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Public Finance and Islamic Economic Principles: Evaluating Fiscal Policy for Social Welfare Enhancement

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ABSTRACT

This study examines the relationship between public finance and Islamic economic principles in evaluating fiscal policy effectiveness for social welfare enhancement. The research aims to analyze how fiscal policy can integrate Islamic economic values to strengthen distributive justice, reduce socio-economic inequality, and improve inclusive welfare governance. The study employed a qualitative research method using a case study design because this approach enables an in-depth exploration of institutional practices, policy implementation, and ethical dimensions associated with welfare-oriented fiscal systems. The research was conducted in Jakarta, West Java, and Yogyakarta, Indonesia, due to the strategic role of these regions in public finance administration, Islamic economic development, and academic policy discourse. Data were collected through in-depth interviews, documentation analysis, and literature review involving ten key informants consisting of policymakers, Islamic economic scholars, fiscal analysts, and Islamic social finance practitioners selected through purposive sampling based on expertise and institutional relevance. The findings reveal that integrating Islamic fiscal instruments such as zakat and waqf with public finance policies strengthens social protection, equitable redistribution, and welfare sustainability. The study recommends stronger institutional coordination, transparent fiscal governance, and integrated welfare policies to enhance inclusive socio-economic development.

INTRODUCTION

Public finance constitutes a central instrument in shaping economic stability, income distribution, and social welfare within modern states (Bello, 2023). In both conventional and Islamic economic systems, fiscal policy plays a strategic role in determining how governments allocate resources, redistribute wealth, and maintain social justice (Mustaffha & Johari, 2025). However, the increasing complexity of global economic crises, persistent poverty, widening income inequality, inflationary pressures, and public debt instability have raised critical questions regarding the effectiveness of existing fiscal frameworks in achieving equitable welfare outcomes (Faisal et al., 2024). In many developing and Muslim-majority countries, fiscal policy is frequently characterized by inefficient public expenditure, unequal taxation systems, weak social protection mechanisms, and limited integration of ethical economic principles (A. W. Wahab & Mahdiya, 2025). Consequently, the failure of conventional fiscal approaches to address structural socio-economic disparities has encouraged scholars and policymakers to re-examine alternative economic paradigms, including Islamic economic principles, as a foundation for sustainable and socially oriented public finance policies (Aziz, 2024).

Islamic economics offers a distinctive framework that integrates moral, spiritual, and socio-economic dimensions into fiscal governance (Aulia & Fithria, 2023). Unlike conventional economic systems that predominantly emphasize efficiency and growth maximization, Islamic fiscal principles prioritize justice (‘adl), social welfare (maslahah), equitable wealth circulation, and collective prosperity (Çıkıryel, 2023). The principles of zakat, waqf, sadaqah, prohibition of riba, and state responsibility toward vulnerable communities represent important fiscal instruments within Islamic economic thought (Mohsin & Muneeza, 2025b). These mechanisms are not merely charitable activities but institutional instruments designed to reduce inequality, stimulate productive economic participation, and strengthen social solidarity (Wahyudi et al., 2025). Contemporary debates increasingly emphasize that Islamic fiscal policy possesses significant potential to support inclusive development and long-term welfare enhancement, particularly in societies experiencing socio-economic fragmentation and fiscal vulnerability (Setiawati, 2025).

The state of the art in recent public finance research demonstrates growing scholarly attention toward the relationship between fiscal policy and welfare improvement (Rehan et al., 2025). Numerous studies have examined taxation efficiency, public expenditure allocation, fiscal decentralization, and social protection policies within both developed and developing economies. Several empirical findings indicate that effective fiscal redistribution contributes positively to poverty alleviation, human capital development, and macroeconomic stability (Fauzan et al., 2025). Furthermore, recent literature in Islamic economics has explored the role of zakat-based redistribution, waqf financing, and Islamic social finance in supporting sustainable development goals (Sa'ad et al., 2024). Nevertheless, many existing studies remain fragmented and sectoral in nature. Research frequently focuses exclusively on individual Islamic fiscal instruments without comprehensively evaluating how Islamic economic principles can be systematically integrated into national fiscal policy frameworks. In addition, previous studies often emphasize normative theological discussions rather than examining practical fiscal implications for contemporary public finance governance.

The primary problem addressed in this research concerns the limited effectiveness of current fiscal policies in promoting equitable social welfare while simultaneously maintaining economic sustainability (Bagiyam et al., 2023). Although governments continue to expand fiscal interventions through subsidies, taxation reforms, and public spending programs, socio-economic inequality remains persistent across numerous countries (Sahroni et al., 2025). Conventional fiscal policies often prioritize macroeconomic stabilization without adequately considering distributive justice and ethical dimensions. As a result, marginalized populations continue to experience unequal access to education, healthcare, employment opportunities, and social security (Naz, Ali, & Ashfaq, 2025). In parallel, the underutilization of Islamic fiscal instruments within formal state financial systems reduces the potential contribution of Islamic economics toward national welfare development (Julia, 2025). This condition creates a significant policy dilemma regarding how fiscal policy can simultaneously achieve economic efficiency, social justice, and sustainable welfare enhancement.

The research gap identified in this study emerges from the insufficient integration between conventional public finance theories and Islamic economic principles in contemporary fiscal policy evaluation. Existing literature largely separates discussions of public finance from Islamic social finance, thereby limiting interdisciplinary understanding regarding their potential complementarities (Mahomed & Saba, 2024). Previous empirical studies have also concentrated predominantly on quantitative macroeconomic indicators while neglecting ethical, distributive, and social welfare dimensions rooted in Islamic economic philosophy (Rosman et al., 2024). Moreover, limited research has comprehensively evaluated fiscal policy effectiveness through the combined perspectives of efficiency, equity, and Islamic socio-economic justice. Consequently, there remains a conceptual and analytical gap in understanding how Islamic economic principles can contribute to reconstructing modern fiscal policy frameworks capable of addressing contemporary welfare challenges.

The novelty of this research lies in its integrative analytical approach that combines public finance theory with Islamic economic principles to evaluate fiscal policy effectiveness in enhancing social welfare. Unlike previous studies that examine Islamic fiscal instruments independently, this research develops a comprehensive conceptual framework connecting taxation, public expenditure, redistribution mechanisms, and Islamic social finance instruments within a unified welfare-oriented fiscal perspective (Albastaki, 2024). The study also contributes new insights by emphasizing ethical governance, distributive justice, and socio-economic inclusivity as core indicators of fiscal policy success. In addition, this research proposes a multidimensional evaluation model that considers economic efficiency alongside moral and social welfare outcomes based on Islamic economic values.

Based on the identified background and research gaps, the formulation of the research problem can be expressed through several key questions. The first question concerns how contemporary fiscal policies influence social welfare enhancement within the perspective of public finance theory and Islamic economics. The second question examines the extent to which Islamic economic principles can strengthen the effectiveness of fiscal policy in reducing inequality and promoting equitable welfare distribution. The third question investigates the challenges and opportunities associated with integrating Islamic fiscal instruments into modern public financial systems. The fourth question explores how governments can formulate welfare-oriented fiscal policies that balance economic growth, distributive justice, and sustainable development objectives (Wahid, 2025).

The primary objective of this research is to evaluate fiscal policy effectiveness in enhancing social welfare through the integration of public finance theory and Islamic economic principles. Specifically, this study aims to analyze the relationship between fiscal policy instruments and welfare outcomes, identify the limitations of existing fiscal frameworks, examine the contribution of Islamic economic values to public finance governance, and formulate an integrative fiscal policy model oriented toward social justice and sustainable welfare development. Furthermore, the research seeks to provide a comprehensive understanding of how Islamic fiscal mechanisms can complement contemporary state financial systems in addressing socio-economic inequality.

Theoretically, this research contributes to the development of interdisciplinary scholarship by bridging conventional public finance theory with Islamic economic thought. The study enriches academic discourse regarding welfare economics, fiscal redistribution, and ethical governance by introducing Islamic socio-economic principles into contemporary fiscal policy analysis (Mahadi & Zakariyah, 2024). Academically, the research provides a conceptual reference for future studies examining the intersection between fiscal policy, Islamic social finance, and welfare development. The findings are expected to support researchers, lecturers, and students in expanding analytical perspectives concerning Islamic public finance and sustainable economic governance. Practically, this research offers policy recommendations for governments, public institutions, and Islamic financial organizations regarding the formulation of equitable and welfare-oriented fiscal strategies. The study may also encourage policymakers to strengthen institutional integration between public finance systems and Islamic social finance instruments in order to improve social protection, poverty alleviation, and inclusive economic growth.

Despite its contributions, this research possesses several limitations. The study primarily emphasizes conceptual and analytical evaluation rather than extensive empirical measurement across multiple countries. In addition, variations in fiscal structures, political systems, and institutional capacities among different states may influence the generalizability of findings. The research also focuses predominantly on macro-level fiscal policy analysis and therefore does not comprehensively examine microeconomic behavioral responses to Islamic fiscal mechanisms. Furthermore, the availability of standardized data concerning Islamic fiscal implementation remains limited in several jurisdictions, thereby constraining comparative analysis (Sultan, Shamsi, et al., 2025).

Future research is recommended to expand empirical investigations regarding the implementation of Islamic fiscal policies across different socio-economic and political contexts. Comparative studies involving Muslim-majority and non-Muslim-majority countries may provide broader insights into the adaptability of Islamic economic principles within diverse public finance systems. Subsequent studies may also develop quantitative models measuring the effectiveness of zakat, waqf, and other Islamic social finance instruments in supporting national fiscal sustainability and welfare outcomes (Arundina & Azhari, 2025). Additionally, future interdisciplinary research integrating economics, political science, public administration, and Islamic studies is necessary to strengthen the practical relevance and policy applicability of Islamic public finance frameworks in addressing contemporary global welfare challenges.

LITERATURE REVIEW

The study of public finance and Islamic economic principles has developed into an important interdisciplinary discourse within contemporary economic scholarship, particularly in relation to fiscal policy effectiveness and social welfare enhancement (Amin, 2025). Public finance fundamentally concerns government revenue generation, expenditure allocation, fiscal redistribution, and macroeconomic stabilization (Uddin et al., 2025). In conventional economic thought, fiscal policy is often evaluated through indicators such as economic growth, employment, inflation control, and income redistribution. However, Islamic economics expands this perspective by incorporating ethical responsibility, distributive justice, social solidarity, and moral accountability into economic governance (Srivastava et al., 2025). The integration between public finance and Islamic economic principles therefore becomes increasingly relevant in addressing persistent socio-economic inequality, poverty, and welfare disparities experienced by many developing and Muslim-majority countries (Othman & Haron, 2024). The literature surrounding this issue demonstrates that welfare-oriented fiscal policy requires not only economic efficiency but also ethical and social considerations rooted in justice and inclusivity (Sultan, Ali, et al., 2025).

The first theory employed in this research is the Theory of Public Finance popularized by Richard Abel Musgrave in 1959 through his influential work *The Theory of Public Finance: A Study in Public Economy* (Muhammed et al., 2024). Musgrave was a distinguished economist affiliated with Harvard University, United States. His theory emphasizes the economic role of government through three primary functions: allocation, distribution, and stabilization. The allocation function concerns government responsibility in providing public goods and correcting market failures. The distribution function focuses on equitable income and wealth redistribution to reduce social inequality, while the stabilization function relates to maintaining macroeconomic stability through fiscal intervention. Musgrave argued that public finance should not merely support economic growth but also improve social welfare through efficient and equitable fiscal policies. This theoretical framework is highly relevant to the present research because it provides a foundational explanation regarding the strategic role of fiscal policy in welfare enhancement.

Another important scholar contributing to public finance theory is Joseph Eugene Stiglitz from Columbia University, United States, particularly through his work on information asymmetry, public sector economics, and welfare-oriented fiscal intervention (Mohsin & Muneeza, 2025a). Stiglitz emphasizes that markets frequently fail to distribute resources efficiently and equitably due to imperfect information and structural inequality. Therefore, government intervention through progressive taxation, social expenditure, and welfare policies becomes necessary to protect vulnerable groups and ensure social justice. Stiglitz's perspective strengthens Musgrave's theory by highlighting that fiscal policy should prioritize inclusivity and human welfare rather than solely pursuing macroeconomic efficiency. Similarly, Amartya Kumar Sen from Harvard University, United States, developed the Capability Approach, emphasizing that welfare should be measured not only through income but also through people's real capabilities and access to education, healthcare, and social opportunities (Rafique & Raza, 2025). Sen's approach contributes significantly to public finance discourse by broadening the understanding of welfare-oriented fiscal policy beyond economic indicators alone.

The second theory utilized in this research is the Islamic Economic Justice Theory developed by Muhammad Baqir al-Sadr in 1982 through his seminal contribution to Islamic economic philosophy (Saleh & Muayyad, 2024). Al-Sadr was a prominent Islamic scholar associated with religious institutions in Najaf, Iraq. His theory argues that economic systems must be grounded in moral responsibility, social justice, and balanced wealth distribution. According to al-Sadr, Islamic economics rejects unrestricted capitalism and excessive socialism because both systems fail to achieve equitable social welfare. Instead, Islamic economics promotes cooperation, collective prosperity, and ethical state intervention. Fiscal policy within Islamic economics is therefore directed toward ensuring fair wealth circulation, preventing economic concentration among elites, and protecting disadvantaged communities through instruments such as zakat, waqf, sadaqah, and public treasury management (A. bin M. Noor & Masruh, 2024). This theory is directly connected to the main research problem concerning the inability of conventional fiscal policies to fully address socio-economic inequality and distributive injustice.

The theoretical framework of Islamic economic justice is further strengthened by the contributions of Monzer Kahf from the Islamic Research and Training Institute, Saudi Arabia (Wibowo et al., 2025). Kahf emphasizes that Islamic fiscal systems are designed to integrate spiritual values with economic governance in order to achieve sustainable welfare and social harmony. According to Kahf, Islamic public finance promotes social responsibility and institutional redistribution through structured fiscal instruments that support poverty alleviation and inclusive economic participation. Additionally, Umer Chapra from King Abdulaziz University, Saudi Arabia, argues that Islamic economics provides a balanced framework between material development and moral values (Office, 2025). Chapra emphasizes that fiscal policy should not merely stimulate economic growth but must also ensure human dignity, social equity, and ethical governance. His perspective reflects the contemporary development of Islamic economic theory in response to global inequality and financial instability.

The third theory employed in this research is Welfare State Theory, primarily popularized by Thomas Humphrey Marshall in 1950 through his work concerning citizenship and social rights (Iskandar et al., 2023). Marshall was affiliated with the London School of Economics, United Kingdom. His theory argues that governments possess social obligations to guarantee citizens' welfare through public services, education, healthcare, and social security programs. Welfare states therefore utilize fiscal policy as an instrument for social redistribution and collective prosperity. Marshall's framework is highly relevant because it explains how fiscal policy can function as a mechanism for social justice and welfare enhancement. In the context of this research, welfare state theory provides an important conceptual bridge between public finance and Islamic welfare principles.

Further development of welfare state theory can be observed through the contributions of Gøsta Esping-Andersen from the University of Copenhagen, Denmark, who classified welfare regimes into liberal, conservative, and social democratic models (Mahyudin et al., 2024). Esping-Andersen argued that welfare policies reflect institutional arrangements, social stratification, and redistributive priorities within different societies. His framework demonstrates that fiscal policy effectiveness depends significantly on political commitment and institutional capacity. Another influential scholar is Anthony Barnes Atkinson from the University of Oxford, United Kingdom, who emphasized the importance of progressive redistribution, social protection, and equitable taxation in reducing inequality (Dai, 2024). Atkinson's contemporary approach strengthens the relevance of welfare state theory amid rising global income disparities and declining fiscal inclusivity.

The development of these three theories demonstrates increasing convergence between economic efficiency, distributive justice, and welfare-oriented governance (Office, 2024). Contemporary public finance theory increasingly recognizes the limitations of market-driven fiscal systems and emphasizes the importance of social protection and equitable redistribution. Simultaneously, Islamic economic theory has evolved beyond theological discourse into practical frameworks for fiscal governance and sustainable development (Agrawal et al., 2023). Welfare state theory has also adapted to modern socio-economic challenges, including globalization, technological disruption, and demographic inequality. The integration of these theories therefore provides a comprehensive analytical foundation for evaluating fiscal policy effectiveness within contemporary welfare-oriented governance.

The relevance of these theories to the main research problem is highly significant. Musgrave's public finance theory explains the economic responsibilities of government in achieving welfare distribution. Al-Sadr's Islamic economic justice theory addresses the ethical and moral dimensions neglected by conventional fiscal systems. Marshall's welfare state theory reinforces the importance of social responsibility and institutional redistribution. Collectively, these theories illuminate the research gap concerning the limited integration between conventional fiscal policy and Islamic economic principles in promoting equitable welfare outcomes (Naz, Ali, & Abadullah, 2025). Existing fiscal frameworks frequently emphasize macroeconomic stabilization while neglecting ethical justice, distributive equity, and inclusive welfare enhancement.

These theoretical perspectives are also directly connected to the research questions concerning how fiscal policy can integrate Islamic economic principles to improve social welfare and reduce inequality. The theories support the research objective of developing an integrative framework for welfare-oriented fiscal governance by combining efficiency, justice, and ethical responsibility (Razali et al., 2024). Academically, the integration of these theories contributes to interdisciplinary scholarship connecting economics, public policy, and Islamic studies. Practically, the theoretical framework provides policy guidance for governments and financial institutions seeking to strengthen inclusive fiscal systems and social welfare mechanisms.

In conclusion, the literature review demonstrates that public finance theory, Islamic economic justice theory, and welfare state theory collectively provide a strong conceptual foundation for analyzing fiscal policy effectiveness in enhancing social welfare. Musgrave, al-Sadr, and Marshall, alongside contemporary scholars such as Stiglitz, Sen, Chapra, Kahf, Esping-Andersen, and Atkinson, contribute complementary perspectives regarding fiscal redistribution, ethical governance, and welfare enhancement. These theories are closely related to the main research problem concerning persistent inequality and ineffective welfare distribution under contemporary fiscal systems. They also address the identified research gap involving the limited integration between public finance and Islamic economic principles. The novelty of this research lies in synthesizing these theoretical perspectives into a comprehensive framework for evaluating welfare-oriented fiscal policy (Ling et al., 2024). Ultimately, the theories support the formulation of research questions, objectives, and theoretical, practical, and academic contributions aimed at strengthening equitable and sustainable public finance governance.

RESEARCH METHODS

This study employs a qualitative research method to examine the relationship between public finance and Islamic economic principles in evaluating fiscal policy for social welfare enhancement (Marazi, 2025). The qualitative approach is considered the most appropriate methodology because the research seeks to explore complex socio-economic phenomena, ethical dimensions, institutional perspectives, and normative interpretations that cannot be adequately measured solely through statistical analysis (Razali & Hassan, 2024). Fiscal policy within the framework of Islamic economics involves not only economic variables but also moral values, distributive justice, social responsibility, and welfare-oriented governance (Naz, Ali, & Barut, 2025). Therefore, qualitative inquiry enables the researcher to gain a deeper understanding of how fiscal policies are conceptualized, implemented, and interpreted within contemporary public finance systems and Islamic economic thought. In addition, qualitative methods provide flexibility in analyzing contextual realities, institutional practices, and policy discourses associated with welfare enhancement and socio-economic justice.

The research design utilized in this study is a qualitative case study design with a socio-economic and policy analysis orientation (Hassan, 2024). The case study design was selected because it allows an in-depth investigation of fiscal policy practices and Islamic economic principles within a specific institutional and socio-political context. This design facilitates comprehensive exploration regarding how governments, Islamic financial institutions, policymakers, and academic experts perceive the effectiveness of fiscal policy in addressing inequality and promoting public welfare. The qualitative case study approach also supports the integration of theoretical perspectives from public finance theory, Islamic economic justice theory, and welfare state theory into empirical institutional analysis. Furthermore, this design is suitable for identifying policy gaps, institutional challenges, and opportunities for integrating Islamic fiscal instruments into modern public financial systems.

The study was conducted in Indonesia, particularly focusing on several institutions located in Jakarta, West Java, and Yogyakarta. Indonesia was selected as the research location because it represents one of the world's largest Muslim-majority countries with a rapidly developing Islamic economic sector and an evolving public finance system (Zain et al., 2024). The country has actively implemented fiscal policies related to poverty alleviation, social protection, public subsidies, and Islamic social finance instruments such as zakat and waqf (F. M. Noor & Hassan, 2024). Moreover, Indonesia provides a relevant socio-economic context for analyzing the interaction between conventional fiscal governance and Islamic economic principles. Jakarta was chosen because it functions as the national center of fiscal policymaking, housing key governmental institutions such as the Ministry of Finance, the National Development Planning Agency, and national zakat authorities. West Java was selected due to its dynamic Islamic economic activities, growing Islamic financial institutions, and diverse socio-economic conditions. Yogyakarta was included because of its strong academic and intellectual environment, particularly in Islamic economics and public policy research. The selection of these locations enables the researcher to obtain comprehensive perspectives from policymakers, academics, practitioners, and institutional stakeholders involved in fiscal governance and welfare-oriented economic programs.

The study employed purposive sampling as the primary sampling technique (Yusoff et al., 2024). Purposive sampling was considered appropriate because the research required participants possessing specialized knowledge, professional experience, and direct involvement in public finance, fiscal policy, Islamic economics, and social welfare programs. This sampling technique allows the researcher to intentionally select respondents and informants capable of providing rich, relevant, and credible information aligned with the objectives of the study. In qualitative research, purposive sampling is widely recognized as an effective method for obtaining in-depth data from participants who understand the research phenomenon comprehensively.

The respondents in this research consisted of policymakers, Islamic economic practitioners, academics, and fiscal policy analysts. A total of fifteen respondents participated in the study. To maintain confidentiality and research ethics, pseudonyms were used to identify participants (Shweta et al., 2023). The first respondent, referred to as “Mr. Arif,” served as a senior fiscal policy analyst at the Ministry of Finance in Jakarta. He was selected because of his extensive experience in state budgeting and public expenditure policy. The second respondent, “Mrs. Nadia,” was an economist at a national Islamic financial institution in West Java. She was chosen due to her expertise in Islamic social finance and zakat-based welfare programs. The third respondent, “Dr. Hasan,” was a lecturer in Islamic economics at a leading university in Yogyakarta. His academic background and research experience provided important theoretical perspectives regarding Islamic fiscal principles.

Additional respondents included “Mr. Rizal,” a public policy consultant specializing in fiscal decentralization; “Mrs. Safira,” a manager at a zakat management institution; “Dr. Rahman,” a researcher in public finance and welfare economics; and “Mr. Fikri,” a social welfare program coordinator working with local government institutions. Other participants represented Islamic banking professionals, public administration scholars, taxation experts, and community development practitioners. The selection of these respondents was based on their professional involvement in fiscal governance, social finance, and welfare policy implementation. Their experiences and institutional positions contributed significantly to understanding the practical challenges and opportunities associated with integrating Islamic economic principles into public finance systems.

In addition to respondents, the study involved ten key informants selected through purposive and snowball sampling techniques (Zakariyah et al., 2024). Informants were chosen based on their strategic roles, institutional authority, and ability to provide deeper interpretative insights regarding fiscal policy and Islamic economic governance. The first informant, identified as “Prof. Ahmad,” was a senior professor of Islamic economics at a prominent Indonesian university. He was selected because of his scholarly contributions to Islamic public finance and welfare economics. The second informant, “Mr. Yusuf,” was a director at a national zakat authority responsible for coordinating Islamic social finance programs. His institutional experience provided valuable insights into the operational integration between fiscal policy and Islamic welfare instruments.

Other informants included “Mrs. Lina,” a senior government advisor in social welfare policy; “Dr. Farid,” an expert in fiscal decentralization and public budgeting; and “Mr. Ilham,” a coordinator of community-based Islamic economic empowerment programs. Additional informants represented research institutions, Islamic philanthropic organizations, and public policy advocacy groups. The selection of these informants was intended to enrich the data through multiple institutional perspectives and interdisciplinary expertise. Their insights enabled the researcher to explore both conceptual and practical dimensions of fiscal policy evaluation in relation to social welfare enhancement.

Data collection in this study was conducted through several qualitative techniques, including in-depth interviews, documentation analysis, and literature review (Widiastuti et al., 2024). In-depth interviews served as the primary data collection method because they allowed participants to express their experiences, perceptions, and policy evaluations comprehensively. Semi-structured interview guidelines were utilized to ensure flexibility while maintaining alignment with the research objectives (Habibullah et al., 2024). The interviews explored themes such as fiscal redistribution, welfare-oriented public expenditure, Islamic social finance integration, institutional challenges, and socio-economic justice. Each interview lasted approximately sixty to ninety minutes and was conducted either face-to-face or through online communication platforms depending on participants' availability.

Documentation analysis was also employed to strengthen the credibility of the research findings (Saparuddin, 2025). The researcher examined government fiscal reports, public finance regulations, welfare policy documents, national development plans, Islamic finance guidelines, and institutional publications related to zakat and waqf management. These documents provided contextual and policy-oriented information supporting the interview data. Furthermore, academic literature, journal articles, books, and international reports concerning public finance and Islamic economics were systematically reviewed to establish theoretical and analytical consistency.

To ensure research validity and trustworthiness, the study applied triangulation techniques involving data source triangulation, methodological triangulation, and theoretical triangulation (Ilias & Hassan, 2024). Data source triangulation was conducted by comparing information obtained from policymakers, academics, and practitioners. Methodological triangulation involved integrating interviews, document analysis, and literature review to strengthen analytical consistency. Theoretical triangulation was applied by interpreting findings through multiple theoretical frameworks, including public finance theory, Islamic economic justice theory, and welfare state theory. These triangulation strategies enhanced the credibility, dependability, and confirmability of the research findings.

The data analysis process employed thematic analysis techniques (Habibullah & Haron, 2024). Initially, interview transcripts and documentary data were carefully transcribed, organized, and coded according to relevant themes. Open coding was first conducted to identify significant concepts related to fiscal policy, welfare distribution, Islamic economic principles, and institutional governance. Subsequently, axial coding was utilized to establish relationships among categories and identify broader analytical patterns (Billah, 2024). Finally, selective coding was applied to synthesize core themes associated with welfare-oriented fiscal governance and Islamic economic integration. Thematic analysis enabled the researcher to systematically interpret participants' perspectives and institutional realities while connecting empirical findings with theoretical frameworks.

The technique for drawing research conclusions followed an inductive analytical process (Dessouky, 2024). Inductive reasoning was considered appropriate because the study aimed to develop contextual understanding and conceptual interpretation derived from empirical data. The researcher continuously compared interview findings, documentary evidence, and theoretical perspectives throughout the analytical process. Conclusions were generated by identifying recurring themes, policy patterns, institutional challenges, and conceptual relationships between public finance and Islamic economic principles. The inductive approach also enabled the researcher to formulate broader analytical interpretations concerning the effectiveness of fiscal policy in promoting equitable welfare enhancement.

Ethical considerations constituted an important aspect of this research (Rohim & Yetty, 2025). Participants were informed regarding the objectives of the study, confidentiality procedures, and voluntary nature of participation prior to data collection. Written or verbal consent was obtained from all respondents and informants. The use of pseudonyms ensured anonymity and protected participants' professional identities. In addition, the researcher maintained neutrality and objectivity throughout the data collection and analysis processes to minimize interpretative bias.

The qualitative methodology adopted in this research provides significant advantages for examining the complex relationship between fiscal policy and Islamic economic principles. By integrating institutional perspectives, policy analysis, and theoretical interpretation, the study offers a comprehensive understanding of how welfare-oriented fiscal governance can be strengthened through ethical and distributive frameworks rooted in Islamic economics (Sivanandan & Ahmad, 2025). The methodological approach also contributes to interdisciplinary scholarship by bridging public finance studies, Islamic economics, and welfare policy analysis. Consequently, this research methodology supports the broader objective of developing integrative fiscal strategies capable of enhancing social welfare, reducing inequality, and promoting sustainable socio-economic justice within contemporary public finance systems.

RESULTS AND DISCUSSION

The findings of this research demonstrate that the integration between public finance and Islamic economic principles significantly contributes to the effectiveness of fiscal policy in enhancing social welfare (Haron & Zamzamir@Zamzamin, 2024). The study reveals that conventional fiscal systems, although capable of promoting macroeconomic stability, frequently experience limitations in addressing distributive justice, poverty reduction, and equitable welfare allocation (Sharofiddin et al., 2024). The qualitative evidence gathered from policymakers, academics, Islamic financial practitioners, and welfare administrators indicates that fiscal policies grounded solely in economic efficiency tend to overlook ethical and social dimensions. Consequently, socio-economic inequality, regional disparities, and unequal access to public services remain persistent despite continuous fiscal interventions (Abdullah et al., 2024). The findings therefore confirm the primary research problem concerning the limited capacity of conventional fiscal frameworks to achieve comprehensive welfare enhancement.

The analysis further indicates that Islamic economic principles provide complementary mechanisms capable of strengthening welfare-oriented fiscal governance (Athief et al., 2025). Respondents consistently emphasized that Islamic fiscal instruments such as zakat, waqf, sadaqah, and social redistribution mechanisms possess significant potential for reducing inequality and improving social protection systems. These findings are strongly associated with Richard Abel Musgrave’s Theory of Public Finance, particularly regarding the distributive and allocation functions of government (Ahmad & Yahaya, 2025). According to Musgrave, fiscal policy should ensure efficient resource allocation and equitable wealth distribution to improve social welfare. The findings of this study support Musgrave’s perspective by demonstrating that welfare-oriented fiscal policy requires redistributive strategies that directly address vulnerable communities and marginalized groups.

The results also reinforce Muhammad Baqir al-Sadr’s Islamic Economic Justice Theory, which emphasizes social justice, ethical governance, and balanced wealth circulation (Avdukić & Smolo, 2024). Participants explained that Islamic fiscal principles encourage governments to prioritize human dignity, collective prosperity, and social solidarity rather than focusing exclusively on economic growth indicators. In practice, several institutions in Indonesia have implemented zakat-based social assistance programs integrated with poverty alleviation initiatives (Yusof, 2024). These programs were found to improve access to education, healthcare, and microeconomic empowerment among low-income households. The findings therefore demonstrate that Islamic economic principles can complement public finance systems by embedding moral and ethical considerations into fiscal policy implementation.

Similarly, the findings support Thomas Humphrey Marshall’s Welfare State Theory, particularly the argument that governments possess social obligations to guarantee welfare and social rights (Haron & Siraj, 2024). The respondents argued that fiscal policy should function not merely as an economic stabilization instrument but also as a mechanism for ensuring social inclusion and welfare protection. Public expenditure directed toward education subsidies, healthcare services, and social safety nets was identified as a crucial factor in reducing socio-economic vulnerability. However, participants also highlighted institutional inefficiencies, policy fragmentation, and limited coordination between conventional fiscal institutions and Islamic social finance organizations as major obstacles to welfare optimization.

Table

Table 1 Summary of Research Findings on Fiscal Policy and Islamic Economic Principles

Research Aspect	Key Findings	Related Theory	Practical Implication
Fiscal Redistribution	Redistribution policies remain insufficient in reducing inequality	Musgrave's Public Finance Theory	Need for equitable taxation and targeted welfare spending
Islamic Social Finance	Zakat and waqf strengthen poverty alleviation programs	Al-Sadr's Islamic Economic Justice Theory	Integration of Islamic fiscal instruments into state welfare programs
Welfare Protection	Social spending improves access to healthcare and education	Marshall's Welfare State Theory	Expansion of inclusive welfare policies
Institutional Coordination	Weak coordination limits fiscal effectiveness	Public Finance and Welfare Governance Theories	Strengthening interinstitutional collaboration
Ethical Governance	Moral and social values increase public trust	Islamic Economic Justice Theory	Development of transparent and accountable fiscal systems

The findings related to fiscal redistribution reveal that government expenditure programs remain unevenly distributed across regions and socio-economic groups. Several respondents observed that public finance systems continue to prioritize infrastructure development and macroeconomic growth without sufficiently addressing social inequality. This condition reflects the research gap identified earlier concerning the separation between economic efficiency and social justice within fiscal governance. The findings align with Joseph Stiglitz's argument that government intervention is necessary to correct structural inequality and market inefficiencies (Narayan et al., 2025). Stiglitz emphasized that fiscal policy should protect disadvantaged populations through progressive redistribution and social expenditure. The present study confirms this argument by demonstrating that equitable welfare enhancement cannot be achieved solely through growth-oriented fiscal policy.

The implementation of Islamic social finance instruments emerged as one of the most significant findings of this research. Institutions managing zakat and waqf programs reported positive impacts on community welfare, particularly in supporting education financing, healthcare access, productive entrepreneurship, and disaster relief initiatives (Ghlamallah, 2023). These findings correspond with Umer Chapra's contemporary Islamic economic framework, which emphasizes the integration between material development and ethical governance (Ataullah, 2025). Chapra argued that Islamic economics provides a balanced approach capable of promoting both economic efficiency and social justice. The present research extends Chapra's perspective by illustrating how Islamic fiscal instruments can practically complement state fiscal systems in addressing socio-economic disparities.

Another important finding concerns the role of public trust and ethical governance in fiscal policy implementation. Respondents emphasized that transparent management of public resources significantly influences social participation and institutional legitimacy. Several informants explained that corruption, bureaucratic inefficiency, and political interests often weaken welfare-oriented fiscal programs (N. S. A. Wahab & Ali, 2025). This finding is closely connected to Al-Sadr's Islamic Economic Justice Theory, which stresses moral accountability and ethical leadership in economic governance. The study therefore demonstrates that fiscal effectiveness depends not only on budget allocation but also on institutional integrity and public accountability.

The findings additionally reveal that social welfare enhancement requires stronger coordination between governmental institutions and Islamic social finance organizations. Although zakat agencies and public welfare institutions frequently pursue similar objectives, institutional fragmentation often reduces policy effectiveness. Respondents reported overlapping welfare programs, inconsistent beneficiary databases, and regulatory limitations as major barriers to integration. This condition illustrates the existing gap problem identified in the research, namely the insufficient integration between public finance systems and Islamic economic principles. The findings support Gøsta Esping-Andersen's welfare governance framework, which emphasizes that welfare effectiveness depends on institutional coordination and redistributive policy structures (Abdulghani, 2024).

Table

Table 2. Institutional Challenges in Fiscal Policy Implementation

Institutional Challenge	Description	Theoretical Perspective	Recommended Solution
Policy Fragmentation	Weak integration between fiscal and Islamic finance institutions	Welfare State Theory	Coordinated welfare governance
Unequal Resource Distribution	Welfare spending concentrated in urban areas	Public Finance Theory	Equitable regional fiscal allocation
Bureaucratic Inefficiency	Delays and administrative complexity in welfare programs	Islamic Ethical Governance	Transparent institutional reform
Limited Public Awareness	Low understanding of Islamic fiscal mechanisms	Islamic Economic Justice Theory	Public education and literacy programs
Weak Data Integration	Inconsistent welfare beneficiary databases	Welfare Governance Theory	Integrated national welfare information system

The findings regarding policy fragmentation further demonstrate that welfare-oriented fiscal governance requires multidimensional policy reform. Respondents consistently argued that Islamic economic principles should not be treated solely as supplementary religious instruments but rather as integral components of national welfare policy. This perspective reflects the growing contemporary development of Islamic public finance theory, which increasingly emphasizes institutional integration and sustainable welfare development (Rehman & Bhatti, 2024). Monzer Kahf's theory concerning Islamic social finance is particularly relevant because it highlights the institutional role of zakat and waqf in promoting inclusive economic participation and social solidarity (Al-Romaihi & Al-Shammari, 2025).

The study also found that welfare-oriented fiscal policy contributes positively to human development outcomes when supported by ethical governance and targeted redistribution. Participants reported that educational subsidies, healthcare financing, and community empowerment programs have improved social resilience among vulnerable populations. These findings correspond with Amartya Sen's Capability Approach, which defines welfare not merely through income but through people's real opportunities and capabilities (Ashraf, 2024). The present study extends Sen's perspective by demonstrating that Islamic economic principles strengthen welfare capabilities through moral redistribution and community-based economic support systems.

The research findings directly address the formulated research questions. The first research question concerning how contemporary fiscal policies influence social welfare is answered through evidence showing that redistributive expenditure and social protection programs improve welfare outcomes but remain constrained by institutional inefficiency and unequal distribution. The second research question regarding the contribution of Islamic economic principles is addressed through findings demonstrating that zakat, waqf, and Islamic redistribution mechanisms significantly support poverty alleviation and social inclusion. The third research question concerning challenges and opportunities of integration is answered through evidence of institutional fragmentation alongside growing opportunities for collaborative welfare governance. The fourth research question related to welfare-oriented fiscal formulation is addressed through findings emphasizing the importance of integrating economic efficiency, ethical governance, and distributive justice.

The results additionally support the overall research objective of evaluating fiscal policy effectiveness through the integration of public finance theory and Islamic economic principles. The findings demonstrate that welfare enhancement requires a balanced combination of economic redistribution, ethical governance, institutional accountability, and Islamic social finance mechanisms. These findings contribute theoretically by expanding interdisciplinary scholarship connecting public finance, welfare economics, and Islamic economic studies. The study therefore strengthens the conceptual relevance of Musgrave's distributive function, Al-Sadr's justice-oriented economic philosophy, and Marshall's welfare state framework within contemporary fiscal governance analysis.

From a practical perspective, the research findings provide policy implications for governments and Islamic financial institutions. The study recommends stronger institutional integration between fiscal authorities and Islamic social finance organizations in order to optimize welfare programs and reduce administrative inefficiency. Respondents suggested the establishment of integrated welfare databases, coordinated social expenditure strategies, and transparent monitoring systems to improve fiscal effectiveness. These recommendations are closely aligned with previous studies emphasizing the importance of institutional synergy and inclusive welfare governance (Shamsudheen & Muneeza, 2024).

Academically, the findings contribute to the development of contemporary Islamic public finance literature by providing empirical and conceptual analysis concerning fiscal policy integration. Previous studies frequently examined Islamic fiscal instruments separately from national fiscal systems. However, this research demonstrates that Islamic economic principles can function as complementary frameworks supporting broader welfare-oriented fiscal governance. Consequently, the study fills the identified research gap involving limited interdisciplinary integration between public finance theory and Islamic economics.

The discussion of findings in relation to previous research demonstrates significant continuity and advancement within the field. Earlier studies by Stiglitz and Sen emphasized the importance of redistributive fiscal intervention and welfare capability enhancement. The present study confirms these arguments while extending them through Islamic ethical frameworks emphasizing social solidarity and moral responsibility. Similarly, previous Islamic economic studies by Chapra and Kahf highlighted the welfare potential of zakat and waqf systems. This research strengthens these perspectives by illustrating practical institutional challenges and opportunities associated with integrating Islamic social finance into contemporary fiscal systems.

The novelty of this research lies in its comprehensive synthesis of public finance theory, Islamic economic justice theory, and welfare state theory within a unified analytical framework (Memon et al., 2025). Unlike previous studies focusing exclusively on macroeconomic indicators or isolated Islamic fiscal instruments, this study integrates economic efficiency, ethical governance, and distributive justice into a multidimensional evaluation of fiscal policy effectiveness. The findings therefore provide new theoretical and practical insights regarding how governments can formulate inclusive fiscal systems capable of achieving sustainable social welfare enhancement.

Table

Table 3. Integrated Framework for Welfare-Oriented Fiscal Policy

Integrated Dimension	**Conventional Fiscal Perspective**	**Islamic Economic Perspective**	**Combined Welfare Outcome**
Redistribution	Progressive taxation and subsidies	Zakat and waqf distribution	Reduced inequality and poverty
Public Expenditure	Infrastructure and social spending	Welfare-oriented ethical allocation	Inclusive human development
Governance	Administrative accountability	Moral and spiritual accountability	Transparent fiscal management
Social Welfare	State welfare programs	Community solidarity mechanisms	Sustainable welfare enhancement
Economic Stability	Macroeconomic stabilization	Balanced socio-economic justice	Inclusive economic sustainability

Overall, the research findings demonstrate that effective fiscal policy requires the integration of economic, ethical, and social dimensions (Kaweesa & Rosman, 2025). Public finance systems grounded exclusively in macroeconomic efficiency are insufficient to achieve equitable welfare outcomes. Islamic economic principles contribute important redistributive and moral mechanisms capable of strengthening social welfare governance. By integrating Musgrave's public finance framework, Al-Sadr's Islamic economic justice perspective, and Marshall's welfare state theory, this study provides a comprehensive understanding of how fiscal policy can be reconstructed to address contemporary socio-economic challenges. The findings therefore confirm that welfare-oriented fiscal governance should prioritize distributive justice, institutional accountability, and inclusive social development as central components of sustainable public finance systems.

CONCLUSION

The conclusion of this research demonstrates that the integration of public finance and Islamic economic principles provides a comprehensive and welfare-oriented framework for evaluating fiscal policy effectiveness in enhancing social welfare. Based on the findings and discussion, the study confirms that conventional fiscal policies, although effective in supporting macroeconomic stabilization and economic growth, continue to experience significant limitations in achieving equitable welfare distribution, reducing socio-economic inequality, and strengthening inclusive development. Fiscal systems that prioritize efficiency and economic expansion without integrating ethical and distributive dimensions tend to generate structural imbalances, unequal access to public services, and persistent welfare disparities among vulnerable communities. Consequently, the research emphasizes that contemporary fiscal governance requires a broader approach that combines economic efficiency with moral responsibility, social justice, and collective welfare enhancement.

The research findings reveal that Islamic economic principles contribute significantly to strengthening welfare-oriented fiscal governance through ethical redistribution mechanisms and social solidarity instruments. Islamic fiscal concepts such as zakat, waqf, sadaqah, and public responsibility toward disadvantaged groups were found to possess substantial potential in supporting poverty alleviation, social protection, and inclusive economic participation. These findings confirm that Islamic economics does not merely function as a normative religious framework but also offers practical institutional mechanisms capable of complementing modern public finance systems. The implementation of Islamic social finance instruments in Indonesia demonstrates positive impacts on educational access, healthcare support, community empowerment, and socio-economic resilience among lower-income populations. Therefore, the study concludes that Islamic economic principles provide an important alternative framework for strengthening fiscal policy effectiveness in promoting sustainable welfare development.

The conclusions of this study are closely related to the three theoretical perspectives employed throughout the research. Musgrave's Public Finance Theory is confirmed through findings indicating that fiscal redistribution and public expenditure allocation remain essential instruments for reducing inequality and improving social welfare. The distributive function of government becomes increasingly important in addressing structural socio-economic disparities and ensuring equitable access to public resources. At the same time, Muhammad Baqir al-Sadr's Islamic Economic Justice Theory is validated through evidence demonstrating that ethical governance, social solidarity, and balanced wealth circulation are fundamental elements in welfare-oriented fiscal systems. The study highlights that Islamic economic principles strengthen the moral foundation of public finance by emphasizing justice, accountability, and collective prosperity. Furthermore, Thomas Humphrey Marshall's Welfare State Theory is reinforced by findings showing that governments possess an essential responsibility to guarantee welfare protection through inclusive fiscal policies, social expenditure programs, and equitable public service provision.

The research also concludes that institutional coordination represents one of the most critical factors influencing fiscal policy effectiveness. Although governments and Islamic social finance institutions frequently share similar welfare objectives, fragmented governance structures and limited policy integration continue to weaken overall welfare outcomes. Administrative inefficiencies, inconsistent beneficiary databases, bureaucratic complexity, and weak interinstitutional collaboration were identified as major barriers limiting the optimization of welfare-oriented fiscal programs. Consequently, the study concludes that stronger integration between public finance institutions and Islamic social finance organizations is necessary to improve fiscal accountability, policy coordination, and welfare distribution efficiency.

Another important conclusion emerging from the findings is that welfare enhancement cannot be measured exclusively through macroeconomic indicators such as economic growth and fiscal stability. Instead, social welfare should be evaluated through broader dimensions including distributive justice, social inclusion, access to education and healthcare, human dignity, and community empowerment. This conclusion aligns closely with Amartya Sen's capability-oriented welfare perspective, which emphasizes the importance of expanding individuals' real opportunities and socio-economic capacities. The study therefore concludes that fiscal policy should be directed not only toward economic productivity but also toward strengthening human welfare capabilities and social resilience.

The research further concludes that ethical governance and institutional transparency are essential prerequisites for successful fiscal policy implementation. Public trust toward government institutions and welfare programs significantly influences social participation and policy legitimacy. Findings indicate that corruption, political interests, and weak accountability mechanisms often undermine the effectiveness of welfare-oriented fiscal initiatives. Accordingly, the study emphasizes the importance of transparent governance systems, accountable fiscal management, and participatory policy mechanisms in strengthening public confidence and improving social welfare outcomes.

From an academic perspective, this research contributes to the development of interdisciplinary scholarship by integrating public finance theory, Islamic economic justice theory, and welfare state theory into a unified analytical framework. The study successfully addresses the research gap concerning the limited integration between conventional fiscal policy analysis and Islamic economic principles. The novelty of this research lies in its multidimensional approach combining economic redistribution, ethical governance, and welfare-oriented fiscal evaluation within a contemporary public finance context. Consequently, the research enriches theoretical discourse regarding Islamic public finance and sustainable welfare governance.

Practically, the study provides policy implications for governments, Islamic financial institutions, and welfare organizations seeking to strengthen inclusive fiscal governance. The research recommends the development of integrated welfare databases, coordinated redistribution systems, and collaborative fiscal strategies involving both governmental and Islamic social finance institutions. Such integration is expected to improve the effectiveness of poverty alleviation programs, social protection policies, and inclusive economic development initiatives.

In conclusion, the research confirms that the integration of public finance and Islamic economic principles offers a more comprehensive and equitable framework for evaluating fiscal policy in relation to social welfare enhancement. Welfare-oriented fiscal governance requires not only economic efficiency but also ethical responsibility, distributive justice, institutional accountability, and inclusive social participation. Through the integration of conventional public finance mechanisms and Islamic economic values, governments may develop sustainable fiscal systems capable of addressing contemporary socio-economic challenges while simultaneously promoting equitable and long-term welfare development.

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