inequality, while formal financial institutions such as commercial banks are sometimes correlated with greater inequality.[35]In addition, the dominance of large capital and a less well-structured economic structure also strengthens the position of large players and weakens the position of small businesses in the national economic chain.

This situation has prompted an in-depth analysis of the extent to which Mohammad Hatta's ideas on a people's economy can be applied and adapted to the current context. Hatta positioned cooperatives as the cornerstone of a people's economy and emphasized that the people must be the primary actors, not merely the objects of development.[36]However, the reality of implementation shows that cooperative institutions, despite their potential, still face obstacles in terms of institutions, capital, and regulations. Therefore, current studies must evaluate: how mechanisms for strengthening cooperatives and revitalizing the economic participation of small people can be revitalized; how public policies and regulations can correct the dominance of large capital; and how the roles of the state and civil society should be designed to realize Hatta's vision of a just, inclusive, and pro-people economy in today's era of globalization and technology.

[34]H. Setiyarini, Mohammad Hatta's Thoughts on People's Economy (doctoral thesis, University of …, 2022), 85.

[35]The SMERU Research Institute, How to Prevent Increasing Inequality in Villages? (Jakarta: SMERU, 2019), 16-17.

[36]Junaidi, H., "A Study of the Concept of People's Economy: Mohammad Hatta According to the Perspective of Islamic Economics," (Thesis, [University of Jember], 2022), 45

4. ANALYSIS: HATTA'S THOUGHTS FROM AN ISLAMIC ECONOMIC PERSPECTIVE

4.1. Analytical Approach & Interpretation Method

The analysis in this chapter uses the Maqāṣid al-Sharīʿah (objectives of sharia) framework as the primary lens in approaching Mohammad Hatta's thinking and its relevance to people's economic policies. The analysis focuses on three key maqāṣid: ḥifẓ al-māl (protection of property), ḥifẓ al-nafs (protection of welfare), and ḥifẓ al-ijtimaʿ / al-'adl (social justice or maintenance of social order). Thus, this study not only explores the institutional forms and policy regulations initiated by Hatta, but also examines whether and how these ideas align with the core values of Islamic economics, which prioritize asset protection, the fulfillment of basic human needs, and equitable distribution of justice.[37]

The method used is conceptual tafsīr: interpreting Hatta's texts (essays, speeches, policy writings) in relation to the framework of Islamic economic values and examining their conceptual linkages and implications for policy practice. The analysis is built on three systematic steps. First, extracting Hatta's ideas: systematically identifying the main concepts he put forward regarding the people's economy, cooperatives, and the role of the people in development. Second, mapping ideas into the three maqāṣid mentioned above: for example, how Hatta's idea of cooperatives as a joint venture can be seen as a manifestation of the ḥifẓ al-māl effort, or how his concern for the equitable distribution of people's wealth indicates ḥifẓ al-ijtimaʿ. Third, evaluation—assessing the strengths and limitations of Hatta's ideas within the maqāṣid framework, and then formulating contemporary policy recommendations that are adaptive to the era of globalization, technology, and current economic challenges. This approach allows the research to connect Hatta's legacy of thought with contemporary realities in both normative and practical ways.[38]

4.2. Hatta and Hifz al-Mal (Protection of Property)

Mohammad Hatta's thinking on a people's economy clearly rejected the accumulation of wealth by a few and stated that control over economic resources was the primary requirement for popular sovereignty. He stated: "Popular sovereignty will mean nothing if the people do not control economic resources."[39]Within this framework, Hatta made cooperatives a means for wealth to circulate among the people, rather than being concentrated in large capital or elite groups.[40]Thus, he highlighted that economic politics is not only about who owns the means of production, but about how ordinary people can become key actors in the framework

[37]Abdul Qoyum, "Maqâṣid Ash-Sharīʿah Framework and the Development of Islamic Finance Products: The Case of Indonesia," Tazkia Islamic Finance and Business Review 12, no. 2 (2018): 169-170.

[38]AA Muttaqin, "An Analysis on Aspects of Maqâṣid Shariʿah Framework," Samarah: Journal of Integrated Islamic Studies 4, no. 1 (2023): 45–46.

[39]Mohammad Hatta, Small Book: Eko Ker & Koperasi (Jakarta: [publisher not mentioned], tt), 45.

[40]"Mohammad Hatta's Cooperative Economic Thoughts," (pdf) Banten University [UIN] Repository, 12

of inclusive and equitable national development.

The connection between Hatta's thinking and Islamic economic values is also highly relevant. Within the framework of Islamic economics, one of the goals of sharia is ḥifẓ al-māl (protection of wealth), which demands justice in ownership mechanisms, the avoidance of hoarding, and the equitable distribution of wealth.[41]Hatta's idea that the state or collective bodies (cooperatives) must effectively guarantee people's access to resources aligns with this goal: ensuring widespread distribution of productive ownership and that property does not become a tool of oppression or economic exclusion. This approach substantially bridges classical thinking on people's economics with Islamic economic ethics, while also offering a normative framework for evaluating contemporary economic policies aimed at establishing justice and equity.

a. ***Strength***

One of the main strengths of Mohammad Hatta's thinking was that it offered concrete institutional mechanisms—such as cooperatives and the management of key production sectors—that were operational, not merely normative. He did not simply advocate for social justice in the abstract, but encouraged the development of structures that would allow for a broader and more equitable distribution of wealth within society.[42]This approach is very relevant to the principles of Islamic economics which emphasize the distribution of wealth through instruments such as zakat, alms, waqf, and profit sharing.[43]Thus, his ideas provide a bridge between ethical values and institutional realities, enabling the practical implementation of populist ideas.

b. ***Limitations***

However, Hatta's framework has several important limitations. Based on the national-secular context of early Indonesian independence, Hatta does not elaborate on specific sharia instruments—such as profit-sharing contracts (mudārabah, musyārakah), the limits of usury, or modern sharia financial governance.[44]

Consequently, although his ideas align with Islamic economic principles, there is a practical gap when it comes to directly integrating them into the contemporary Islamic financial framework. This requires further adaptation and development to bridge the gap between Hatta's thinking and the demands of

[41]AA Muttaqin, "An Analysis on Aspects of Maqâṣid Shariʿah Framework," Samarah: Journal of Integrated Islamic Studies 4, no. 1 (2023): 45

[42]Boys Bakhri, "111 Bung Hatta's Cooperative Concepts in the Perspective of Islamic Economics," Jurnal Al-Hikmah 15, no. 1 (2018): 120.

[43]Abdul Qoyum, "Maqâṣid Ash-Sharīʿah Framework and the Development of Islamic Finance Products: The Case of Indonesia," Tazkia Islamic Finance and Business Review 12, no. 2 (2018): 169-170

[44]AA Muttaqin, "An Analysis on Aspects of Maqâṣid Shariʿah Framework," Samarah: Journal of Integrated Islamic Studies 4, no. 1 (2023): 45.

modern Islamic financial regulation.

c. Policy Implications

From a public policy perspective, to actualize Hatta's concept of ḥifẓ al-māl, the state can take several strategic steps. First, encourage the development of cooperatives based on the principle of profit sharing and strengthen the principles of kinship and mutual cooperation in management. Second, develop a distribution scheme for productive assets—such as land distribution/access to micro-capital—as a strategy to expand people's control over economic resources. Third, implement progressive taxation aimed at redistribution and reducing the accumulation of wealth in the hands of a few, so that the economic structure approaches the ideal of equality. These policies, if developed on the basis of sharia norms and strong institutional integrity, will strengthen the relevance of Hatta's thinking in the context of a modern, inclusive and sustainable economy.

4.3. Hatta and Hifz al-Nafs (Protection of Welfare/Life)

Mohammad Hatta's thinking positioned economic development as a means to uphold human dignity, not simply to increase growth rates. His focus on empowering farmers, increasing access to economic education, and meeting the people's basic needs demonstrated a humanistic development orientation.[45]This principle is in line with the concept of hifẓ al-nafs in maqāṣid al-syarī'ah which places the protection of life and welfare as the main priority. In both frameworks, humans are not the object of development, but the goal and main actor of economic transformation.

From a power perspective, Hatta proposed concrete policy instruments that directly impacted the improvement of people's living conditions, such as consumer-producer cooperatives and access to financing for farmers and MSMEs. This approach reflected an effort to ensure that development truly met the basic needs of the people—in line with the spirit of hifẓ al-nafs, which demands the assurance of food, clothing, shelter, and human dignity.[46]However, there were limitations in its implementation: institutionalizing policies that support public welfare required fiscal, administrative, and infrastructure capacity, which was still very limited in the early days of independence. Furthermore, because his thinking was nationalistic and secular, Hatta did not explicitly outline Sharia-based social protection mechanisms, such as the use of productive zakat and other Islamic financial instruments.

In the contemporary context, Hatta's thinking remains relevant as a foundation for development oriented toward the welfare of the majority. Integrating policies for empowering the people's economy—for example, microcredit, productive subsidies, and strengthening cooperatives—with

[45]Mohammad Hatta, Our Democracy (Jakarta: Tintamas Publisher, 1957), 42

[46]Jasser Auda, Maqasid al-Shariah as Philosophy of Islamic Law: A Systems Approach (London: IIIT, 2008), 55–58.

modern Islamic economic instruments, such as zakat management for empowering small businesses, can strengthen the implementation of hifẓ al-nafs. Thus, Hatta's thinking offers a normative-pragmatic framework that can be adapted to formulate inclusive development strategies based on the values of welfare and social justice.

4.4. *Hatta and Hifz al-Ijtima' / 'Adl (Social Justice)*

Mohammad Hatta's thinking on economic democracy emphasized that economic structures must be designed fairly and prevent all forms of exploitation between people. Cooperatives were positioned as a key instrument—not only as business entities, but also as a vehicle for economic education that fosters collective behavior and shared responsibility in production activities.[47]This idea places the people as the subject of development, so that the distribution of economic power is not centralized in the capitalist elite, but is spread more evenly through participation-based economic institutions.

From an Islamic economic perspective, this idea corresponds to the maqāṣid al-syarī'ah, specifically the goal of maintaining social justice (ḥifẓ al-'adl/al-ijtimā'). Islam requires the circulation of wealth for the public good and prohibits economic oppression by those with more capital.[48]Therefore, cooperatives as an institutional model that promotes togetherness (ta'āwun), partnership (syirkah), and equal access to productive activities demonstrate a substantive meeting point between Hatta's thinking and Islamic economics.

In terms of implementation, the strength of Hatta's thinking lies in the clarity of institutional direction that emphasizes public participation and aligns with the principles of state economic law as affirmed in Article 33 of the 1945 Constitution. However, there are challenges in operational aspects, such as strengthening cooperative governance, protecting minority members, and internal oversight to ensure that the principle of distributive justice is truly implemented. Therefore, contemporary policy strategies can be directed at cooperative reform based on sharia principles—including profit-sharing mechanisms and the prohibition of usury—that support real and sustainable wealth redistribution.

4.5. *Synergistic Strengths & Weaknesses*

Conceptually, Mohammad Hatta's economic thinking demonstrates a high degree of alignment with the maqāṣid al-syarī'ah (the principles of Islamic economics) in Islamic economics. Core values such as people's economic sovereignty, the rejection of exploitation, and the strengthening of cooperatives as the pillars of the national economy align with the objectives of sharia in maintaining social justice, protecting property (ḥifẓ al-māl), and preserving collective welfare.[49]Because Hatta formulated his ideas within the framework of an inclusive national ideology, this normative basis provides a potential meeting point for integration with Islamic economic ethics that prioritize togetherness (ta'āwun) and collective effort (syirkah) as instruments of equality.

[47]Mohammad Hatta, Building Cooperatives (Jakarta: Djambatan Publisher, 1958), 17–18.
[48]M. Umer Chapra, Islam and the Economic Challenge (Herndon, VA: IIIT, 1992), 45–48.
[49]M. Umer Chapra, Islam and the Economic Challenge (Herndon, VA: IIIT, 1992), 45–48.

However, there are several limitations or gaps that need to be addressed in efforts to synergize Hatta's thinking with Islamic economic principles. First, Hatta's orientation, which emphasizes national values and legal frameworks, does not yet technically outline formal sharia instruments such as financial contracts or risk-sharing financing mechanisms common in contemporary Islamic economics.[50]Second, implementation challenges—ranging from the institutional capacity of cooperatives to the dynamics of political economy—make the realization of their ideas not always consistent with the idealized principles of distributive justice. Third, to meet the demands of modernity, the traditional cooperative model needs to be reengineered—strengthening market access, digitizing finance, and enhancing professional governance—to remain an effective instrument in an increasingly competitive global economy. Thus, the synergy between Hatta's thinking and the maqāṣid demands transformation at the policy and institutional levels to bridge the gap between normative vision and practical effectiveness.

4.6. *The Relevance of Hatta's Economic Ideas in the Contemporary Context*

Based on an evaluation of Mohammad Hatta's thinking and the maqāṣid al-syarī'ah framework, the integration of Islamic economic principles into people's economic development can be achieved through several policy strategies. First, the development of sharia-based cooperatives that implement profit-sharing contracts, prohibit usury, and participatory governance will strengthen the cooperative's function as an instrument for equitable ownership and income distribution.[51]

Strengthening cooperatives needs to be accompanied by management training programs, facilitating market access, and digital transformation to ensure they are competitive in the dynamics of the modern economy. Furthermore, integrating zakat funds with productive microfinance can shift the pattern of consumer assistance toward empowering the people's economy, thus aligning with the goals of maintaining sustainable community welfare.

Second, the state needs to implement a distribution-oriented fiscal policy, including progressive taxes and subsidies targeted at productive activities for lower-income groups, rather than universal assistance schemes that tend to benefit the upper-middle class.[52]Regulatory reforms that provide incentives for modern cooperatives—such as revolving financing, easy credit access, and a strong accountability system—will improve governance and public trust. Finally, systematic research and monitoring are needed to identify best practices for successful Islamic cooperatives, as a basis for developing a national-scale development model. Thus, the synergy between Hatta's thinking and Islamic economics is not merely normative, but is realized in concrete policy designs that are adaptive to contemporary challenges.

4.7. *Chapter Conclusion*

The description above shows that Mohammad Hatta's economic democracy thinking has

[50]Mohammad Hatta, Building Cooperatives (Jakarta: Djambatan, 1958), 21–22.
[51]Mohammad Hatta, Building Cooperatives (Jakarta: Djambatan, 1958), 21–23.
[52]M. Umer Chapra, Islam and the Economic Challenge (Herndon, VA: IIIT, 1992), 112–115.

substantive conformity with the principles of Islamic economics, especially in the aspects of distributive justice, protection of property (ḥifẓ al-māl), and maintenance of people's welfare (ḥifẓ al-nafs).[53]Both oppose the concentration of wealth in the hands of a few and place the people at the center of the national economic structure. However, to produce effective policies in a modern context, technical formulations are needed that integrate contemporary Islamic financial instruments, professional cooperative governance, and fiscal policies that firmly support the people's productive efforts.

Thus, Hatta's thinking can be seen as providing the value and institutional direction for a people's economy, while the maqāṣid al-syarī'ah (objectives of sharia) provides the normative foundation to strengthen and complement these goals. The combination of the two has the potential to create a more adaptive, inclusive, and equitable people's economic model amidst the challenges of today's globalization and digitalization of the economy.[54]

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[53]Mohammad Hatta, Building Cooperatives (Jakarta: Djambatan, 1958), 17–21

[54]Jasser Auda, Maqasid al-Shariah as Philosophy of Islamic Law: A Systems Approach (London: IIIT, 2008), 55–59.

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