



The Concept of Fiscal Policy: an Islamic Economic Perspective

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ABSTRACT

This article explores the concept of fiscal policy from an Islamic economic perspective. Fiscal policy is a vital tool used by governments worldwide to manage the economy and achieve desired macroeconomic objectives. In the context of Islamic economics, fiscal policy is shaped by principles derived from Islamic teachings and ethical guidelines. The paper begins by providing a comprehensive overview of the core principles of Islamic economics, highlighting its emphasis on justice, equity, and the prohibition of interest (riba). In an Islamic economic perspective, fiscal policy aims to promote social welfare, reduce income inequality, and ensure the fair distribution of wealth. The paper examines how Islamic fiscal policy instruments, such as zakat (obligatory alms), waqf (endowment), and sadaqah (voluntary charity), are employed to achieve these goals and contribute to sustainable economic growth. In conclusion, this paper offers a comprehensive exploration of fiscal policy from an Islamic economic perspective, shedding light on the fundamental principles that guide fiscal decision-making within an ethical framework. It emphasizes the importance of incorporating Islamic economic values in crafting fiscal policies that promote social justice, equitable distribution of resources, and sustainable economic development. The findings of this study have implications for policymakers, economists, and practitioners interested in incorporating ethical and value-based dimensions into the design and implementation of fiscal policies in both Muslim-majority countries and the global economic community

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I. Introduction

Fiscal policy is defined as the government's steps to make changes in the tax system or in spending aimed at overcoming the economic problems it faces (Sukirno, 2006). Fiscal policy received serious attention in the Islamic economic order from the start. In Islamic countries, fiscal policy is one of the tools to achieve sharia goals. The goal is to increase welfare while maintaining faith, life, intellect, wealth and

property. The Islamic principles of fiscal and budgetary policy aim to develop a society based on a balanced distribution of wealth by placing material and spiritual values at the same level. Fiscal policy is considered as a tool to regulate and monitor human behavior which is influenced through the incentives provided by increasing government revenues (through taxation, loans or guarantees on government spending). Fiscal policy in a country is certainly expected to be in accordance with Islamic principles and values because the main goal of Islam is to achieve the welfare of humanity as a whole (Rozalinda, 2014). In conventional economics, fiscal policy can be interpreted as the government's steps to make changes in the tax system or in spending which in the macro concept is called government expenditure (Mustafa & Nasution, 2006). The aim is to overcome the economic problems faced by the state. Islamic and conventional fiscal policies actually have similarities in terms of general goals, namely to analyze and make economic policies together. The goal of all economic activity for all human beings is to maximize the welfare of human life, and public policy is a tool to achieve that goal.

Currently, both in Indonesia and abroad the development of Islamic economics is progressing very rapidly. Placement of Islamic economics as one of the disciplines and its practice in the wider community is one indicator of the progress of Islamic economics in this era. The mushrooming of Islamic financial institutions is also a sign of the development of Islamic economics (Karbila et al., 2020). Even though Islamic and conventional fiscal policies have points in common in several respects, these two policies have different principles. In the conventional fiscal policy system, the concept of achieving life welfare is aimed at obtaining full benefits for each individual without considering human spiritual needs (Ilyas, 2017). In contrast to the Islamic fiscal policy system, the concept of welfare is not as narrow as the conventional concept, which includes life in the world and the hereafter, and spiritual improvement is prioritized over meeting material needs, so it can be understood that fiscal policy according to Islamic macroeconomics has the aim of increasing the standard of living. a society based on equal distribution of wealth by trying to place worldly and ukhrowi values at the same level (Aini, 2019).

Referring to the description above, this research will focus on explaining the fiscal policy instruments studied from the perspective of Islamic economics.

II. Literature Review

Fiscal Policy

Fiscal policy in Islam is an obligation and right that must be given by the state to the people, so this policy is not merely a need to improve the economy or as an increase in people's welfare, but this policy focuses more on creating a fair distribution mechanism. The economic problems that continue to hit society are essentially derived from how wealth distribution occurs in the midst of society.

Therefore, this public money is seen as a mandate in the hands of the government which must be allocated especially to the weak and poor layers of society, so that public security and general welfare can be create (Rahmawati, 2008)

Fiscal policy in Islamic economics is used to achieve the same goals as fiscal policy in conventional economics (namely for economic stability, allocation and distribution), but there are different commitments, namely spiritual values, socio-economic justice and human brotherhood (Isnaini, 2017). In classical economic theory, fiscal policy is usually based on the government's ability to collect taxes and trigger rates on foreign subsidies. Fiscal policy is known as public finance policy, which is a policy relating to maintenance, payment of the resources needed to meet public and government needs. So that fiscal policy is seen as a demand management instrument that seeks to influence the level of economic activity through controlling spending and regulating taxes (Huda et al., 2011).

Blanchard, as explained by Chalk & Hemming, mentions two indicators of fiscal sustainability, namely the primary gap and the tax gap. The primary gap indicator is based on the balance of the primary deficit which aims to control the ratio of debt to GDP. If the greater the value of the deficit, it will be more difficult to normalize the amount of debt so that fiscal policy becomes unsustainable. The tax gap is the difference between the constant debt tax ratio and the current tax ratio. If the results are negative, then the current tax ratio is considered too low to stabilize debt (Chalk & Hemming, 2000).

In conventional economic understanding, fiscal policy is a government revenue and spending program that can be used to stimulate economic conditions. Fiscal policy is closely related to the financial targets to be achieved by a country. According to Mannan fiscal policy is a government step to make changes in the revenue system or in spending, which aims to overcome the economic problems faced by the country. Furthermore, Islamic principles regarding fiscal and budgetary policies aim to develop a society based on a balanced distribution of wealth with material and spiritual values at the same level (Mannan, 1997).

Islamic Economy

Studies on Islamic economics, including its development, have been carried out by many experts. Among the experts, there are those who see that Islamic economics is the answer to contemporary economic scientific problems which are considered unable to provide concrete solutions to the problems of modern human life (Furqani, 2019). This argument is supported by Nejatullah Siddiqi who argues that Islamic economics is a response from Muslim scholars to the economic challenges of their time, namely the capitalist economy and socialist economy. In other literature it is also explained that Islamic economics aims to realize human

benefit in this world and the hereafter. This goal is considered to be aligned with the objectives of Islamic law (Andiko, 2017).

The meaning of Islamic economics, namely an activity that is based on the basic values of al-kalām and the history of the prophet Muhammad saw. This states that the word Islam is a condition for an attitude or human behavior in fulfilling his life. The term Islamic economics comes from ancient Greece, which means house or rule. Islamic economics is the science that regulates human life and welfare and provides guidance and the way for an economic system according to Islamic law. The goal of Islamic economics is to serve and meet the needs of individuals and society. Islamic economic development can be realized if it can be applied in life. However, in reality not all Muslim countries apply the basis of Islam. If this happens, the economy of a country becomes more directed and orderly. Islamic economics emphasizes a concept in religion and human welfare (Fitria, 2016).

Islamic economics is a science that regulates human life and welfare and provides guidance and a way for an economic system according to Islamic law. The goal of Islamic economics is to serve and meet the needs of individuals and society. Classical Islamic economics is something that reconciles economics with the provisions of sharia teachings at the time of the Prophet Muhammad. There are many figures of classical Islamic economic thought, one of which is Al-Gazālī (Apriya, 2022).

The role of the Islamic economy in the Indonesian economy, especially the people's economy, basically has a quite important position, especially when you see that the majority of Indonesia's population is Muslim (88.8%). Of this very large number, Muslims have great potential to play a role in improving people's welfare, but on the contrary, with a majority Muslim population it will become a burden for Indonesia, if it is not managed properly, mainly due to the large number of poor people who are mostly Muslim. The role of Islamic economics in creating economic justice can be expected to develop sharia cooperatives needed by small communities (Noor, 2013).

Islamic Public Finance

The function of a modern Islamic government is no longer limited to the functions carried out by previous Islamic governments which are based on one aspect. The nature of the economy has now changed and relatively more viable and more diversified sources of income have become available to the modern government. This difference in context has caused many sources of income that were once very meaningful, such as *fai'*, *ghanimah*, *jizyah*, to be no longer relevant. However, a modern Islamic government should explore other sources and carry out strategic policies that are in accordance with the principles of Islamic economics and in its operations remain compliant with sharia. By making progressive and sharia-

compliant breakthroughs, it is hoped that state revenues will be optimal and people's welfare will be guaranteed (Gultom et al., 2019).

In studying public finance from an Islamic perspective, it cannot be separated from the understanding of the concept of the state within the framework of Islam itself. Muslim scholars define the state as a political entity that is responsible for the collective affairs of Muslim society, not only related to worldly matters, but also the ukhrawi. According to Monzer Kahf, public finance issues which include public revenues and public expenditure have two criteria, namely (1) to properly serve the interests of all members of the Muslim community, and (2) to regulate these interests. based on the sources of revelation, namely the Al-Qur'an and Hadith (Kahf, 1998)

In Islam itself, it holds the main position in Islamic public financial instruments, one of which is zakat as a major source of income for the Islamic state at the time of Rasulullah SAW, zakat also provides support for state expenditure, both as government expenditure and as government transfers. So that this zakat greatly influences the economic policies of the Islamic government so that it can provide welfare for all people in need (Subekan, 2016). Zakat is a financial instrument that is very familiar to the community, especially Muslims, nowadays there is a lot of poverty which causes people to be in a slump (Mustofa, 2014). In this case the role of zakat in Islamic public financial instruments is a very important thing in the prosperity of society.

The management of public finances is of great concern because it discusses the problem of benefiting the people and with maximum management of public finances, it will be able to achieve the goal of people's life, namely prosperity or well-being. It can be seen from a historical point of view in the management of public finances in the period of Umar bin Abdul Aziz, during the time of Umar bin Abdul Aziz it was managing public finances well so that it was difficult to find poor people receiving zakat. One of the keys to Umar bin Abdul Aziz's success in running his government was his synergy with the clergy. The success of the policies carried out by Umar bin Abdul Aziz were restoring people's rights that had been taken by officials unjustly, sparking a free bound economy, Umar's attention to agriculture, eliminating burdensome taxes, building public facilities (Ulhaq, 2018).

III. Research Method

In this study will use a descriptive qualitative method approach. In research using qualitative methods, researchers must be able to describe and explore the object of research, so that the results will be in accordance with their objectives (Fadli, 2021).

This research method uses liberal studies. This technique is used to collect some material that is related to research from various journals, other relevant and theoretical literature, so that the writer gets a strong theoretical foundation related to

the topic raised. Presentation of data in this study is a type of secondary data (Khatibah, 2011) Data collection method through literature study. Data analysis was carried out through the stages of compilation, analysis and conclusion to obtain conclusions regarding fiscal policy in Islam from the time of the Prophet SAW to the present as well as fiscal policy in Indonesia (Mestika, 1995).

IV. Result and Discussion

During the early days of the city administration of Medina, government revenues and expenditures were almost non-existent. At the time of Rasulullah SAW, almost all work was done voluntarily, so they did not receive wages, there was no formal army. None of them received a fixed salary, but they were allowed to take treasure from the spoils of war (Zunaidi, 2021). During the prophetic era, policies related to the budget were still very simple and not as complicated as the current budget system. This was triggered by fundamental socio-economic changes, and another trigger was the Islamic state which was founded and carried out directly by Rasulullah SAW (Mubarok, 2021). As is well known, in the early days of Islamic government, zakat and alms were the main instruments of state revenue (Aini). During the time of Rasulullah SAW, the Baitul Mal budget rarely experienced a budget deficit, this was due to the amount of budget spending that was able to create a balance and was always maintained. Once there was a budget deficit when the Hunain war was about to happen. Because of this, the Prophet borrowed from a friend, when the war was over and the Muslims got the spoils of war, the Prophet immediately paid off the state's debt to the friend. Therefore, Islamic economics aims to avoid budget deficits that lead to state debt (Karbila et al., 2020).

The policies of the Indonesian government are contained in the State Revenue and Expenditure Budget Plan (RAPBN), then this RAPBN is submitted to the People's Representative Council (DPR) to be ratified as a law on the APBN. The APBN is an illustration of the activities that will be carried out by the government in order to obtain expenditure income to carry out the wheels of government and state development. In simple terms, according to the Indonesian state budget, it consists of State income and grants. Consists of: a). Domestic revenue, tax revenue consisting of oil and gas and non-oil and gas income tax, land and building tax, value added tax, import and export duties, excise tax and BPHPTP. b). Non-tax state revenue, namely natural resource revenue, consisting of oil and gas and non-oil and gas (forestry, fisheries, general mining, geothermal expansion). c). SOE profit share. d). other PNBP. e). BLU revenue. 2). State spending, consisting of: Central government spending, Personnel spending (salaries, benefits, vacation, honorarium, and social contributions), Goods spending, Capital spending, Debt interest payments (domestic debt and foreign debt), Energy and non-energy subsidies, Grant spending, social assistance (disaster management and K/L assistance), other expenditures

(policy measures and adjustment of education funds, transfers to the regions which include balancing funds for special autonomy funds and adjustments to the primary balance of surplus and deficit financing budgets, consisting of financing in state and foreign) APBN in a conventional economic system relies more dominantly on taxes and state debt, especially foreign debt if it is not sufficient.

APBN in a secular system all income from various sources is put together without looking at where it comes from and without considering halal and haram. After all income is put together, it will be used for various state financing (Karbila et al., 2020). Countries that adhere to a democratic system generally make a budget every year. The fact of the budget that adheres to a democratic system is that the budget is stated through a regulation called the multi-year state budget regulation. Then after discussing it with parliament, set it as a regulation. In Indonesia, for example, the state budget is contained in the RAPBN (State Revenue and Expenditure Budget Plan) that the government submits to the DPR to then become a law on the APBN every year. There is a condition where state spending is greater than revenue or what is called a budget deficit (Winiardi & Arafah, 2020). Or a condition where revenue exceeds expenditure or what is called a budget surplus, and if revenue is equal to expenditure then it is called an equal budget (Gootjes et al., 2019). Therefore, if the state increases state spending, but does not increase tax collections on the public, then the excess spending can be said to be covered by deficit financing.

The following will be given a table of literature studies related to the discussion above:

Table 1. Literature Review About Implementation of Fiscal Policy with an Islamic Perspective.

Aspect	Problems	Solution
National Economy, Fiscal Policy, District Expenditure	Delays in the development and growth of the country's economy caused by the inaccuracy of the APBN and APBD allocations and the existence of an unequal correlation with fiscal management, as well as expenditures and calculations that are not directly proportional to economic growth and social welfare.	Fiscal policy restructuring is needed, and it can implement fiscal policies that are in accordance with Islamic economic studies. There is a need for reformulation of public policy which includes all stakeholder components, namely public, government and private (Isnaini, 2017) .
National Economy,	There is a market failure. Market failure is the failure of the market	The obligation to realize the welfare of society is the duty

Market Failure	to solve economic problems due to the inability of the market mechanism, or to operate inefficiently. There is a decline in state revenue caused by criminal acts of corruption, nepotism and other things that are done with the aim of self-interest or group interests.	of all economic agents, including the government and society. All sectors must move and cooperate in carrying out economic activities to achieve the welfare of the people. The goal of fiscal policy in Islam is inseparable from Islamic economic principles. Khurshid Ahmad categorizes the principles of Islamic economics into: The principles of monotheism, rub-biyyah, khilafah, and tazkiyah (Soryan, 2016).
Poverty	The low income of the people of Ketapang District is caused by a lack of education and lack of government intervention in the management and development of the area.	The activities carried out by the Family Hope Program are positive activities in the welfare of people's lives by fulfilling the needs of Ad-daruriyyah, the needs of Al-hajjiyyah, At-tahsiniyyah and the needs of Al-Kamiliyyah by not violating the rules and Islamic law. The implementation of this program is in line with the objectives of fiscal policy to reduce poverty (Lubis & Daulay, 2022).
National Economy, Poverty	The high poverty rate in Indonesia has a direct impact on people's welfare. The negative impact on people's welfare is one of the factors in the decline in population productivity which will ultimately hamper economic growth.	Islam views the role of the state as central in creative fair and equitable distribution of income and wealth, as well as maintaining the stability and sustainability of economic development. The state seen as a facilitator if community empowerment in

		finding solutions towards more decent standart of living (Miskiyah et al., 2022)
National Economy, Impact of Global Pandemic	Covid-19 has had an impact to Indonesian Economy. One of the sectors most affected is the management of state finances. Contracted state revenues and spending that continues to swell, require decision makers to carry out extraordinary management policies so that the country's financial performance continues to run well.	Various policies have been created and various legal frameworks have been issued. The government understands that the level of people's income in aggregate has decreased. Therefore, various incentives and relaxations were issued to keep the business climate conducive. several developments related to fiscal policy are still needed so that the state's financial performance can be even better. Improving the management of the state budget is mainly emphasized on refocusing and reallocating the budget in the context of handling the impact of Covid-19 (Azizah, 2021).
Economy Disparity	Conventional economics proved to be a failure to sustain his idealism. The ideal conditions that are used as assumptions in conventional economic theory have never been achieved. In fact, in the last half century, conventional economics has shown its weaknesses. The emergence of capitalism widened the gap between the rich and the poor, between workers and owners of capital, between developed and developing	The Islamic principles of fiscal policy and spending aim to developing a society based on a balanced distribution of wealth by placing material and spiritual values at the same level. Fiscal policy is considered as a tool to regulate and monitor human behavior which is influenced through the incentives provided by increasing government revenues. Fiscal policy in a

	<p>countries and led to high inflation and an increase in the number of unemployed.</p>	<p>country is expected to be in accordance with Islamic principles and values because the main goal of Islam is to achieve the welfare of humanity as a whole (Waluyo, 2017)</p>
<p>Economic recession, Impact of Global Pandemic</p>	<p>The 2020 recession phenomenon was caused by the Covid-19 pandemic which affected all economic sectors, namely the financial sector and the real sector; both manufacturing and trading businesses. This is different from the 1998 and 2010 crises which only hit the financial sector. The 2020 recession was caused by a slowdown or even a stoppage in the flow of commodities due to the implementation of social distancing, so that several business activities experienced a slowdown and decreased productivity drastically.</p>	<p>Fiscal policy in Islam is oriented to meet the needs of the whole society. In the treasures of fiqh there is a provision that every legal medium has the same purpose. In terms of the government's obligation to meet public needs sufficient income is needed, so that the government is obliged to optimize state revenues or there may not be a deficit. Efficiency is a theological doctrine in Islam, both in muamalah activities and morals (attitude). This is emphasized in the Qur'an in the form of prohibitions on extravagance (tabdzir) and excess (israf). Therefore, the determination of the APBN in the Islamic fiscal is prepared based on needs, so that the zero balance provision does not apply in its use, as in the fiqh rules it is stated: "it is forbidden to eat other people's assets in vanity / ways that are forbidden"(Saputra et al., 2021) .</p>

National Economy, Unbalanced Distribution	There is a fairly high level of inequality. In addition, the injustice of this distribution is reflected in the gap between rich and poor, low quality of life, and limited access to public services	Islamic fiscal policy can be used as a solution because it promotes the principles of justice and social equality. To achieve the goal of fair distribution, Islam encourages the use of appropriate fiscal policies. Islam offers the concept of wealth distribution by creating an economic balance in society. Economic balance can only be realized when wealth does not revolve around a group of people. Fiscal policy in Islam includes various types of zakat, infaq, alms, and taxes which are redistributed to the community through social programs and infrastructure development (Rasiam, 2014).
National Economy, Impact of Global Pandemic, Inflation	Regarding the issue of worship, the Ministry of Religion has issued a supporting Circular, placing restrictions on imported products from countries that are at risk of causing transmission in accordance with provisions regulated by the In addition, the government has also implemented a vaccine supply policy and the realization of the Covid-19 vaccination will be held until 2022. This caused a huge state financial deficit that caused a soaring inflation rate	Another solution from Islamic fiscal policy besides ZIS according to Azwar (2020) is the strengthening of cash waqf either through cash waqf schemes, productive waqf or sukuk linked waqf needs to be increased. The Indonesian Waqf Agency (BWI) needs to work with Islamic financial institutions to promote this waqf scheme so that it can be used in part for the construction of various waqf-based infrastructure such as the Waqf Hospital (RSW) specifically for victims of COVID-19, personal

		protective equipment (PPE) waqf, masks waqf, waqf polyclinic, waqf isolation house (RIW), waqf ventilator procurement, waqf university and others. Waqf management must be carried out professionally, so that waqf can be utilized in a sustainable manner (Abdullah, 2014)
Poverty, District Expenditure, National Economy	The problems in the Indonesian state budget are always the same every year, the state experiencing a budget deficit each year. Between APBN revenues and APBN spending, a certain percentage is set, which is quite a large amount. If this budget deficit continues to be sustainable, new problems will arise that disrupt the stability of the country's economy.	As the main instrument of fiscal policy, the APBN has a strategic role in supporting the achievement of development targets in the context of poverty alleviation. This role is in line with the function of the State Budget as a tool for efficiently allocating economic resources, redistributing income, maintaining stability and accelerating economic performance. In an Islamic economic perspective, the government does not only focus on receiving and distributing people's funds, but also receiving other forms of zakat, but also managing zakat by the state, collecting al-jizyah from people of the book, enforcing fa'i laws and ghanimah, as well as the Prophet's policy on public ownership. What's more, followers of faith and great intentions other than ijtihad

		(Habibah et al., 2020) .
National Economy, Unbalanced Resources Distribution	There is a gap that occurs in the economic life of the community caused by differences in their abilities. This is also the impact of the lack of justice in the distribution of resources.	Fiscal policies are strategic and in accordance with economic principles deep Islam operations that remain compliant with sharia. So, that will make great progressive breakthroughs and it is hoped that state revenues will be optimal and creating people's welfare will be guaranteed (Dwiyanti et al., 2021).
Poverty	Poverty still remains a crucial problem that has not been resolved by developing countries, especially Indonesia. The phenomenon of poverty itself has become a long history that occurs in society which has an impact on the low level of children's education, unemployment, unequal development, crime, and others.	The government should look at Islamic policies with the implementation of zakat programs as part of policies in Indonesia in alleviating poverty. As for zakat policies in this matter, one of them is productive zakat in the form of capital and training to the poor in order to optimize zakat funds in accordance with the vision and mission of the amil zakat institution with the aim of poverty alleviation (Zullini, 2019).
Distribution Inequities, Inequalities	There are imbalances in life and difficulties faced by a group of people that do not allow them to develop and get a more decent life opportunity.	The method of distribution during the leadership of the Prophet S.A.W and Khulafaurrasidin in a targeted and direct manner without any hidden treasures. Distinguish between state wealth which is essentially the right of the people with the wealth of officials. The direction of distribution is right on target with reference to

		the Qur'an (9: 60), namely those who are entitled to receive zakat or state wealth are eight asnab. No human criteria was used at that time (Humairah & Alimuddin, 2023).
Resources, National Debt	The existence of natural resource management that is not systematic and not in accordance with state regulations, religion and morals in the community, this is one of the reasons why state debt is getting higher.	The role of fiscal policy in Indonesia in the Perspective of Islamic Public Finance is that in Indonesia the use of Islamic Instruments has been more and more directed towards productive things for the benefit of the community and the State, this is a cool breeze that is expected to last because the Islamic system does promise prosperity (Herlinah & Salma, 2020).
Unbalanced Country Expenditure	The lack of planning for government spending budgets which causes the government to be less than optimal in using the funds that have been allocated for the government budget and lack of massimal development which also causes a decrease in the level of people's welfare.	Sharia fiscal policy is a matter of achieving society, where income is distributed thoroughly by achieving a balance between material and spiritual values. The policy direction of sharia fiscal in economic discussion has the purpose of all economic actions on humans is to achieve welfare or prosperity in life in the world and hereafter (Oktivany et al., 2023)

V. Conclusion

In the perspective of Islamic economics, fiscal policy has two instruments. First: Revenue policy, which is reflected in tax policy. Second: Expenditure policy. Both of these instruments will be seen in the state budget. Revenue policy instruments

(source of state revenue) consist of zakat, kharaj (land/agricultural tax), usyur (trade/customs tax), jizyah (tax imposed on non-Muslims), ghanimah (spoils of war), khums, fai, kaffarat, and other income originating from lawful businesses. The collection of zakat, kharaj, jizyah and various other sources of state revenue has a basis in accordance with Islamic teachings, both contained in the Qur'an and sunnah.

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