



The Concept and Philosophy of Fiscal Policy in Modern and Islamic Historical Perspectives

Dheddy Abdi Tamba^{1*}, Yadi Janwari¹, Muhammad Hasanuddin¹, Ai reni Ratnasari¹, Amany¹

¹Universitas Islam Sunan Gunung Djati Bandung, Indonesia

*Email: semut27@gmail.com

DOI: [10.59631/sijosi.v2i1.282](https://doi.org/10.59631/sijosi.v2i1.282)

Abstract

Fiscal policy is a fundamental tool for achieving macroeconomic goals such as economic stability, growth, and income equality. This study explores the concept and philosophy of fiscal policy, emphasizing its role in both modern and historical contexts, including its implementation during the Prophet Muhammad's era. Employing a qualitative methodology with a literature review approach, the research analyzes fiscal policy instruments, including taxes, subsidies, debt, and state budget expenditures, particularly within the Indonesian context. Findings reveal that fiscal policy reflects Keynesian principles, emphasizing government intervention to address market inefficiencies, stabilize the economy, and promote equitable growth. Historical analysis highlights the philosophical alignment of fiscal policies during the Prophet Muhammad's time with modern practices, focusing on justice, equality, and sustainability through instruments like zakat, kharaj, and wakaf. The study underscores the effectiveness of fiscal policy during crises, such as the COVID-19 pandemic, in mitigating severe economic impacts and fostering long-term development. To optimize fiscal policy, this research suggests that governments should enhance transparency, accountability, and technological integration to improve resource management and efficiency. Additionally, adopting principles of equity and sustainability from historical Islamic fiscal policies and fostering collaboration among stakeholders can address contemporary economic challenges while upholding philosophical foundations.

Keywords : Fiscal policy, philosophy, economic stability, keynesian economics, islamic fiscal policy.

1. Introduction

Fiscal policy is an essential instrument in a country's economy that is used to achieve macroeconomic goals (Asandului, Lupu, Maha, & Viorică, 2021; Karagöz & Keskin, 2016; Yanushevsky & Yanushevsky, 2018a) such as price stability (Glocker & Wegmüller, 2024), economic growth (Nguyen & Nguyen, 2023; Tan, Mohamed, Habibullah, & Chin, 2020), and full employment (Lu & Kameda, 2024). Effective fiscal policy can help the government manage the economy, especially dealing with business cycle fluctuations and global challenges. However, fiscal policy must be based on strong concepts and philosophies to achieve these goals.

The urgency of fiscal policy is increasingly apparent in global events that threaten economic stability. In the 1970s, the stagflation phenomenon tested the effectiveness

of the Keynesian approach, which gave rise to the theory of monetarism as an alternative, focusing on controlling inflation through monetary policy (Friedman, 1962). However, the 2008 global financial crisis and the COVID-19 pandemic have proven that fiscal policy remains relevant as an intervention tool to mitigate severe economic impacts.

The main objectives of fiscal policy include economic stabilization, reducing unemployment, and equalizing income. With government investment in infrastructure, tax cuts, and social assistance programs, fiscal policy can increase aggregate demand, create jobs, and stabilize inflation (Olivier Blanchard & Johnson, 2013; Krugman & Wells, 2020). In addition, progressive taxation helps reduce income inequality, which is one of the challenges in the modern economy (Stiglitz, 2015).

In the literature, research related to fiscal policy shows its essential role in economic stabilization. According to Musgrave & Musgrave (1989), fiscal policy has three main functions: allocation, distribution, and stabilization. These functions reflect balancing economic growth, income equality, and inflation management. O. Blanchard & Perotti (2002) research highlights the significant influence of government spending on gross domestic product (GDP), while Auerbach & Gorodnichenko (2012) reveal that fiscal policy is more effective during recessionary periods than during economic expansion.

This study aims to outline fiscal policy's basic concepts and philosophy, evaluate its relevance and effectiveness in the modern economy, and analyze the main instruments used, especially in the Indonesian context. In addition, this study will also explore the implementation of fiscal policy from a historical perspective, including the role of fiscal policy during the time of the Prophet Muhammad PBUH, to find the relevance of these principles in modern budgetary policy.

2. Research Method

This study uses a qualitative method with a literature review approach that aims to understand fiscal policy's concept, philosophy, and relevance in modern economics. Data sources include scientific journals, textbooks, and other supporting documents. The selection of sources is made purposively to ensure relevance and credibility, especially in discussing the role of fiscal policy in various historical periods and the contemporary context. This study also pays special attention to fiscal policy principles during the time of the Prophet Muhammad SAW, which is part of a historical study that enriches the perspective on modern budgetary policy.

The data analysis process was carried out using a comparative method, which compares various concepts and philosophies related to fiscal policy in current practice and historical contexts, including during the time of the Prophet Muhammad SAW. With this holistic and layered analysis, the study is expected to provide a

comprehensive picture of fiscal policy as essential to achieving stability, equality, and economic growth.

3. Results and Discussion

3.1 The Concept and Philosophy of Fiscal Policy in Indonesia

Fiscal policy is a policy that regulates state revenues and expenditures. State revenues came from taxes, non-tax revenues, and even loans or foreign aid from abroad before the reform era, categorized as state revenues (Fathurrahman, 2012). The results of this study indicate that fiscal policy is the main instrument in modern economic management that functions through regulating government spending and the taxation system. Philosophically, this policy is one form of effort to balance economic growth, macroeconomic stability, and social justice through government intervention.

As stated in the Keynesian concept, where Keynes argued that the market is not always able to achieve economic equilibrium by itself, so intervention is needed through fiscal policy. Meanwhile, classical and neoliberal economists believe in market efficiency that requires minimal government intervention (Alpago & Aydin, 2021; Nurlina, 2015; Saraceno, 2017). This is in accordance with what Postula & Radecka-Moroz (2020) stated that the government can use several fiscal instruments, the most significant of which are taxes and public spending. Not only that, Yanushevsky & Yanushevsky (2018b) also argue that spending and taxation are the two main instruments of fiscal policy, an essential part of the government's public policy, the objectives of which are reflected in the constitution of a democratic state. It plays a vital role in economic growth and the balance of the current account (Kamal, Usman, Jahanger, & Balsalobre-Lorente, 2021).

Table 1. Fiscal Policy in Indonesia

Category		Details
Fiscal Instruments	Policy	Taxes, expenditures, budget deficits (State Budget/APBN), debts, subsidies, social assistance, and incentives.
Commonly Used Instruments		Taxes, subsidies, debts, and State Budget expenditures.
Primary Goals		Economic stability, sustainable growth, and income distribution.

However, according to Idris (2024), in Indonesia itself, there are at least 7 instruments used in fiscal policy in the form of taxes, expenditures, and deficits of the Indonesian State Budget (SB), debt, subsidies, social assistance, and incentives. However, of the instruments above, the 4 fiscal policy instruments that the government often uses are taxes, subsidies, debt, and SB expenditure (Idris, 2024). And, of course, the primary goal of fiscal policy is to achieve economic stability, sustainable growth, and income equality.

In the context of contemporary practice, fiscal policy has proven to be very effective in dealing with the global economic crisis (Fetai, 2017; Gechert, 2015), as seen during and after the COVID-19 pandemic (Faria-e-Castro, 2021; Indrawati, Satriawan, & Abdurohman, 2024). Massive stimulus packages involving subsidies, social assistance, and infrastructure investment reflect the flexibility of fiscal policy in responding to complex challenges. In addition, fiscal policy is also used as a tool to achieve long-term goals, such as encouraging sustainable infrastructure development (Aisyah, Suarmanayasa, Efendi, Widiastuti, & Harsono, 2024) and creating employment (Aisyah et al., 2024; Phuc Canh, 2018).

3.2 The Concept of Fiscal Policy During the Time of the Prophet Muhammad PBUH

During the Prophet Muhammad, PBUH fiscal policy was implemented to manage state finances and distribute wealth fairly. Budgetary policy instruments at that time were closely related to Sharia principles, which emphasized justice, equality, and sustainability. Some of the main fiscal policy instruments implemented are as shown in Table 1 below:

Table 2. Fiscal Policy in the Time of the Prophet Muhammad PBUH

Fiscal Instrument	Purpose	Application
Zakat	Redistribution of wealth and poverty alleviation.	Obligatory for Muslims on specific assets; distributed to eligible recipients (e.g., poor, indebted, travelers). Managed systematically by the state. (Al-Qaradawi, 1999). According to Sari (2017), zakat had a major position in fiscal policy in the early Islamic period. The development of zakat potential is needed to optimize the role of zakat in a country's economy, especially to overcome the problems of poverty, income inequality, and unemployment (Priyono, 2013).
Kharaj	Revenue generation and social justice.	Kharaj, or land tax was levied on non-Muslims when Khaibar was conquered. Kharaj was paid by non-Muslims just as Muslims paid ushr for agricultural produce (Oktaviana & Harahap, 2020).
Jizyah	Contribution to state protection and infrastructure.	Tax imposed on non-Muslims in exchange for security and protection. Revenue used for public welfare, including security and infrastructure development. (Rahman, 1979)
Ghanimah and Fai'	Funding public needs and societal welfare.	Ghanimah: Spoils of war distributed according to Islamic law. Fai': Wealth acquired without war, such as through treaties, allocated for public welfare and infrastructure.

Sadaqah and Wakaf	Promoting voluntary charity and sustainable development.	Sadaqah: Voluntary donations for social solidarity and aiding the poor. Wakaf: Endowments for public use, such as educational facilities, water wells, or hospitals.
-------------------	--	--

Furthermore, Ichsan, Despileny, Jannah, H, & Alpizar (2023), explained in their research that in addition to the primary source of income during that period, there were also additional or secondary sources of income that were not fixed in terms of amount or time of receipt, because they depended on particular situations. These secondary sources of revenue include various types, such as ransoms paid for the release of prisoners of war and loans used, for example, after the conquest of Mecca, to free Muslims from Bani Judzhaymah or for logistical needs such as clothing and riding animals.

Other income includes khums or rikaz, which are found assets from the pre-Islamic period, and amwal fadhla, which are assets belonging to Muslims who died without leaving any heirs, or assets left behind by individuals, including those who have apostatized and left the country. Waqf is also a source of income in the form of assets donated by a Muslim for religious purposes, the proceeds of which are managed by the Baitul Mal. In addition, there is nawaib, an emergency tax imposed on wealthy Muslims to cover state expenses during times of crisis, and zakat fitrah, which is collected during Ramadan and distributed before the Eid prayer. Other income includes kaffarat, a fine for inevitable mistakes in a Muslim's religious practice (Ichsan et al., 2023).

4. Conclusion

The concept and philosophy of fiscal policy, both in modern and historical contexts, emphasize the role of government intervention in achieving economic stability, sustainable growth, and equitable income distribution. In Indonesia, fiscal policy is implemented through diverse instruments such as taxes, subsidies, debt, and state budget expenditures, reflecting its flexibility in addressing economic challenges. Philosophically, fiscal policy aligns with Keynesian principles that highlight the necessity of government intervention to correct market inefficiencies. Moreover, its practical application during crises, such as the COVID-19 pandemic, underscores its significance in ensuring macroeconomic stability and fostering long-term development. Similarly, the fiscal policies during the Prophet Muhammad's era focused on justice, equality, and sustainability, utilizing instruments like zakat, kharaj, and wakaf to promote social welfare and economic fairness.

To further optimize fiscal policy's effectiveness, governments should prioritize transparency and accountability in managing public resources. In the modern era, integrating technology to enhance tax collection and subsidy distribution can improve efficiency and reduce leakage. Additionally, adopting the principles of

equity and sustainability observed in historical Islamic fiscal policies could provide valuable insights into addressing contemporary economic challenges, such as poverty and inequality. Continuous collaboration between policymakers, economists, and the public is essential to ensure fiscal policy remains responsive to evolving socio-economic needs while adhering to its philosophical foundations.

References

- Aisyah, S., Suarmanayasa, I. N., Efendi, E., Widiastuti, B. R., & Harsono, I. (2024). The Impact Of Fiscal Policy On Economic Growth: A Case Study Of Indonesia. *Management Studies and Entrepreneurship Journal (MSEJ)*, 5(1), 3773–3782. <https://doi.org/10.37385/MSEJ.V5I2.4619>
- Al-Qaradawi, Y. (1999). *Fiqh al-Zakah: A Comparative Study of Zakah, Regulations and Philosophy in the Light of Qur'an and Sunnah*. Riyadh: King Abdul Aziz University.
- Alpago, H., & Aydin, Y. (2021). Karşılaştırmalı Bir Analizle Keynes Ve Hayek'in Ekonomik Krizlerle Mücadele Yaklaşımları. *International Journal of Social Humanities Sciences Research (JSHSR)*, 8(74), 2335–2342. <https://doi.org/10.26450/jshsr.2704>
- Asandului, M., Lupu, D., Maha, L.-G., & Viorică, D. (2021). The asymmetric effects of fiscal policy on inflation and economic activity in post-communist European countries. *Post-Communist Economies*, 33(7), 899–919. <https://doi.org/10.1080/14631377.2020.1867430>
- Auerbach, A. J., & Gorodnichenko, Y. (2012). Measuring the Output Responses to Fiscal Policy. *American Economic Journal: Economic Policy*, 4(2), 1–27. <https://doi.org/10.1257/pol.4.2.1>
- Blanchard, O., & Perotti, R. (2002). An Empirical Characterization of the Dynamic Effects of Changes in Government Spending and Taxes on Output. *The Quarterly Journal of Economics*, 117(4), 1329–1368. <https://doi.org/10.1162/003355302320935043>
- Blanchard, Olivier, & Johnson, D. R. (2013). *Macroeconomics. 6th edition*. Essex: Pearson Education Limited.
- Faria-e-Castro, M. (2021). Fiscal policy during a pandemic. *Journal of Economic Dynamics and Control*, 125, 104088. <https://doi.org/10.1016/j.jedc.2021.104088>
- Fathurrahman, A. (2012). Kebijakan Fiskal Indonesia Dalam Perspektif Ekonomi Islam: Studi Kasus Dalam Mengentaskan Kemiskinan. *Jurnal Ekonomi & Studi Pembangunan*, 13(1), 72–82.
- Fetai, B. (2017). The effects of fiscal policy during the financial crises in transition and emerging countries: does fiscal policy matter? *Economic Research-Ekonomska Istraživanja*, 30(1), 1522–1535. <https://doi.org/10.1080/1331677X.2017.1340181>
- Friedman, M. (1962). *Capitalism and Freedom*. Chicago: University of Chicago Press.
- Gechert, S. (2015). What fiscal policy is most effective? A meta-regression analysis. *Oxford Economic Papers*, 67(3), 553–580. <https://doi.org/10.1093/oep/gpv027>
- Glocker, C., & Wegmüller, P. (2024). Energy price surges and inflation: Fiscal policy to

- the rescue? *Journal of International Money and Finance*, 149, 103201. <https://doi.org/10.1016/j.jimonfin.2024.103201>
- Ichsan, A. N., Despileny, I., Jannah, N. Z., H, H., & Alpizar, A. (2023). Perekonomian pada Masa Nabi Muhammad Saw: Ditinjau dari Kebijakan Fiskal. *At-Tajdid : Journal of Islamic Studies*, 3(3), 106. <https://doi.org/10.24014/at-tajdid.v3i3.27835>
- Idris, M. (2024). 7 Instrumen Kebijakan Fiskal yang Sering Digunakan di Indonesia Halaman all - Kompas.com. Retrieved December 22, 2024, from Kompas.com website: <https://money.kompas.com/read/2024/03/29/221145926/7-instrumen-kebijakan-fiskal-yang-sering-digunakan-di-indonesia?page=all>
- Indrawati, S. M., Satriawan, E., & Abdurohman. (2024). Indonesia's Fiscal Policy in the Aftermath of the Pandemic. *Bulletin of Indonesian Economic Studies*, 60(1), 1-33. <https://doi.org/10.1080/00074918.2024.2335967>
- Kamal, M., Usman, M., Jahanger, A., & Balsalobre-Lorente, D. (2021). Revisiting the Role of Fiscal Policy, Financial Development, and Foreign Direct Investment in Reducing Environmental Pollution during Globalization Mode: Evidence from Linear and Nonlinear Panel Data Approaches. *Energies*, 14(21), 6968. <https://doi.org/10.3390/en14216968>
- Karagöz, K., & Keskin, R. (2016). Impact of Fiscal Policy on the Macroeconomic Aggregates in Turkey: Evidence from BVAR Model. *Procedia Economics and Finance*, 38, 408-420. [https://doi.org/10.1016/S2212-5671\(16\)30212-X](https://doi.org/10.1016/S2212-5671(16)30212-X)
- Krugman, P. R., & Wells, R. (2020). *Microeconomics*. Duffield: Worth Publishing Ltd.
- Lu, Z., & Kameda, K. (2024). Impact of fiscal policies on the labor market with search friction: An estimated DSGE model for Japan. *Journal of the Japanese and International Economies*, 72, 101315. <https://doi.org/10.1016/j.jjie.2024.101315>
- Musgrave, R. A., & Musgrave, P. B. (1989). *Public Finance in Theory and Practice*. New York: MacGraw-Hill.
- Nguyen, D. X., & Nguyen, T. D. (2023). The Relationship of Fiscal Policy and Economic Cycle: Is Vietnam Different? *Journal of Risk and Financial Management*, 16(5), 281. <https://doi.org/10.3390/jrfm16050281>
- Nurlina, N. (2015). The effect of government expenditures on Indonesia economic growth. *Journal of Economics, Business & Accountancy Ventura*, 18(1), 1. <https://doi.org/10.14414/jebav.v18i1.377>
- Oktaviana, M., & Harahap, S. B. (2020). Kebijakan Fiskal Zaman Rasulullah Dan Khulafarasyidin. *Nazharat: Jurnal Kebudayaan*, 26(01), 283-307. <https://doi.org/10.30631/nazharat.v26i01.29>
- Phuc Canh, N. (2018). The effectiveness of fiscal policy: contributions from institutions and external debts. *Journal of Asian Business and Economic Studies*, 25(1), 50-66. <https://doi.org/10.1108/JABES-05-2018-0009>
- Postula, M., & Radecka-Moroz, K. (2020). Fiscal policy instruments in environmental protection. *Environmental Impact Assessment Review*, 84, 106435.

<https://doi.org/10.1016/j.eiar.2020.106435>

- Priyono, S. (2013). Zakat Sebagai Instrumen Dalam Kebijakan Fiskal. *Al-Mashlahah Jurnal Hukum Islam Dan Pranata Sosial*, 1(02). <https://doi.org/10.30868/AM.V1I02.145>
- Saraceno, F. (2017). *Rethinking fiscal policy: lessons from the european monetary union*. Retrieved from <https://sciencespo.hal.science/hal-03457591>
- Sari, N. (2017). Zakat Sebagai Kebijakan Fiskal Pada Masa Kekhalifah Umar Bin Khattab. *Jurnal Perspektif Ekonomi Darussalam*, 1(2), 172-184. <https://doi.org/10.24815/jped.v1i2.6552>
- Stiglitz, J. E. (2015). *Economics of the Public Sector*. New York: W.W. Northon & Company.
- Tan, C.-T., Mohamed, A., Habibullah, M. S., & Chin, L. (2020). The Impacts of Monetary and Fiscal Policies on Economic Growth in Malaysia, Singapore and Thailand. *South Asian Journal of Macroeconomics and Public Finance*, 9(1), 114-130. <https://doi.org/10.1177/2277978720906066>
- Yanushevsky, R., & Yanushevsky, C. (2018a). Problems and Tools of Applied Macroeconomics. *Applied Macroeconomics for Public Policy*, 1-48. <https://doi.org/10.1016/B978-0-12-815632-2.00001-8>
- Yanushevsky, R., & Yanushevsky, C. (2018b). Realization of Established Goals. In R. Yanushevsky & C. Yanushevsky (Eds.), *Applied Macroeconomics for Public Policy* (pp. 109-183). Elsevier. <https://doi.org/10.1016/B978-0-12-815632-2.00004-3>