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The Role of the State in Economic Development: A Comparative Analysis of Capitalism, Communism, and Islamic Political Economy

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Abstract: The debate over the role of the state in economic development is generally polarized between capitalism, which emphasizes minimal state intervention, and communism, which places the state as the sole controller through a command system. Both have produced significant achievements, but they leave behind structural problems such as inequality, cyclical crises, inefficiency, and stagnation. This study addresses the research problem that comparative analyses positioning capitalism, communism, and Islam within a single political-economic framework remain limited, so that the role of the state in Islamic economics has not been positioned as an equal paradigm, but merely as a normative complement. This research gap encourages research to reformulate the role of the state in Islamic economics based on maqaṣid al-shariah. The research uses the library research method with a comparative political economy and normative synthesis approach. Data was collected from primary literature, classical economic texts, the writings of Islamic scholars, and secondary literature in the form of international journals, development reports, and contemporary theories. The analysis was conducted through content analysis, cross-paradigm comparative evaluation, and normative synthesis. The findings show that capitalism has evolved from a minimal state to a market-oriented state, while communism positions the state as a hegemonic actor that controls all economic sectors but risks causing authoritarianism and stagnation. In contrast, Islamic economics positions the state as an authority.

Introduction

The debate over the role of the state in economic development continues to undergo dynamic reconceptualization in line with the 21st-century global landscape, which is marked by a cascade of multidimensional crises, or "polycrises." This transformation is driven by the

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massive acceleration of digitalization, in which the global digital economy is currently projected to grow to the point of making a substantial contribution to global GDP, yet at the same time is widening the digital divide between developed and developing countries (World Bank, 2024). This complexity is further exacerbated by escalating global geopolitical uncertainty and geoeconomic fragmentation, which, according to a report by the International Monetary Fund, have pushed global trade volumes below their historical average and threaten the stability of global supply chains (IMF, 2023). Moreover, the very real threat of an intensifying climate crisis now demands enormous adaptation costs from countries around the world. The World Economic Forum, in its global risk analysis, emphasizes that the failure to mitigate climate change and extreme weather events poses the most severe structural threat to the global economy over the next decade (World Economic Forum, 2025). These various empirical dynamics underscore that conventional approaches to economic development are no longer sufficient, thus requiring a critical re-evaluation of the extent to which government interventions must be formulated to maintain national economic resilience amid global volatility.

Amidst these turbulent global shifts, the debate over state capacity often finds itself polarized between two classics, competing economic paradigms: the minimal state framework championed by liberal capitalism and the total control model native to communism. Capitalism fundamentally assumes that market mechanisms, when left to operate organically through price signals, can achieve optimal structural efficiency and maximize aggregate wealth (Streeck, 2014). Within this ideological spectrum, however, the continuous push toward market liberalization has triggered structural vulnerabilities, most notably exemplified by the widening of domestic income inequality, as reflected in Gini coefficient across major developing and emerging market economies over the last decade (Bresser-Pereira, 2017).

Conversely, the communist alternative addresses these structural imbalances by enforcing total state ownership over the means of production, striving for absolute material equality through highly centralized, administrative planning structures (Cadioli, 2020). Yet, historical and empirical precedents have repeatedly shown that such unyielding bureaucratic dominance often risks causing structural stagnation, systemic inefficiencies, and the erosion of localized innovation incentives (Kornai, 1992). The coexistence of these structural anomalies-ranging from severe socioeconomic stratification under unfettered markets to chronic resource shortages under rigid command structures-highlights a profound theoretical deadlock. It indicates that modern public policy requires a transformative paradigm that can dynamically reconcile baseline market efficiency with substantive distributive justice and rigorous ethical parameters.

The traditional narrative surrounding global economic performance has shifted from a mere theoretical debate to an empirical interrogation of systemic vulnerabilities inherent in both contemporary capitalism and state-led command models. In the domain of global capitalism, the persistent reliance on market self-regulation and structural liberalization has failed to insulate societies from destabilizing crises and deep-seated stratification. Empirical records from international monitoring bodies indicate that global wealth concentration has reached unprecedented thresholds; the global Gini inequality index has shown a widening gap within major market-driven economies, where the richest 1% now capture a disproportionate share of global income growth (World Bank, 2024). This systemic fracturing is not merely distributional but structural, as evidenced by the recurring financial shocks and volatile public debt expansions that have plagued advanced capitalist states since the 2008 subprime collapse and through the subsequent macroeconomic adjustments of the early 2020s (Streeck, 2014). Instead of shrinking as dictated by classical *laissez-faire* orthodoxy, the capitalist state has been forced to assume the role of a global fiscal manager, bailing out fragile financial institutions

and absorbing private risks into public balance sheets (Bresser-Pereira, 2017). This operational reality exposes a fundamental dislocation within capitalist literature: the system relies on state-funded socialization of losses to sustain the private accumulation of capital, proving that the unfettered market is structurally incapable of maintaining its own equilibrium or delivering equitable development.

Concurrently, the historical and contemporary alternatives rooted in communist doctrines demonstrate an equally problematic structural trajectory. While the classical Marxist-Leninist framework sought to eliminate class exploitation by centralizing the means of production under a total state apparatus, the actual implementation of rigid command economies has consistently generated systemic inefficiencies (Cadioli, 2020). The institutional reality of absolute bureaucratic control over price signalling and resource distribution historically culminated in what has been structurally diagnosed as a "shortage economy"-a state of persistent supply stagnation driven by administrative inertia rather than an actual deficit of physical factors of production (Kornai, 1992). In response to these chronic rigidities, contemporary post-communist regimes have systematically migrated toward variants of "state capitalism," most notably visible in the hybrid economic configurations of China and Vietnam (Bolesta, 2022). Empirical assessments of these hybrid models reveal that while the strategic integration of market incentives alongside heavy state-owned enterprise (SOE) monopolies has generated substantial GDP growth, it has simultaneously introduced severe domestic wealth disparities, regulatory opacity, and institutionalized corruption (Cadioli, 2020). Consequently, neither the global fiscal management of capitalism nor the state-capitalist evolution of communism provides a sustainable nexus for human development. This persistent empirical deadlock highlights a critical gap in international political economy literature, creating an urgent academic requirement for an autonomous third paradigm-

one that transcends the binary limitations of market efficiency versus state hegemony by embedding economic governance within a robust ethical framework and distributive justice.

Literature Review and Hypothesis Development

The Theory of Capitalism

The debate over the role of the state in economic development cannot be separated from the theoretical foundations of capitalism and communism. These two paradigms represent two extreme poles in their views of the function of the state, even though both claim to have strong historical and philosophical legitimacy. In this section, the theoretical framework is constructed by first examining the foundations of capitalism, then reviewing the communist paradigm, before finally opening up space for comparative mapping with Islam in the next section.

In the capitalist tradition, the initial view of the state is rooted in the idea of laissez-faire introduced by Adam Smith. In The Wealth of Nations (1776), Smith emphasizes the existence of an “invisible hand” that is believed to be able to regulate market mechanisms naturally without the need for massive intervention from the state (Smith, 1776). The state only plays a role as a guardian of security, protector of property rights, and provider of basic infrastructure. This view reinforces the concept of a minimal state, or night watchman state. History has proven that markets are not always able to correct themselves. The great economic crisis of the 1930s shook confidence in absolute free markets and gave rise to new interventions through the thinking of John Maynard Keynes. Keynes asserted that the state must play an active role in regulating aggregate demand through fiscal and monetary policies, which then gave birth to the concept of the welfare state (Keynes, 1936). Within this framework, the state not only acts as a guardian, but also as a savior when market mechanisms fail to maintain stability and social welfare.

Subsequent developments gave rise to neoliberalism since the late 20th century, which reemphasized the supremacy of the market, but with the state as a facilitator of liberalization. This agenda was popularized through deregulation, privatization, and trade liberalization policies promoted by international institutions such as the IMF and the World Bank. Neoliberalism is considered a version of global capitalism that positions the state as a pro-market regulator, often at the expense of its redistributive and protective functions. The main criticism of neoliberalism is the widening social inequality and vulnerability of global economic stability (Ham et al., 2012; Bolesta, 2022).

The Theory of Communism

Unlike capitalism, communism was born out of sharp criticism of the capitalist system, which was considered exploitative. Karl Marx and Friedrich Engels, in The Communist Manifesto (1848), asserted that the state in capitalist society was merely a tool of bourgeois class domination (Marx & Engels, 1848). Therefore, communism considers it necessary to have a state that completely controls the means of production in order to eliminate class exploitation. In practice, this concept gave rise to a command economy, which is an economy that is completely planned and controlled by the state. Lenin later developed this idea through practice in the Soviet Union, by promoting full centralization in five-year planning and collectivization.

However, the communist experiment showed that the totalitarian role of the state in controlling the economy often led to inefficiency, stagnation, and limited innovation. Kornai (1992) calls this phenomenon a "shortage economy," where scarcity does not occur because of a lack of resources, but rather because of overly rigid bureaucracy in regulating distribution and production (Kornai, 1992). Recent studies show that the transition from communism to capitalism in many Eastern European countries has given rise to a unique phenomenon of state capitalism, in which the state continues to play a dominant role in strategic sectors even though a market system has been introduced (Gabriel et al., 2008; Bolesta, 2022). In the communist paradigm, the state is the sole actor in economic development, but often at the expense of efficiency and individual freedom.

Islamic political economy

Islamic political economy places the role of the state in a different framework from capitalism and communism, because it is built on the philosophical basis of maqaṣid al-shariah, which emphasizes justice, balance, and the achievement of falah (holistic welfare in this world and the hereafter). The state is not only viewed as a political institution that regulates the mechanisms of power distribution, but also as a moral actor responsible for maintaining the public interest (maslahah).

Maqaṣid al-shariaah provides a philosophical justification for the state's involvement to ensure the distribution of justice, protect vulnerable groups, and prevent the accumulation of exploitative wealth. Lestari and Damayanti (2025) emphasize that maqaṣid and maslahah have a strategic role in shaping the direction of inclusive, fair, and sustainable Islamic economic development (Lestari & Damayanti, 2025). Meanwhile, Solehudin, Huda, and Ahyani (2024) show that the application of maqaṣid is capable of transforming Sharia economic justice from merely a normative value into an operational policy framework (Solehudin et al., 2024). In other words, maqaṣid is not only a value system but also a policy framework.

The implication of this framework is that the state in an Islamic economy is required to be a facilitator of distributive justice. The distribution of wealth must guarantee access for all members of society to basic needs such as education, health, and employment. Harahap, Uula, and Rusydiana (2023) emphasize that the implementation of maqaṣid al-shari'ah in economic

studies plays an important role in formulating development indicators that are not only based on GDP growth but also on the dimension of social justice (Harahap et al., 2023). This is in line with al-Ghazali's classical view, which emphasizes the importance of maslahah as a basic principle of economic management, as well as the principle of distributive justice that rejects exploitation.

In addition to distributive justice, falah as the main goal of development emphasizes that economic welfare in Islam is transcendental. Wiryanto (2023) highlights the urgency of maqaṣid in responding to contemporary legal and economic challenges, where the role of the state is required not only to maintain stability but also to realize the spiritual and social welfare of society (Wiryanto, 2023). Falah expands the scope of development beyond material indicators towards comprehensive welfare. The state is positioned as the main instrument to bridge the gap between the spiritual goals of Islam and the realities of the modern economy.

Comparative Political Economy Theory

To understand the fundamental differences between capitalism, communism, and Islam, the comparative political economy approach is highly relevant. This approach emphasizes that each economic system differs not only in terms of technical policy aspects, but also in terms of epistemological, ontological, and teleological differences.

Epistemologically, capitalism relies on individual rationality and market mechanisms as sources of economic truth, while communism is based on dialectical materialist historical analysis that emphasizes class determination. In contrast, Islamic political economy bases its epistemology on revelation and maqaṣid al-shariah as sources of normative knowledge that guide reason in regulating economic life (Lestari & Damayanti, 2025).

Ontologically, capitalism assumes humans as homo economicus who pursue individual utility, while communism sees humans as members of a social class collective determined by production relations. Islam offers a more balanced ontological view by seeing humans as Allah's caliphs on earth, who have spiritual, social, and ecological responsibilities (Putriani et al., 2019). This ontology influences how the role of the state is formulated. The state is not merely an economic actor, but also the guardian of social morality.

Teleologically, capitalism leads to efficiency and accumulation of economic growth, communism emphasizes material equality, while Islam places falah as the ultimate goal. Falah encompasses the dimensions of justice, sustainability, and spirituality, making the teleology of development in Islam multidimensional. Recent research confirms that the integration of maqaṣid with the principles of justice and sustainability can produce an alternative development framework that is more resilient to crises (Solehudin et al., 2024; Harahap et al., 2023).

Method

This study uses a qualitative-comparative approach with library research as the main framework. This approach was chosen because the issue of the role of the state in capitalism, communism, and Islamic political economy has philosophical, normative, and ideological dimensions that cannot be reduced to a quantitative approach. The qualitative-comparative approach allows for an in-depth exploration of the epistemological, ontological, teleological, and policy orientation frameworks of the three paradigms (Bryman, 2016). The library research method is relevant because this debate is rooted in classical texts, ideological doctrines, and contemporary academic literature, which are the main conceptual sources.

To establish a methodologically sound and balanced comparative political economy analysis, this study deliberately structures an equivalent, equivalent comparative framework across the three examined paradigms. Previous comparative literature often suffers from an epistemological mismatch by positioning the Qur'an and Hadith as direct counterparts to the formal economic treatises of Western political economy, such as Adam Smith's The Wealth of Nations or Karl Marx's Das Kapital. This study clarifies that the Qur'an and Hadith function strictly as divine, revealed texts that provide foundational, normative, and universal ethical principles rather than codified, operational economic systems. Therefore, to ensure academic parity, this research shifts its primary comparative focus toward the formal and systematic treatises authored by classical Islamic jurists on economic governance who operationalized those divine principles into concrete economic theories. Specifically, the fiscal policies, state-market configurations, and taxation frameworks of capitalism and communism are evaluated alongside Abu Yusuf's seminal work, Kitab al-Kharaj, which offers a rigorous, systematic analysis of public finance, proportional taxation, and state intervention. Furthermore, the broader macroeconomic dynamics, state roles, and institutional lifecycles are compared directly with Ibn Khaldun's Muqaddimah, a foundational text that outlines sophisticated theories on market dynamics, labor value, state responsibility, and the cyclical evolution of economic civilizations. By grounding the Islamic paradigm in these classical scholarly works, this research positions Islamic political economy as an autonomous, theoretically comparable framework capable of academic comparison with Western institutional frameworks.

Beyond establishing theoretical equivalence, this study implements a rigorous and transparent qualitative content analysis to systematically process the synthesized literature through three interconnected stages of qualitative coding. In the initial stage of open coding, the primary and secondary texts were carefully deconstructed to isolate raw conceptual anchors regarding state intervention, market regulation, and social equity. This process generated discrete initial codes such as "focal market stabilization," "total administrative command," and "ethical-proportional authority." During the second stage of axial coding, these open codes were systematically grouped into broader, relational categories using a manual thematic matrix. This matrix mapped the conceptual connections between the internal logic of each paradigm and its empirical historical evolution, highlighting how abstract ideas transform into real-world policy outcomes. Finally, through selective coding, these categories were integrated and refined around the core theoretical storyline, directly leading to the formal conceptualization of the Maqāṣid State Nexus Paradigm (MSNP), also operationalized as the Anggia Framework.

To ensure the scientific validity and reliability of this library research, two stringent qualitative quality controls were enacted: data triangulation and a strict audit trail. Data triangulation was achieved by systematically cross-referencing and validating normative arguments against primary classical treatises, peer-reviewed international scientific journals, and contemporary global development reports. This comprehensive checking process prevented ideological or apologetic bias from weakening the analysis. Furthermore, a transparent audit trail was maintained throughout the research process. Every conceptual component within the Anggia Frameworkranging from moral legitimacy to the integrated zakat-tax distributive systemis traceable back through the coded thematic matrices directly to its specific textual source material. This methodical documentation ensures full analytical transparency, allowing external researchers to easily track exactly how raw literary text was transformed into the study's final independent theoretical model. The data collection process was carried out through systematic screening, which included keyword identification, thematic

abstraction, and conceptual information recording. Literature that was not directly relevant to the theme of the role of the state or did not meet academic standards was filtered through exclusion criteria. This process ensured that only texts that met high scientific quality were included in the analysis.

The analysis was conducted in three main stages. First, content analysis was used to code the literature thematically. Coding was performed through qualitative coding in three stages: open coding to identify basic concepts regarding the role of the state; axial coding to group categories based on paradigms; and selective coding to construct the main narrative in each system. Coding was performed manually using a thematic matrix to ensure conceptual consistency. Second, comparative analysis was conducted by comparing capitalism, communism, and Islam as three parallel economic-political paradigms. The comparison was made using four main analytical dimensions, namely: 1) Epistemology: sources of knowledge, conceptual legitimacy, and systemic logic; Ontology: views on humanity, the state, and social structures; 3) Teleology: development goals (growth, equality, falah); 4) Policy Role: the function of the state as regulator, redistributor, hegemonic actor, or moral authority. This framework follows the tradition of comparative political economy, which emphasizes the differences in internal logic between systems (Hall & Soskice, 2001).

Third, a normative synthesis is used to formulate the role of the state in Islamic political economy. This synthesis is argumentative, not apologetic, using maqaṣid al-shari'ah as the moral-philosophical basis for designing the role of the state that balances the efficiency of capitalism, the equality of communism, and Islamic morality (Harahap et al., 2023; Wiryanto, 2023). To clarify the comparative analysis structure, this study uses a comparison table of the three paradigms across four main dimensions. This table enhances the transparency of the analysis and facilitates the identification of differences in the internal logic between systems.

Table 1. Epistemological and Ontological Dimensions of the Three Paradigms

Dimension of Analysis	Capitalism	Communism	Islamic Political Economy
Epistemology	Market-based, individual rationality	Historical materialism, state control	Revelation, ethical rationality, maṣlaḥah
Ontology	Humans as free economic agents	Humans as part of a collective	Humans as moral and social beings
Teleology	Efficiency, growth, capital accumulation	Equality, elimination of exploitation	*Falah, distributive justice, sustainability*
Policy Role	Minimal state; market regulator	Hegemonic state; economic controller	Moral-proportional authority; guardian of maṣlaḥah

Source: author work

This framework forms the basis for developing a normative synthesis to formulate the role of the state in Islamic political economy as a proportional, ethical, and public welfare-oriented alternative paradigm.

Analysis and Discussion

The Synthesis of Textual Codification: Mapping the Cross-Paradigm Matrix

The rigorous validation of a qualitative library research project depends fundamentally on the transparency and traceability of its textual analysis. To satisfy the need for systemic methodological clarity and eliminate any risk of analytical subjectivity, this section unpacks

the procedural mechanics utilized to transform raw textual source materials into formalized political economy paradigms. The empirical data, ideological treatises, and classical economic literature collected for this study were processed through a multi-tiered qualitative content analysis. This coding process was structurally managed using a manual thematic matrix, ensuring that every theoretical assertion made in the subsequent discussions can be directly traced back to its specific textual origins. By avoiding reliance on broad generalizations, this operational approach systematically documents how hidden structural meanings and conceptual gaps within classical and contemporary literature were identified, grouped, and ultimately synthesized.

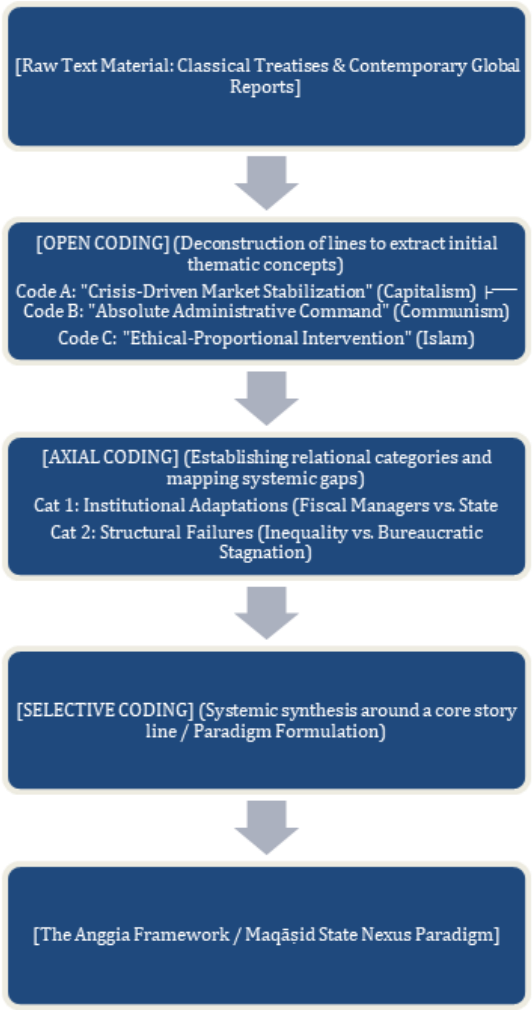


Figure 1. The Synthesis of Textual Codification

The first stage of the analytical process involved the rigorous execution of open coding across all selected literature. In this phase, primary texts including Adam Smith's (1776) *The Wealth of Nations*, Karl Marx and Friedrich Engels' (1848) *The Communist Manifesto*, Abu Yusuf's (1979) *Kitab al-Kharaj*, and Ibn Khaldun's (1967) *The Muqadimah* were deconstructed line by line to isolate basic conceptual anchors regarding state authority, market dynamics, and redistribution mechanics. Concurrently, contemporary global development reports from bodies such as the World Bank and International Monetary Fund were coded to capture modern real-world policy shifts. This initial processing produced a series of highly specific, localized open codes. For example, text fragments describing state bailouts, interest

rate management, and deficit spending under globalized markets were assigned the raw code "crisis-driven market stabilization." Passages depicting rigid state-enforced quotas, total resource nationalization, and centralized pricing mechanisms were categorized as "absolute administrative command." Meanwhile, classical and modern texts detailing the moral duties of political leaders, the implementation of institutionalized *zakat*, and state-enforced market equity were tagged with descriptors like "ethical-proportional intervention."

In the second stage, axial coding was utilized to transition from isolated concept tags to broader, relational categories. The primary goal of axial coding was to systematically group the open codes based on their conceptual relationships, contextual conditions, and causal structures. This was achieved by constructing a dynamic cross-paradigm matrix that compared how different economic ideologies respond to similar developmental challenges. During this stage, the research focused heavily on identifying structural gaps within capitalist and communist frameworks such as the persistent conflict between market efficiency and social equity or the tendency of command systems toward bureaucratic stagnation. By mapping these systemic gaps, the axial coding process illuminated how the historical evolution of these systems has pushed them away from their original normative designs. For instance, the codes for "market stabilization" and "public debt socialization" were linked under the axial category of "State as Risk Insurer," exposing the deep tension between free-market rhetoric and state-backed financial dependency (Streeck, 2014).

The final stage of the analysis comprised selective coding, which served as the ultimate theoretical synthesis of this library research. During this phase, all major axial categories were systematically integrated around a single, unifying narrative line: the necessity of an autonomous, ethically grounded third paradigm capable of overcoming the structural failures of both market-centric and state-dominated models. By synthesizing the relational data categories, the selective coding process directly generated the foundational components of the Maqāṣid State Nexus Paradigm (MSNP), structurally designated within this study as the Anggia Framework. This framework is not an arbitrary combination of capitalist and communist elements; rather, it represents a unique theoretical construct where the state's role is dynamically reoriented toward the holistic preservation of welfare (*maṣlaḥah*) across the five dimensions of sharia faith, life, intellect, lineage, and wealth (Solehudin et al., 2024).

To ensure complete analytical transparency prior to entering the detailed paradigm discussions, the finalized synthesis of this qualitative codification is presented in the comprehensive analytical matrix below.

Table 2. The Epistemological, Ontological, and Teleological Analytical Matrix of Capitalism, Communism, and Islamic Political Economy.

Dimension of Analysis	Capitalism	Communism	Islamic Political Economy
Epistemology *(Sources of Knowledge & Systemic Logic)*	Based on market-driven rationality, empirical materialism, and price signal dynamics (Smith, 1776; Campbell & Hall, 2021).	Rooted in historical materialism, dialectical class dynamics, and total party-state doctrine (Marx & Engels, 1848; Sehgal, 2020).	Founded on divine revelation (*Wahy*), ethical rationality, and contextual *maqāṣid* jurisprudence (Abu Yusuf, 1979; Lestari & Damayanti, 2025).

Dimension of Analysis	Capitalism	Communism	Islamic Political Economy
Ontology *(Views on Humanity, Society, & State)*	Reconstructs humans as *homo economicus*individualistic utility maximizers operating in competitive market spaces (Bresser-Pereira, 2017).	Conceptualizes individuals strictly as components of a socioeconomic social class collective determined by production relations (Kornai, 1992).	Views humans as moral-social beings and Allah's vicegerents (*Khulafā'*) with spiritual and social obligations (Putriani et al., 2019).
Teleology *(Primary Development Goals)*	Prioritizes compounding economic growth, absolute structural efficiency, and private capital accumulation (Streeck, 2014).	Aims for absolute material equality, the elimination of class exploitation, and state-enforced distribution (Cadioli, 2020).	Directed toward comprehensive human welfare (*Falaḥ*), substantive distributive justice, and ecological balance (Harahap et al., 2023).
Policy Configuration *(The Role of the State)*	Historically designed as a minimal 'night-watchman' state; empirically evolved into a global fiscal risk manager (Abramovitz, 2012).	Functions as a hegemonic planner and production controller; contemporary forms have transitioned to state capitalism (Bolesta, 2022).	Operates as a moral-proportional authority (*'Ulu al-Amr*) and guardian of both public interest (*Maṣlaḥah*) and ethical markets (Wiryanto, 2023).
Systemic Core Weakness *(Identified Gaps)*	Vulnerable to chronic social inequality, speculative financial bubbles, and severe ecological degradation (Navarro, 2020).	Prone to extreme structural stagnation, rigid bureaucratic inefficiencies, and authoritarian political overreach (Gregory, 1990).	Suffers from a critical implementation gap between rich normative ideals and modern public policy practices (Nasrullah et al., 2025).

Source: author work

The clear structural boundaries shown in Table 2 confirm that the three economic frameworks operate on entirely different philosophical planes. The analytical matrix proves that capitalism and communism are built on materialistic paradigms that either minimize state responsibility in favor of capital or expand state power to the point of eliminating individual agency. In contrast, the qualitative synthesis establishes that Islamic political economywhen viewed through its authentic, classical developmentoffers an independent path. This path balances individual economic agency with state responsibility by using ethical guidelines that cannot be altered for short-term political or corporate gain.

Furthermore, this systematic codification exposes a shared vulnerability in both Western paradigms: a distinct dislocation between their original theories and their modern, real-world practices. While classical capitalism championed free markets free from state interference, its modern reality is a state-dependent system that relies on public funds to manage systemic corporate crises (Streeck, 2014). Similarly, while orthodox communism promised a classless society where state power would eventually fade away, its real-world trajectory led to centralized state monopolies that simply replaced private capitalists with party bureaucrats

(Kornai, 1992). By highlighting these internal contradictions through qualitative coding, this study establishes a clear academic justification for introducing the Anggia Framework. The framework is presented not merely as an alternative point of view, but as a conceptually consistent blueprint designed to fix the structural gaps that have destabilized conventional political economy for centuries.

The Capitalist State Evolution: From Adam Smith's Invisible Hand to Global Fiscal Management

The historical trajectory of contemporary capitalism exposes a deep tension between its foundational liberal rhetoric and the actual, operational realities of modern state governance. In orthodox political economy literature, the ideological baseline of capitalism is anchored in the normatively celebrated doctrine of *laissez-faire*, popularized by Adam Smith (1776) in *The Wealth of Nations*. Smith's conceptual universe is governed by the paradigm of the "invisible hand," which asserts that when individual economic agents are left free to maximize their private utilities within competitive market structures, resource allocation naturally achieves an optimal macroeconomic equilibrium without the need for centralized administrative directives. Within this classical framework, the state is strictly limited to a minimalist "night-watchman state" (*Schutzstaat*) configuration, where its legitimate sovereign responsibilities are compressed into three absolute pillars: protecting society from external territorial aggression, maintaining domestic legal frameworks to enforce property rights and contractual obligations, and establishing specific non-commercially viable public infrastructures. This structural minimization of state authority was built on the premise that formal political intervention into the organic price signaling mechanism introduces market distortions, stifles innovation, and generates operational inefficiencies.

However, the 21st-century economic landscape has structurally dismantled this minimalist framework, exposing the systemic failure of the self-correcting market hypothesis. The real-world experiences of global markets over the past two decades demonstrate that instead of maintaining a steady, decentralized equilibrium, modern capitalism is inherently prone to severe, structural market failures. This reality is clearly illustrated by the persistent concentration of market power, compounding socioeconomic stratification, and recurring systemic economic shocks. Rather than operating as independent, self-contained mechanisms, contemporary markets have proven to be unstable structures that require continuous, external continuous state support to avoid total institutional collapse. This analytical reality demands a complete re-evaluation of classical liberal assumptions, transforming the academic understanding of the capitalist state from a detached minimalist referee into an active, protective coordinator that underwrites the entire architecture of global private wealth accumulation.

This profound structural dislocation is empirically validated when analyzing the transition of the capitalist state into what is now diagnosed as a "Global Fiscal Manager". Following the global financial crisis of 2008 and the subsequent macroeconomic crises of the early 2020s, international monitoring agencies, including the International Monetary Fund and the World Bank, documented an unprecedented expansion of state balance sheets across advanced market economies (IMF, 2023; World Bank, 2024). When faced with the immediate threat of global financial collapse caused by unregulated speculative behavior, major capitalist states did not

let market forces run their course. Instead, they abandoned free-market rhetoric and launched massive, coordinated fiscal and monetary interventions. Central banks and national treasuries injected trillions of dollars into the private sector through quantitative easing, direct capital injections, and comprehensive asset-purchasing programs (Streeck, 2014).

Table 3. The Empirical Evolution and Structural Gaps of the State Configuration in Capitalism.

Evolutionary Phase	Core State Configuration	Primary Economic Logic	Structural Gaps & Systemic Limitations
Classical Laissez-faire *(18th–19th Century)*	Minimalist "Night-Watchman State" focused on property protection and basic legal enforcement (Smith, 1776).	Market self-regulation via organic price signals and the "invisible hand" hypothesis.	Generated extreme labor exploitation, regular localized banking panics, and unmitigated wealth concentration.
Keynesian Welfare State *(Mid-20th Century)*	Interventionist Coordinator managing aggregate demand via counter-cyclical fiscal spending (Keynes, 1936).	State-backed socialization of consumption to preserve employment stability and social equity.	Vulnerable to chronic stagflation, fiscal deficit inflation, and institutional rigidities within state bureaucracies.
Neoliberal Deregulation *(Late 20th Century)*	Market Facilitator driving privatization, structural liberalization, and capital globalization (Streeck, 2014).	Supremacy of global financial market dynamics and the calculated retreat of welfare redistributions.	Triggered severe domestic income stratification, speculative asset bubbles, and global financial volatility.
Contemporary Global Fiscal Management *(Post-2008–2026)*	Crisis Manager and Risk Underwriter managing macro-systemic corporate liabilities (Abramovitz, 2012).	Systemic socialization of structural corporate losses using public balance sheets.	Triggers permanent sovereign debt expansions, systemic moral hazard, and chronic economic stagnation.

Source: author work

This institutional shift reveals a hidden mechanism within modern capitalism: the systemic socialization of losses to protect the private accumulation of capital (Abramovitz, 2012). Under this dynamic, the state functions as the ultimate risk underwriter for large corporations and financial institutions. When private corporations generate substantial profits, those returns are concentrated among private shareholders; however, when those same corporations face bankruptcy due to systemic risks, their multi-billion-dollar liabilities are transferred onto the public balance sheet. This intervention creates a permanent moral hazard, where large market actors are incentivized to engage in high-risk financial behaviors, knowing that the state will ultimately absorb their losses to maintain systemic stability. Consequently, the contemporary state has moved far beyond its classical liberal boundaries; it has become an active manager of crisis dynamics, utilizing public resources to prevent the natural self-destruction of the capitalist architecture.

When evaluating this evolution teoretis, it becomes evident that the modern state's role has expanded beyond both the classical framework of Adam Smith and the standard interventionist models of John Maynard Keynes. Keynesian economics originally posited that during deep recessions, the state should intervene by running fiscal deficits to stimulate aggregate demand,

thereby protecting employment levels and maintaining basic social welfare (Keynes, 1936). Within the traditional Keynesian welfare state, intervention was designed to balance consumption, reduce extreme inequalities, and stabilize the macroeconomic cycle through a redistributive framework (Navarro, 2020).

In contrast, the 21st-century Global Fiscal Manager operates on a structurally different logic. Modern state intervention is no longer primarily focused on funding public investment or expanding social safety nets for the vulnerable. Instead, its main priority is managing sovereign debt levels, stabilizing international financial markets, and absorbing the macro-systemic risks generated by elite financial institutions (Streeck, 2014). This dynamic creates an internal contradiction within liberal political economy literature. The system relies on state-backed financial support to survive, yet it continues to promote the rhetoric of market independence and private initiative. By taking on private corporate liabilities as public obligations, the state undercuts the core moral justification of capitalism the idea that profit is the reward for taking individual risk. If risks are socialized while profits remain private, the market ceases to be self-regulating, transforming into a state-dependent system that requires permanent public intervention to remain operational.

The Communist State Metamorphosis: Class Critique and the Rise of Contemporary State Capitalism

The conceptual framework of communist political economy has undergone a significant institutional transformation over the past century, moving from a radical critique of private capital accumulation to an active participant in global market structures. In orthodox Marxist literature, the baseline theoretical foundation of the socialist state is built upon the normative parameters established by Karl Marx and Friedrich Engels (1848) in *The Communist Manifesto*. Marx and Engels argued that the modern state apparatus within a capitalist society is fundamentally not an independent arbiter, but rather a structural instrument used by the bourgeois class to protect private property rights and maintain the exploitation of the proletariat. To eliminate these structural class divisions, classical Marxist doctrine insisted on a revolutionary transition where the state, acting as the dictatorship of the proletariat, must systematically seize absolute ownership of all means of production. This centralized nationalization was theoretically designed to eliminate the private profit motive, replace chaotic market mechanisms with rational public coordination, and ensure that resources were distributed based on human need rather than capital concentration. This classical blueprint assumed that eliminating the private capitalist class would eradicate structural exploitation, eventually leading to a classless society where formal state power would gradually disappear.

However, the real-world historical implementation of this total state model revealed severe structural limitations. The institutional reality of the Soviet Union's command economy demonstrated that replacing the organic price signaling mechanism with centralized administrative directives leads to deep operational inefficiencies. This structural vulnerability was systematically diagnosed by Janos Kornai (1992), who identified that centralized economic systems are inherently prone to becoming a "shortage economy". Under rigid centralized planning, the state bureaucracy sets fixed production quotas, controls input allocations, and determines prices across all economic sectors without real-time feedback from supply and demand dynamics. Kornai argued that this administrative rigidity creates chronic supply deficits, not due to an actual lack of physical raw materials, but because bureaucratic

inertia cannot adapt to localized economic requirements. This operational friction often incentivized managers to hoard materials, which further worsened resource shortages, reduced innovation, and led to permanent macroeconomic stagnation. This systemic failure showed that an all-powerful state planning structure cannot effectively manage the diverse complexities of a modern economic system.



Figure 2. The Communist State Metamorphosis

To overcome this chronic stagnation, contemporary communist states have undertaken a dramatic structural transition, moving away from total command economics toward what is now understood as "State Capitalism". This transformation is clearly visible in the hybrid economic models implemented by China through its *Socialism with Chinese Characteristics* and by Vietnam through its *Đổi Mới* regulatory reforms. Rather than completely suppressing market forces, these contemporary regimes have strategically integrated competitive market mechanisms, foreign direct investments, and corporate financial structures into their national planning frameworks.

Table 3. The Shift of Communist Economic Governance from Command Economy to State Capitalism.

Governance Dimension	Classical Command Economy (Soviet Union Model)	Contemporary State Capitalism (China & Vietnam Model)	Identified Structural Gaps & Class Implications
Epistemology & Logic	Driven by strict administrative commands,	Combines long-term state planning with flexible market price signals.	Creates systemic tension between political survival

Governance Dimension	Classical Command Economy (Soviet Union Model)	Contemporary State Capitalism (China & Vietnam Model)	Identified Structural Gaps & Class Implications
	input-output tables, and bureaucratic quotas.		goals and market-driven rationalities.
Ownership Structure	Complete state nationalization of property; total elimination of private enterprise.	State-controlled monopolies in strategic sectors alongside a large private sector.	Creates an unequal domestic market where state enterprises enjoy privileged access to public capital.
Resource Allocation	Centrally managed by state planning committees without market price signals.	Managed via commercial banking systems, global supply chains, and market competition.	Exposes local economies to global financial shocks and speculative real estate bubbles.
Labor Dynamics	State-guaranteed employment with fixed wages and minimal labor mobility.	Flexible labor markets driven by productivity metrics and standard wage competition.	Weakens traditional social safety nets, giving rise to precariat labor and wealth stratification.
Primary Economic Objective	Focused on material output stability and total industrial autarky.	Prioritizes compounding GDP growth, technological innovation, and global market power.	Shifts state focus from wealth equalization to national capital accumulation.

Source: author work

In the modern state-capitalist model, the central government retains absolute political control and retains dominant ownership over critical, strategic state-owned enterprises (SOEs). These massive state enterprises dominate sectors like energy, telecommunications, heavy industry, and banking, operating as key instruments for long-term national development goals. However, at the microeconomic level, these enterprises are forced to compete directly within both domestic and global markets, using capitalistic metrics such as commercial profitability and cost optimization to drive performance. This hybrid arrangement allows communist regimes to utilize the efficiency and wealth-generating capacity of market capitalism while maintaining central state control over the strategic direction of the national economy.

This contemporary evolution requires a critical re-evaluation when analyzed against Karl Marx's original critique of class dynamics. Defenders of state capitalism often frame these hybrid reforms as a pragmatic, temporary step necessary to build productive capacity before transitioning to advanced socialism. However, an objective political economy analysis reveals that this transition represents a fundamental departure from the core goals of *The Communist Manifesto*. While the integration of market dynamics has successfully driven rapid GDP growth, raised living standards, and pulled millions out of absolute poverty, it has simultaneously introduced deep socioeconomic stratification back into these societies.

The contemporary state-capitalist model has failed to eliminate class contradictions; instead, it has modified the structural form of those contradictions. By maintaining absolute control over strategic industries while allowing market-driven labor exploitation, the state itself has taken on the structural role of the supreme capitalist entity. In this position, the state functions as a massive corporate monopoly that extracts surplus value from the working class to fuel national capital accumulation and expand global economic influence.

Consequently, the traditional tension between private capital and exploited labor is replaced by a structural conflict between ordinary workers and a state-backed corporate elite. The emergence of significant domestic wealth disparities, unequal access to public resources, and the political disenfranchisement of the working class within these nations proves that state capitalism has not solved the core problem of exploitation. Instead, it demonstrates the internal contradictions of trying to build a socialist society using the institutional tools of market extraction, exposing a deep conceptual gap in contemporary communist literature.

The Maqāṣid State Nexus Paradigm (MSNP): Operationalizing Islamic Political Economy as the Third Paradigm.

To move beyond the structural failures of both global fiscal capitalism and authoritarian state communism, a new economic framework must be built on an entirely independent philosophical foundation. Islamic political economy addresses this need not merely as a moral critique or a minor modification to Western systems, but as an autonomous, parallel paradigm. To establish a balanced, "apple-to-apple" comparison with the formal theories of Adam Smith and Karl Marx, the Islamic framework must be grounded in the classical economic treatises written by Islamic jurists. This study bypasses the common methodological mistake of using general normative principles as a direct comparison to Western technical systems by drawing directly from the systematic political economy models formulated by Abu Yusuf in *Kitab al-Kharaj* and Ibn Khaldun in the *Muqaddimah*.

Abu Yusuf's *Kitab al-Kharaj* provides a comprehensive analysis of public finance, tax administration, and state-market relationships. Writing as a chief justice facing real-world economic challenges, Abu Yusuf rejected rigid state price-fixing while simultaneously insisting that the state must step in to protect vulnerable populations, build public infrastructure, and implement a proportional tax system based on taxpayers' actual capacity to pay. This balanced approach matches the institutional analysis found in Ibn Khaldun's *Muqaddimah*, which outlines a sophisticated theory on market dynamics, production incentives, and the lifecycle of state governance. Ibn Khaldun argued that when a state imposes excessive taxation, it destroys private production incentives, damages market dynamics, and triggers the eventual decline of the civilization. Conversely, a minimalist state that completely abandons its social safety net fails to maintain the social cohesion (*ʿasabiyyah*) required for sustained economic development. By synthesizing these classical insights, Islamic political economy positions the state as a proportional moral authority (*ʿUlu al-Amr*). This configuration avoids the extreme market volatility of capitalism and the bureaucratic stagnation of communism, creating an equilibrium where individual economic initiative and state responsibility work together to protect the public interest (*maslahah*).

This systematic integration of market freedom and state responsibility is operationalized through the Anggia Framework, conceptually designated as the Maqāṣid State Nexus Paradigm (MSNP). The Anggia Framework moves *maqāṣid al-shariah* from an abstract theological concept into a structured public policy model. The framework is organized around four main pillars that redefine how the state interacts with the economy, ensuring that national development is evaluated based on human well-being (*falah*) and social balance rather than GDP growth alone

.

The first pillar is Moral Legitimacy, which establishes that a state's right to govern is directly tied to its capacity to protect the public welfare and maintain institutional integrity. Within the MSNP, the state is not a tool used by a political elite or a corporate class; it functions as a moral actor responsible for defending the five core protections of *maqāṣid*: faith, life, intellect, lineage, and wealth. This foundation requires complete fiscal transparency, active anti-corruption mechanisms, and public governance structures that prioritize long-term societal well-being over short-term political or corporate goals.

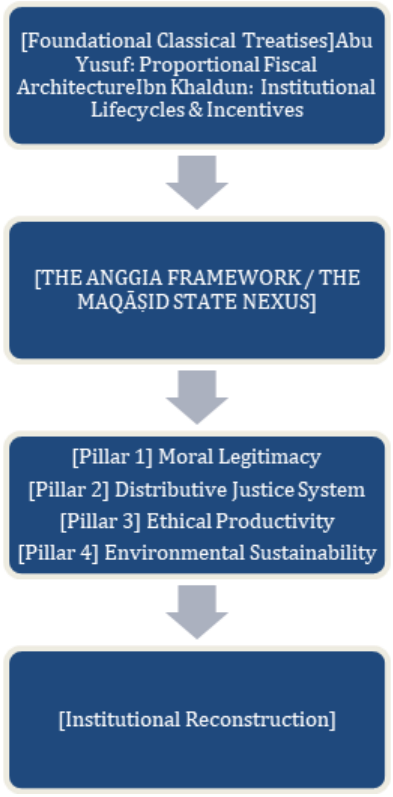


Figure 3. The Maqāṣid State Nexus Paradigm (MSNP)

The second pillar is the Distributive Justice System, which introduces an integrated approach to fiscal policy. While capitalism leaves distribution to market forces and communism relies on state-enforced collection, the Anggia Framework integrates institutionalized Islamic social finance instruments—specifically *zakat* and *waqf*—directly with the modern national tax system. This integration creates a two-tiered fiscal mechanism: conventional progressive taxation is utilized to fund public infrastructure and maintain macroeconomic stability, while state-administered *zakat* and *waqf* assets are used exclusively to guarantee basic living needs, education, and healthcare for vulnerable populations. This structural arrangement prevents the concentration of wealth without destroying individual production incentives.

The third pillar, Ethical Productivity, focuses on market regulation and labor protection. The MSNP recognizes the efficiency of market price signals but establishes strict boundaries to prevent exploitative corporate behavior. This pillar requires strong anti-monopoly regulations, limits on oligopolistic market power, and clear rules governing digital platforms and companies operating in the big data sector to prevent data exploitation and digital stratification. Concurrently, it establishes comprehensive labor protections that guarantee fair wages, safe

working conditions, and equitable profit-sharing arrangements, ensuring that productivity gains are shared across society rather than concentrated among capital owners.

The fourth pillar is Sustainability, which is grounded in the environmental protection principle of *ḥifẓ al-bīʾah*. Unlike conventional frameworks that treat environmental degradation as a secondary issue or a market externality, the Anggia Framework positions ecological balance as a core requirement of national policy. The state is required to design and enforce renewable energy initiatives, implement circular economy guidelines, and limit resource exploitation. This pillar treats the natural environment as a sacred trust (*amānah*) that must be preserved for future generations, preventing short-term corporate profits from destroying long-term ecological health.

Table 4. The Conceptual Dimensions and Strategic Policy Pathways of the Anggia Framework (MSNP).

Core Pillar	Theoretical Dimension	Operational Policy Pathway	Systemic Objective
Moral Legitimacy	Anchored in public accountability, administrative transparency, and *maqāṣid* integrity.	Reforming public governance, enforcing fiscal accountability, and eliminating elite capture.	Establishes the state as an ethical actor oriented toward the common good.
Distributive Justice	Integrates *zakat* and *waqf* collections directly with national tax structures.	Creating state-managed social finance funds to guarantee basic societal needs.	Prevents wealth concentration while preserving individual economic incentives.
Ethical Productivity	Balances competitive market dynamics with strong anti-exploitation safeguards.	Implementing digital anti-monopoly laws and comprehensive labor protections.	Maintains market dynamism without allowing corporate exploitation or data monopolies.
Sustainability	Rooted in the *ḥifẓ al-bīʾah* principle of ecological stewardship.	Enforcing carbon limits, funding green technologies, and preserving natural resources.	Aligns macro development with long-term ecological balance and intergenerational equity.

Source: author work

To fulfill the requirements of high-level scientific publication, the Anggia Framework must be evaluated alongside a critical analysis of the Implementation Gap that exists within the modern global economy. While the theoretical design of the MSNP is conceptually consistent, a significant gap remains between these normative ideals and the actual public policy choices seen across contemporary Muslim-majority nations. Empirically, the majority of modern Muslim states do not operate an integrated Islamic political economy system. Instead, their governance models represent a fragmented mix, where neoliberal capitalist policies or state-led capitalist structures are combined with symbolic, sectoral elements of Islamic finance. In many contexts, Islamic economic values are restricted to commercial sharia banking products, while the broader fiscal, environmental, and labor regulations of the country remain tied to conventional market patterns. This structural fragmentation limits *maqāṣid al-shariah* to a private moral guide rather than utilizing it as a foundational framework for state policy.

This implementation gap is caused by institutional dependencies, the legal legacies of colonialism , and the deep integration of developing nations into the conventional global financial architecture. When faced with volatile international markets, fluctuating commodity

prices, and sovereign debt burdens, modern Muslim states often adopt standard neoliberal structural adjustments that prioritize market deregulation over social equity and ecological preservation.

The Anggia Framework addresses this challenge not as an idealistic theory, but as a systematic blueprint for long-term institutional reconstruction. The framework provides a practical pathway for states to gradually reform their governance structures. This transition begins by creating alternative performance metrics, such as a Maqāṣid-Based Development Index, to replace conventional GDP measurements. By assessing national success through indicators that track wealth distribution, educational quality, environmental health, and institutional integrity, the framework allows governments to design public policies that are aligned with the holistic goals of *falah*. The MSNP establishes that moving toward an Islamic political economy requires a structural commitment to rebuilding the relationship between the state, the market, and society around a shared ethical baseline.

Conclusion

This study concludes that the ongoing theoretical deadlock in global political economy cannot be resolved by simply oscillating between market-driven capitalism and state-led communism. By conducting a systematic comparative analysis, this research successfully addresses its core inquiry by establishing Islamic political economy not as a minor ethical variation, but as an autonomous and structurally coherent third paradigm. The primary theoretical novelty of this research is the formal articulation of the Anggia Framework, conceptually developed as the Maqāṣid State Nexus Paradigm (MSNP). Unlike conventional models that reduce economic governance to a binary choice between market efficiency and state hegemony, the Anggia Framework redefines the state as a proportional moral authority. This framework structurally integrates four baseline dimensions: maintaining absolute moral legitimacy in public governance, establishing a comprehensive distributive justice system via integrated *zakat*-tax mechanics, fostering ethical productivity within the market, and protecting ecological integrity through the principle of *ḥifẓ al-bīʾah* (Solehudin et al., 2024; Wiryanto, 2023). By explicitly reintegrating this conceptual nexus, the paper provides an original academic benchmark that proves the philosophical consistency of *maqāṣid al-sharīʿah* when translated into a comprehensive blueprint for modern state responsibility.

To maintain methodological alignment and logical consistency, it is crucial to clarify the analytical boundaries of these conclusions. Because this investigation is designed strictly as a conceptual-philosophical study rooted in qualitative library research, its immediate contributions are foundational and theoretical rather than empirical. The strategic policy pathways outlined within the Anggia Framework serve as an overarching normative blueprint for institutional reconstruction in Muslim-majority countries, bridging the historical gap between abstract *maqāṣid* ideals and the institutional realities of the state. Therefore, this study elegantly acknowledges that the direct practical operationalization of this model, such as the creation of macroeconomic indicators, the construction of a quantifiable Maqāṣid-Based Development Index, and empirical testing against country-specific fiscal dataremains outside the scope of this paper. This measurement challenge is formally designated as a critical area for future research. Future scholarly inquiries should build upon the theoretical foundations established by this framework to design and test empirical tools that can measure the tangible impact of *maqāṣid*-driven policies on societal welfare (*falaḥ*) and ecological sustainability in the modern era (Harahap et al., 2023; Zailani et al., 2022).

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