

The Role of Zakat and Taxes on Economic Growth

Ahmad Mansur

UIN Sunan Ampel Surabaya

Email: amansur.uinsa@gmail.com

Abdulah Kafabih

UIN Sunan Ampel Surabaya

Email: abdullahkafabih@uinsa.ac.id

Abdul Hakim

UIN Sunan Ampel Surabaya

Email: abdhakim@uinsa.ac.id

Lian Fuad

UIN Sunan Ampel Surabaya

Email: lian.fuad@uinsa.ac.id

Corresponding Author: Abdulah Kafabih

Article History: Received October 8, 2024; Received in revised from October 12, 2024;
Accepted; December 3, 2024; Published February 27, 2025

How to Cite this Article: Mansur, Ahmad, Abdullah Kafabih, Abdul Hakim, Lian Fuad, and Atok Syihabuddin. 2025. "The Role of Zakat and Taxes (Fiscal Policy) on Economic Growth". *El-Qist: Journal of Islamic Economics and Business (JIEB)* 14 (2). Surabaya, Indonesia:154-66.
<https://doi.org/10.15642/elqist.2024.14.2.154-166>.

Abstract: This conceptual study aims to investigate the synergistic roles of zakat and taxation as fiscal instruments to promote equitable income distribution and foster economic growth within the framework of Islamic economics. Grounded in descriptive qualitative analysis and literature review, the research outlines how zakat and tax policies can be integrated to form a more just and sustainable fiscal structure. While taxes are recognized as essential for state financing and macroeconomic stabilization, zakat—though traditionally religious in nature—emerges as a viable counter-cyclical tool to support poverty alleviation, enhance purchasing power, and drive inclusive development. The study highlights the distinct yet complementary characteristics of zakat and taxes, emphasizing their potential to correct wealth disparities and stimulate productive investment through multiplier effects. By embedding Islamic moral values such as moderation, social justice, and prohibition of usury, this research offers an alternative paradigm for fiscal governance. The study contributes to global economic scholarship by presenting a faith-based fiscal model that may inform public finance policies in Muslim-majority countries and beyond. Future research is recommended to develop empirical models that quantify the macroeconomic impacts of zakat-tax integration and explore its application in diverse economic contexts.

Keywords: Zakat, Taxation, Fiscal Policy, Income Redistribution, Economic Growth

Introduction

The government or State must not allow the economy to run freely, based on market mechanisms without control. The government must be present and have a role in a country's economy. The government is obliged to create an economic system in such a way that it can create the realization of economic welfare for all people, equitable distribution of income and wealth equitable distribution of income and wealth¹ in the context of redistribution of income and wealth.² Creating jobs up to the stage of full employment and realizing economic growth and development in line with Islamic norms and moral values, including the enforcement of laws in the country in an honest and fair way, so that any practice of corruption, collusion, and nepotism can be eradicated to create a healthy and sustainable economy.³ The government is also obliged and responsible for fulfilling the community's minimum basic living needs. All of this certainly requires planned steps and appropriate economic policies.

The government regulates the level of income from government revenue and expenditures, the tax structure that will be imposed (charged), and the pattern of government spending. Fiscal policy is thus a step taken by the government in managing expenditure and taxation by using fiscal instruments to influence the country's economy to achieve economic growth and welfare. Fiscal policy also means the government uses taxes, public loans, and public spending for the purpose of macro stabilization and economic development.⁴

The definition above clearly emphasizes the importance of the role of taxes in economic development as a very important instrument in obtaining state cash income, and we cannot imagine how the wheels of the economy of a country or government can run well without tax collection. Because the high and low taxes can affect individual income, which will ultimately affect disposable income and a person's consumption level, it certainly affects the level of aggregate demand, which can affect the level of aggregate supply, including the level of investment, unemployment rate, and national output level. However, the unresolved problem is that the fiscal policy implemented in several developed and developing countries has not been able to effectively reduce unemployment.⁵

Fiscal policy is not only related to state budget and spending planning but also concerns the choice of various ways to collect taxes and state spending patterns. Regressive taxes, for example, tend to increase income and wealth inequality, while progressive taxes, for example, tend to increase equality or reduce the gap or inequality of wealth and income. This progressive tax seems to align with Islamic economics's tax policy, which emphasizes fair and proportional income redistribution, said Umer Chapra.⁶ Progressive taxes, complemented by commodity taxes, are one effective fiscal measure to overcome inflationary pressures in the economy.⁷ The right fiscal policy can create national economic stabilization by influencing economic variables such as

¹ Renny Oktafia et al., "The Concept of Fiscal Policy: An Islamic Economic Perspective" 5, no. 2 (2023): 1–18.

² Aan Jaelani, "Fiscal Policy in Indonesia: Analysis of State Budget 2017 in Islamic Economic Perspective," 2017, 1–19.

³ Umami Ibrahim Atah, Wafa Mohammed Ali Nasr, and Mustafa Omar Mohammed, "The Role of Zakat as an Islamic Social Finance towards Achieving Sustainable Development Goals: A Case Study of Northern Nigeria," *Global Conference on Islamic Economics and Finance*, no. October (2018): 83–98.

⁴ M Lr Jhingan, *The Economics of Development and Planning* (Vrinda Publications Delhi, 2011).

⁵ Asma Raies, "Islamic versus Conventional Fiscal Policy: The Effect of Zakat on Education and Employment," *Academic Journal of Interdisciplinary Studies* 9, no. 1 (2020): 27–33, <https://doi.org/10.36941/ajis-2020-0003>.

⁶ Muḥammad Umar Chāprā and Mohammed Umer Chapra, *The Islamic Welfare State and Its Role in the Economy* (Islamic Foundation, 1979).

⁷ Jhingan, *The Economics of Development and Planning*.

aggregate demand and supply, resource allocation, and income distribution. If economic stability can be maintained properly, the economy will be easy to direct as expected, for example, by creating an equitable distribution of income and wealth, realizing economic growth, and achieving sustainable development.

This study will discuss the tools or instruments in fiscal policy, including zakat instruments, and their implications for fair and equitable income distribution and economic growth. Does zakat influence the distribution of community income? Then, through this redistribution of income and wealth, we will realize an equitable distribution. Does zakat influence macro stabilization and economic development? Research related to fiscal policy is still limited to exploration in several sectors, such as the scope of policy from an Islamic perspective, the history of fiscal policy, and the role of waqf. This study will theoretically and practically answer the role of fiscal policy, including zakat, in helping economic growth and development by presenting several opinions that support the role of zakat and a mathematical approach.

Research Method

This research is a qualitative research method; it is library research and uses a descriptive analysis approach to describe and analyze the role of zakat, taxes, and fiscal in redistributing income and wealth and helping contribute to economic growth and development. Data is obtained from sources of books and articles in the journals and with related topics. So, the researcher gets a theoretical foundation related to the research objectives. Data analysis through several stages, including compilation, analysis, and conclusions related to the role of zakat, taxes, and fiscal policy instruments in redistributing income and wealth to realize equitable distribution of income and wealth and realization of economic growth and development.

Result and Discussion

The Instrument of Fiscal Policy

There is no doubt that taxes are the most effective tool for the government in implementing fiscal policy. Taxes are the main means of financing government spending, both routine and development spending. It is because most government spending is financed by tax collection, especially routine spending such as spending on government employees, pensions, veterans benefits, goods spending, maintenance spending, travel spending, subsidies, and so on.⁸

Taxes are not only a tool that plays an important role in mobilizing economic resources to finance state spending but are also an important instrument in maintaining the stabilization and redistribution of income and wealth. It is in line with the objectives of Islamic economics, which emphasize the existence of equitable distribution of income and wealth, equality in opportunity and equal access to economic resources, and realization of socio-economic justice in order to achieve sustainable economic development.

However, tax collection must be within reasonable limits to not disrupt the investment climate and burden the community. The imposition of tax on expenditure or spending should be prioritized over income or revenue tax; the income and revenue being taxed by the government is a normal practice all over the world, although it will reduce the disposable income of the people. It is viewed that the imposition of tax on income is a burden for the community, but there is nothing wrong with taxes imposed on a person's income to redistribute income and wealth.

⁸ Sjechul Hadi Permono, *Pendayagunaan Zakat Dalam Rangka Pembangunan Nasional: Persamaan Dan Perbedaannya Dengan Pajak* (Pustaka firdaus, 1993).

The question of whether taxes other than zakat that the State or government may impose on the community in an Islamic State are permissible is debatable. However, as long as the State or government needs funds to run the country's economy and good governance and as long as the government's spending pattern is still within the framework following *Maqasid al-Shari'ah*, then there is no problem. It is permissible for the State or government to collect taxes from the community other than zakat.⁹ Furthermore, Abdin Ahmed Salama said that taxes other than zakat must be designed in such a way that (a) they do not hinder public consumption so that they affect the level of demand (b) the relocation of economic resources from less useful and less productive investments to more useful and more productive investments (c) creating incentives and stimuli for economic growth, for example incentives to save to increase capital formation and make all people have access to the market.¹⁰

Abdul Mannan also argued that a complex modern tax system can be justified because of the complexity of modern life itself. He also emphasized that the Islamic tax system must ensure that only the rich and the prosperous who have advantages bear the main burden of taxation.¹¹ Jhingan also quoted the opinion of R.J. Chelliah that the purpose of taxes is:

- 1) to limit consumption, thereby transferring economic resources from consumption to investment
- 2) to increase the incentive to save and invest
- 3) to transfer economic resources from the hands of the people to the hands of the government so that government investment is possible
- 4) to modify investment patterns
- 5) to mobilize economic surplus.

Tax collection must also meet four requirements as campaigned by Adam Smith in his book *The Wealth of Nations*, namely; First, the principle of equality and equity. Second is the principle of certainty. Third, the principle of convenience of payment. Fourth, the principle of economic collection. These are the four principles stated by Santoso Brotodihardjo in his book. "Pengantar Ilmu Hukum Pajak"¹². The principle of tax collection must also be based on:

- 1) equality or social justice
- 2) easy administration and implementation
- 3) following income.

In this study, the researcher deliberately does not include government revenue policies and tax structures during the early Islamic period, such as *kharaj*, *jizyah*, *fay'*, *ghanimah*, etc., it can be read by readers in Mannan's book "Islamic Economics, Theory, and Practice" in chapter 13. But what is more important is that we know that government revenue policies in the modern economic system, besides taxes and zakat, there are still more, namely, loan funds from the domestic community, loan funds from the central bank, and loan funds from abroad. All of these instruments are needed to fill all government expenditure items. There are four main sources for obtaining funds for the State or government to carry out the country's economy and government activities, namely:

⁹ Abdin Ahmed Salama, "Fiscal Analysis of Zakat with Special Reference to Saudi Arabia's Experience in Zakat," *Op. Cit.*, 1982, 341–64.

¹⁰ Salama.

¹¹ Muhammad Abdul Mannan and M Nastangin, *Teori Dan Praktek Ekonomi Islam* (Pt. Dana Bhakti Prima Yasa, 1997).

¹² Santoso Brotodihardjo, "Pengantar Ilmu Hukum Pajak," 1986.

1. Taxes.
2. Loans from the central bank.
3. Loans from the domestic community.
4. Loans from abroad
5. Zakat, specifically for the Islamic States

I will not discuss the government revenue policies above at length, but I need to discuss more in depth the revenue policy of collected income, specifically the instrument of zakat as a tool in fiscal policy for redistribution of income and wealth.

The Instrument of Zakat

Unlike tax, which is an important instrument in fiscal policy, zakat is a religious obligation that differs from tax instrument in dealing with. Although zakat cannot be treated like a tax, it has a very large influence on the Islamic economic system; at least, it can be used to reduce poverty levels and redistribute income and wealth. The characteristics of zakat, which has a fixed tariff of 2.5% per year for those obliged to pay zakat, in turn, limits the scope for using zakat as a fiscal policy tool like taxes in achieving economic stabilization and growth.

Although it does not rule out the possibility that zakat can contribute to the realization of fiscal policy goals in achieving economic stabilization and growth (Fahim Khan, 1982), the main purpose of zakat itself is to eradicate and reduce poverty rates and redistribution of income and wealth so that minimum living needs can be met. Because of these characteristics of zakat, the most effective use of zakat in the context of economic stabilization and development as a tool in fiscal policy is to counter-cyclical economy and stabilize and regulate the occurrence of cyclical business in the economy. Regulating the cyclical business environment means minimizing the ups and downs of economic conditions, and this is what is called counter-cyclical fiscal policy.

For example, in a crisis situation or economic slowdown, producers face difficulties in selling their products. In that case, the government, through its fiscal policy, can take a stance by taking a measured expansionary economic policy by increasing measured and reasonable spending and expenditure, such as by providing economic stimulus aimed at increasing demand for goods and services and consumer spending, encouraging business investment and reducing the negative impact of sluggish economic conditions. This stimulus can, of course, be done in various ways, including reducing taxes, providing fiscal incentives to entrepreneurs, increasing public spending, reducing interest rates, making transfer payments, and, of course, providing subsidies and economic assistance to the less fortunate in the economy.

Another thing that the government can do is to use zakat funds to purchase these goods to be distributed to those who are entitled to receive them, this situation will ultimately be able to increase effective demand, and can drive the wheels of the economy even through consumption activities, and it is hoped that the economy can continue to grow through consumption driven growth.

The opposite of this situation is when the economic situation is booming, and the government wants a policy of tightening the belt. In this case, the government needs to implement a contractionary policy in its fiscal policy. In other words, the government must control excess purchasing power by reducing spending and increasing tax rates in order to slow down the inflationary economy. Meanwhile, through the zakat instrument, the government needs to postpone using zakat funds in controlling aggregate demand to suppress the inflation rate. In this case, the

government, with its fiscal policy, must be able to stimulate the increased level of investment and increase national output. This can be done by implementing a planned investment policy in the public sector so that this government action has an impact on increasing the volume of investment in the private sector or by implementing progressive direct taxation supplemented by commodity taxes to overcome inflationary pressures in the economy.¹³

Zakat, in addition to being a limited fiscal policy tool in economic stabilization and development, can also be used:

- (1) as a means of punishing those who hoard wealth and leave it undeveloped because those who do not develop their wealth either through trade or other investments, their wealth will decrease by 2.5% per year. This certainly encourages countries with a Muslim majority population to invest rather than allow their wealth and assets to not develop.
- (2) as a way to improve the standard of living of the poor, which in turn will improve their health and productivity.¹⁴
- (3) as a way to increase aggregate demand in the macroeconomic sense so that it can encourage higher investment and economic growth.

There are similarities and differences between zakat and taxes as mandatory contributions. Zakat has a distributive role, while taxes function to provide government services and public goods.¹⁵ That both can be used by the State or government as tools in implementing its fiscal policy in order to create fair and prosperous economic conditions for all people, where economic growth and development must be accompanied by equitable distribution of income and wealth as well as the realization of a socio economic justice, so that all people can enjoy the results of development that has been carried out by the government.

All areas and all sectors of national development can be funded from zakat funds except (1) religions outside Islam. (2) belief systems. (3) everything that does not contain worship and approaches (taqarrub) to Allah. (4) all activities and projects that smell of sin and shirk. In addition, there are four zakat quotas whose targets are not included in the fields and sectors of development that are funded from tax funds, namely (1) the 'a'milin category. (2) the muallafah qulubuhum category. (3) the riqab category. (4) the gharim category.

Zakat can also be used as a way to improve the standard of living of the poor, which in turn will improve their health, performance, and productivity. Zakat can also be used as a way to increase aggregate demand in macroeconomics, encouraging investment and higher economic growth from the demand side. If we assume that zakat is institutionalized by the government and that zakat administration is handled well by the government, zakat funds can be used as an instrument of fiscal policy. There will be questions such as how the government is able to influence the level of aggregate demand, and if the government can do that, how much can it be done approximately? Let's assume the government wants to increase aggregate demand in an economy, and then the government gives zakat or issues zakat to groups who are entitled to receive it; of course, this will increase their income or their disposable income.

¹³ Jhingan, *The Economics of Development and Planning*.

¹⁴ Nubani Md Hassan and Abd Halim Mohd Noor, "Do Capital Assistance Programs by Zakat Institutions Help the Poor?," *Procedia Economics and Finance* 31, no. 15 (2015): 551–62, [https://doi.org/10.1016/s2212-5671\(15\)01201-0](https://doi.org/10.1016/s2212-5671(15)01201-0).

¹⁵ Habib Ahmed, "Fiscal Policy and Deficit Financing: Islamic Perspectives" 32, no. 1 (2019): 79–85, <https://doi.org/10.4197/Islec.32-1.5>.

If we assume that the zakat funds issued by the government are 1 billion rupiahs with $MPC = 0.8$, this means that $MPS = 0.2$. According to "**Keynes's psychological law of consumption**," which states that if income increases, consumption also increases, but not as much as the increase in income obtained. So, according to this law, the number (rate of number) of MPC is between 0 and 1 or $0 < MPC < 1$. By knowing the MPC, we will know the expected aggregate demand. Through the multiplier process, the change in consumption resulting from zakat expenditure of 1 billion rupiah will be calculated as follows:

$$\frac{1}{1 - mpc} * \Delta zakat = \Delta permintaan = \frac{1}{1 - 0,8} * Rp1 milyar = Rp 5 milyar$$

It means that government spending of 1 billion rupiah from zakat funds will increase people's income and certainly will increase the purchasing power of the people in the market in their spending. This increase in people's income will ultimately increase aggregate demand by 5 billion rupiahs through the multiplier process. Thus, producers will respond to this increase in demand to increase their volume of output and products so that the economy becomes more productive as productivity increases, which ultimately increases national output. The increase in output at the macro level of the economy means that economic growth has occurred.

The obligation of zakat and the establishment of zakat institutions is none other than to redistribute income and wealth to all elements of society so that there is a fair and proportional distribution of income, with the hope of increasing the welfare and standard of living of the community. If a higher level of welfare and standard of living can be achieved by fulfilling all the basic needs of life for the entire community, then this will encourage a higher tendency to save (MPS) due to the influence of a simple attitude in life.

This simple attitude and lifestyle will ultimately affect the consumption patterns of the Muslim community both at the individual level and at the national level. This balanced consumption pattern can increase the level of savings volume in which when it is mobilized for investment activities will be able to create economic growth and development in the economy. For this issue, we will discuss in government spending policy.

Government Spending

The Islamic economic system does not recommend or even forbids wasting income and wealth or spending it excessively, and it is said that those who do so are friends of Satan. See the Qur'an, Surah al-Isra' verse 27, it is stated that:

"Indeed, the wasters (of wealth) are the brothers of Satan, and Satan is very disbelieving of his Lord." Qur'an 17: 27

The pattern of consumption and spending, both in the level of individual and government spending, which is reflected in the State Budget (APBN), should follow the rules of *Shari'ah*, which are concretely reflected in simplicity in living life, not being excessive in spending wealth and not being too stingy in spending wealth, especially to seek Allah's pleasure. In the Qur'an, Surah Al-Furqan, verse 67, it is stated that:

"And those who, when they spend their wealth, are neither excessive nor stingy, and their spending is in the middle between these things." Qur'an 25: 67

Islam supports and recommends a simple life, not being excessive in spending wealth and not being too stingy in spending. This kind of simple lifestyle likely expects the tendency to save (MPS) to be very high, so there will be capital accumulation to be invested. This does not mean that people have to reduce their consumption activities so that aggregate demand also decreases, which in turn will cause a decrease in production, which will ultimately have a negative effect on investment activities and can result in decreased income and increased unemployment, but maintaining the level of consumption along with increased income. As David Ricardo said, "From two loaves of bread, I can save one; from four loaves of bread, I can save three."¹⁶

This behaviour is also reflected in several hadith of the Prophet Muhammad (PBUH), which among them, the Prophet told one of his friends Ka'ab to save some of his wealth for himself and his family and some to give to the poor.¹⁷ This balance in saving and consumption spending patterns can ultimately encourage balanced economic growth in Islamic economics. In addition to that, it is not excessive in consumption, both individually and collectively; there should also be no spending on goods and services that are prohibited by Islam and that are harmful to human beings so that unlawful (*haram*) goods will never be produced in the economy. In short, all spending not in line with Islamic values and moral norms must be stopped.

This concept of a simple consumption pattern can be applied in all aspects of economic life, from decisions made by individuals in spending wealth and income to decisions made by the government. A simple consumption pattern has a very large impact on economic equality and fair distribution of income and wealth. It can also affect the rise of the economic welfare of society and the rise of the standard of living of society, which is reflected through economic growth and the spread of social welfare. Furthermore, a government that adheres to Islamic economics must prohibit production activities that are harmful or cause harm to all of Allah's creatures, especially human beings, including producing products that are unlawful (*haram*) according to the *Shari'ah*, so that economic resources and natural resources given by Allah for the benefit of humans are not exploited in such a way that deviates from Islamic teaching. This Islamic economic way of life will also safeguard us from pollution and natural destruction so that our nature remains clean and well-maintained.

While luxurious products that can cause excessive consumption and waste must be prevented by imposing high taxes so as to deter people who buy them and prevent producers from producing them. This pattern of the Islamic economic way of life and a balanced lifestyle between saving behavior and consumption behavior is hoped to create accumulated savings in the capital in the economy, in which everyone is obliged to mobilize and allocate the existing economic resources in such a way for increasing human welfare and for economic development in such a way that is able to create a realization of equitable distribution of income and wealth, a realization of sustainable economic growth and development and realization of socio-economic justice.

Islam prohibits interest and encourages investment. People may think that if interest is not paid for deposits or savings, then people prefer to save it in their home or hoard it. It is known that whoever allows his wealth not to grow, then his wealth will

¹⁶ Jhingan, *The Economics of Development and Planning*.

¹⁷ Lihat Sahih Bukhari, dalam bab zakat.

gradually run out, because the zakat institution will take his wealth 2.5% per year, so that he himself is ultimately entitled to receive zakat. Zakat itself covers moral, social and economic sphere.¹⁸ In the moral sphere, zakat removes and erodes greed and greed. In the social sphere, zakat acts as a tool to eliminate poverty in society and create equitable distribution of income and wealth. In the economic sphere, zakat prevents the accumulation of wealth in the hands of a few people, which can make resource allocation inefficient. This kind of economic behavior is what likely makes the investment climate in the Islamic economy increase quite high.

The Islamic economic system also regulates business institutions, including banking and financial institutions, that can be used to exploit and develop economic resources, such as patterns of *mudharabah* and *musharakah*, or store them in *mudharabah* deposits. If a person's money is developed through these methods, then his money and assets will not run out, because the zakat burden of 2.5% per year will be covered by the profits he earns. With the obligation for every Muslim to mobilize funds for investment activities and the prohibition of funds or assets being left idle and undeveloped, it is assumed that in the Islamic economic system, it is likely that investment activities will be in advance and developed which is a positive behavior for the economy to grow. If there is an increase in investment, income will increase many times due to the multiplier effect.

Mathematically, this can be written as follows by taking the example of a two-sector economy, and with the assumption that MPC equals 0,8, it is thus:

$$\begin{aligned}
 Y &= a + bY + I \\
 Y - bY &= a + I \\
 (1-b)Y &= a + I \\
 Y &= \frac{1}{1-b}(a + I) \\
 \Delta Y + Y &= \frac{1}{1-b}(a + I + \Delta I) \\
 \Delta Y &= \frac{1}{1-b}(\Delta I) \text{ atau } \frac{\Delta Y}{\Delta I} = \frac{1}{1-b} \\
 &= \frac{1}{0,2} = 5
 \end{aligned}$$

This means that if there is an additional investment of, for example, 10 million rupiahs, it will increase income 5 times, that is (10 million x 5 = 50 million), and this occurs because of the multiplier effect factor. This economic growth must be guarded and monitored by the government so that the result and the benefit of economic development can be felt and enjoyed by all levels of society, and the wealth does not only accumulate in the hands of a small group of people. Since the pattern of state spending has an impact on the welfare of society, the State must create a priority scale regarding government spending and expenditure. For example, fulfilling the basic needs of people's lives must become a priority in government spending so that if all the basic needs of all people can be met, then this will make people healthy and productive both in terms of thought and material productivity.

It is; therefore, the priority scale in financing and spending of the government expenditure (public expenditure) must be determined in such a way that:

¹⁸ Mannan and Nastangin, *Teori Dan Praktek Ekonomi Islam*.

First, budget funds are allocated to fulfill the basic needs of all elements of society, known as primary needs, such as food, clothing, education, medical treatment, and shelter. Included in the needs that must be protected by the government are the needs described according to al-Shatibi as *Maslahah al-'Ibad*, which in this case there are five, namely; (1) life or *al-Nafs*, (2) religion or *al-Din*, (3) descendants or grandchildren or *al-Nasl*, (4) property or *al-Mal*, (5) reason or *al-Aql*.

Second, is a secondary need to complete and complement the basic needs of life, and this secondary need can only be met after the basic needs of life are met. Third, tertiary needs must be completed and complement the second need.

Reflecting on the five things that are included in the primary needs above, the State budget for defense and security which aims to maintain the sovereignty of the State, uphold the supremacy of honest and just law, build a government that is free from collusion, corruption and nepotism is the main priority that must be carried out by the government, so that a good, strong and authoritative government can be created. It is because, in Islamic economic philosophy, excessive spending of wealth and property is strictly prohibited, whether done by individuals or the State; the government, in this case, must propagate or campaign for a simple life by providing role models in living a simple and modest life, starting from the president, vice president, ministers, and their staff and of course the people's house representatives, especially if the State is in an effort to get out of a prolonged economic crisis.

The government's task in carrying out state spending is to have control over the amount of spending, spending priorities, and spending patterns so that the main objectives of fiscal policy, such as redistribution of income and wealth, macro stabilization, and economic development, can be achieved. For example, deficit financing obtained from central bank loans tends to have a more expansive impact than if the loan funds were obtained from the rich, and if necessary, the government must force the rich to lend their money to the government to be used to finance spending.¹⁹

Government expenditure is certainly related to the state expenditure financing policy (public finance), which includes efforts made by the government to mobilize state income and economic resources through tax collection and the mobilization of public savings to meet state spending needs. Mobilizing public savings means mobilizing surplus public money as loans to the government, which, if successful, can be a useful means of economic development in the sense of diverting economic resources from unproductive to productive channels. In this case, of course, it is accompanied by control and monitoring of the amount of expenditure, spending priorities, and spending patterns so that the main objectives of fiscal policy and public financing can be achieved.

There are several differences in formulation between public finance and individual or private finance.²⁰

- (1) Financed private expenditure is usually determined by the income that has been obtained first, and then, after that, how much expenditure must be made. Public financing is usually determined first, and then the source of income is sought to cover the expenditure. This is possible because the government is in a stronger position to collect sources of income, such as tax levies or public loans. Although the private sector can also collect loans from the public, this is limited by the net worth owned by the private sector.

¹⁹ Abul Hasan Muhammad Sadeq, "Economic Development in Islam," (*No Title*), 1990.

²⁰ Ziauddin Ahmad, "Public Finance and Fiscal Policy in an Islamic Perspective. Ed. Ausaf Ahmad dan Kazim Reza Awan, dalam *Lectures on Islamic Economics* (Jeddah: Islamic Research and Training Institute, 1992), 369

- (2) The government can finance expenditure in its budget plan by creating core money through loans from central banks or what is known as deficit financing which is impossible to do by individual financing.

Fiscal policy, in addition to having the main objective of economic stabilization and development, also has several other objectives, as we can see as follows.

Several Objectives of Fiscal Policy

Fiscal policy, if implemented properly, can bring the country economic stabilization and economic growth and development. However, this economic growth and development must be properly monitored so that it is in line with Islamic values and moral norms. Since Islamic economics emphasizes simplicity in life and not being excessive and not too stingy in spending, fiscal policy must be directed at controlling consumption, both actual and potential, and increasing the marginal savings ratio. There are several actions that can be implemented by the government to limit consumption, including implementing progressive income tax, restrictions on imports of luxury goods, high import duties on luxury goods, prohibitions on the manufacture of luxury and semi-luxury goods domestically or limiting their use through licensing or imposing heavy taxes.

Fiscal policy must also be directed towards increasing and distributing national income fairly and proportionally so that inequality and gaps in income and welfare in the economy can be reduced. One way to redistribute national income is to increase the real income of the community, namely by creating a conducive investment climate, for example, encouraging private businesses to invest by providing concessions and tax holidays; in addition, the government must also make direct investments in the form of social and economic overhead and building infrastructure such as building highways, transportation, transportation facilities, so as to stimulate private parties to invest which in turn tends to increase national output, employment, and real income. And by reducing higher income levels, namely by implementing fiscal policies that include a broad and progressive tax structure, such as taxes on income, wealth, housing expenditure, and so on.

However, the tax structure must be manipulated in such a way that it does not have a negative effect on the investment climate. In addition to the tax instruments that are already known in the conventional economic world, in Islamic economics, there is one more instrument, namely, mandatory zakat for those who have wealth exceeding the nisab. Abul Hasan M. Sadeq argues that the objectives of fiscal policy and monetary policy are:²¹

- 1) Upholding and developing Islam and its teachings at all levels of human life and defending the country from enemy attacks.
- 2) National economic growth and development with a high economic growth rate in order to prosper the community so that the government can provide public welfare guarantees, including meeting the basic needs of all levels of society and creating a fair and honest state administration free from corruption, collusion, and nepotism.
- 3) Optimal use of economic resources, both natural resources and human resources.
- 4) Creating an economic environment conducive to economic activities.

²¹ Sadeq, "Economic Development in Islam."

Conclusion

It is well known that taxes are the most effective tool for the government in implementing fiscal policy. Taxes are the main means of financing government spending and expenditure. However, zakat is no less important than that of tax as a tool in fiscal policy, especially in redistributing income and wealth, helping a realization of socio-economic justice, which in turn is able to ensure the fulfillment of the basic needs, the realization of economic goals such as ensuring equality for all, preventing the concentration of wealth, reducing inequality which results in the healthier economy which can make contributing to the economic growth and development through multiplier effect in spending and expenditure, higher accumulation of capital as a result of modest life that is being not excessive and not too stingy in spending, so that there will be more capital that can be directed into investment and in productive economic activities. When there is more productivity in the economy, more output is produced and made available in the economy. More investment means more people are hired in the process of production, the people who are paid will have access to the market for spending and consumption, and the economy will work and do well through the instrument of fiscal policy using tools of tax and zakat conceptually and theoretically. In addition to that, since interest is prohibited in the Islamic economy, more people are encouraged to invest rather than leave their money idle and unproductive. It is because if they do that, their money will decrease gradually as they will be imposed zakat by 2,5% every year. It is why zakat will force people to be more active in doing work and investing to grow. If every individual economy is growing, so is the national economy.

Reference

- Ahmed, Habib. "Fiscal Policy and Deficit Financing : Islamic Perspectives" 32, no. 1 (2019): 79–85. <https://doi.org/10.4197/Islec.32-1.5>.
- Alim, Mohammad Nizarul. "Utilization and Accounting of Zakat for Productive Purposes in Indonesia: A Review." *Procedia - Social and Behavioral Sciences* 211, no. September (2015): 232–36. <https://doi.org/10.1016/j.sbspro.2015.11.028>.
- Brotodihardjo, Santoso. "Pengantar Ilmu Hukum Pajak," 1986.
- Chāprā, Muḥammad Umar, and Mohammed Umer Chapra. *The Islamic Welfare State and Its Role in the Economy*. Islamic Foundation, 1979.
- Gunawan, Muhammad Raihan, and Fauzi Herman. "Islamic Fiscal Policy : A Scientometric Analysis Using R" 1, no. 1 (2022).
- Hassan, Nubani Md, and Abd Halim Mohd Noor. "Do Capital Assistance Programs by Zakat Institutions Help the Poor?" *Procedia Economics and Finance* 31, no. 15 (2015): 551–62. [https://doi.org/10.1016/s2212-5671\(15\)01201-0](https://doi.org/10.1016/s2212-5671(15)01201-0).
- Huda, Bakhrul. 2022. "Analisis Keabsahan Penyaluran Harta Zakat Dalam Bentuk Al-Qardh Al-Hasan: Studi Atas Materi Ijtima' Ulama Komisi Fatwa MUI 2021". *Management of Zakat and Waqf Journal (MAZAWA)* 3 (2):66-86. <https://doi.org/10.15642/mzw.2022.3.2.66-86>.
- Ibrahim Atah, Umami, Wafa Mohammed Ali Nasr, and Mustafa Omar Mohammed. "The Role of Zakat as an Islamic Social Finance towards Achieving Sustainable Development Goals: A Case Study of Northern Nigeria." *Global Conference on Islamic Economics and Finance*, no. October (2018): 83–98.
- Jaelani, Aan. "Fiscal Policy in Indonesia: Analysis of State Budget 2017 in Islamic Economic Perspective," 2017, 1–19.
- Jhingan, M Lr. *The Economics of Development and Planning*. Vrinda Publications Delhi, 2011.

- Mannan, Muhammad Abdul, and M Nastangin. *Teori Dan Praktek Ekonomi Islam*. Pt. Dana Bhakti Prima Yasa, 1997.
- Mansur, Ahmad. 2012. "KEBIJAKAN FISKAL DAN IMPLIKASINYA TERHADAP PEMBANGUNAN EKONOMI: Kajian Konseptual & Teoritis Dalam Perspektif Ekonomi Islam". *El-Qist: Journal of Islamic Economics and Business (JIEB)* 2 (1). Surabaya, Indonesia:214-31. <https://doi.org/10.15642/elqist.2012.2.1.214-231>.
- Oktafia, Renny, Ririt Iriani, Reinanda Aprilia, Putri Rochimin, Universitas Pembangunan, and Nasioanal Veteran. "The Concept of Fiscal Policy: An Islamic Economic Perspective" 5, no. 2 (2023): 1–18.
- Permono, Sjechul Hadi. *Pendayagunaan Zakat Dalam Rangka Pembangunan Nasional: Persamaan Dan Perbedaannya Dengan Pajak*. Pustaka firdaus, 1993.
- Raies, Asma. "Islamic versus Conventional Fiscal Policy: The Effect of Zakat on Education and Employment." *Academic Journal of Interdisciplinary Studies* 9, no. 1 (2020): 27–33. <https://doi.org/10.36941/ajis-2020-0003>.
- Sadeq, AbulHasan Muhammad. "Economic Development in Islam." (*No Title*), 1990.
- Salama, Abdin Ahmed. "Fiscal Analysis of Zakat with Special Reference to Saudi Arabia's Experience in Zakat." *Op. Cit*, 1982, 341–64.