



How Do Pancasila Economics and Islamic Economics Relate to Financial Governance Policies in Indonesia?

Syarah Siti Supriyanti^{1*}, Dwi Nofiana Gita Pertiwi²

¹National Research and Innovation Agency, Indonesia

²University of Southampton, United Kingdom

ABSTRACT

Pancasila economics is an institutional economic system that upholds the core values of Pancasila as Indonesia's state ideology. Its five principles—ethics, humanity, nationalism, democracy, and social justice—serve as fundamental references for economic models in Indonesia. Meanwhile, the Islamic economic system is based on the teachings and values of Islam, derived from the Qur'an, As-Sunnah, ijma, and qiyas. This study aims to analyze the synchronization between Pancasila economics and Islamic economics in relation to various government policies, particularly in response to the challenges posed by global capital and liberalism. This research employs a qualitative approach (literature review) by analyzing relevant theories from books, journals, and online media. The Islamic economic system, rooted in the Qur'an and As-Sunnah, serves as a religious framework for Muslim communities, while Pancasila economics is the officially recognized economic system of Indonesia, founded on the principles of the state ideology. Both economic models share a strong social and moral vision, emphasizing economic equality and social justice. The findings reveal that when juxtaposed, Islamic economics and Pancasila economics converge in their ultimate goal of achieving welfare and justice for all members of society.

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* Corresponding Author at National Research and Innovation Agency, Jakarta, Indonesia
E-mail address: syar020@brin.go.id

INTRODUCTION

Economics plays a fundamental role in both society and the state, as it encompasses the production and distribution of goods and services, as well as human activities related to consumption and market exchange (Oliveira & Moutinho, 2022). Economic practices shape interactions between individuals and contribute to fulfilling common needs. Currently, the global economic landscape is primarily influenced by two major ideologies: socialism-communism and liberal capitalism. The United States follows a capitalist-liberal economic model, while the Soviet Union—now fragmented into Russia and several smaller nations—was historically rooted in socialist-communist economics (Abendin & Duan, 2021).

Countries that adopt these two ideologies often assert that their respective economic systems can enhance public welfare by encouraging active participation in national development and optimizing the utilization of resources. However, over time, the weaknesses inherent in both economic ideologies have become increasingly apparent. The failure of the socialist-communist economic system was largely due to excessive government control over people's lives (Mahmudov, 2020). Although it was implemented in the name of social equality, in practice, individual rights were severely restricted, and economic activities were monopolized by the state. As a result, only the upper class had privileged access to various sectors and economic opportunities, while the majority of the population faced growing economic stagnation and limited mobility, ultimately leading to widespread poverty. This phenomenon was a major factor in the collapse of the Soviet Union, which fragmented into several independent nations. Russia, as the largest successor state, continues to maintain elements of communism within its economic and political structure (Rahim et al., 2021).

Indonesia's economic system, known as Pancasila Economics, incorporates elements of both economic democracy and state sovereignty. Following its political independence from colonial rule on August 17, 1945, Indonesia sought not only political but also economic sovereignty. Despite initial economic structures influenced by colonial policies, the Indonesian economy has been characterized by a spirit of mutual cooperation (*gotong royong*)—a defining national trait. Pancasila, as the nation's ideological foundation, is enshrined in the 1945 Constitution and serves as a guiding framework for achieving national prosperity, social justice, and collective well-being. Furthermore, the alignment between Islam and Pancasila is

particularly evident in the first principle (Belief in One God Almighty), highlighting the nation's religious and moral foundation (Ghulamallah et al., 2021).

Conceptually, Indonesia's economic policies differ from both liberalism and mercantilism. In a liberal economy, property rights are protected, and resource allocation is determined by market forces rather than state intervention. The role of the government is minimal, as excessive state involvement is seen as a market distortion. In contrast, mercantilism involves strong state control over economic activities, including ownership, production, and distribution. Indonesia's Pancasila economic system, as mandated by the 1945 Constitution, as an idiomatic foundation is oriented towards god almighty, seeks a middle ground by emphasizing religious ethics, social justice, economic democracy, and national unity. This model rejects exploitation and materialism, instead prioritizing the principles of kinship, socio-nationalism, and socio-democracy in economic governance (Dabbous & Tarhini, 2021).

The primary objective of Islamic economics is to establish a prosperous society by integrating economic activities with ethical and spiritual values. Economic well-being in this world serves as a means to achieve ultimate success in the hereafter. Islam teaches that maintaining good relationships with fellow human beings and strengthening one's connection with Allah SWT will lead to a fulfilling life both in this world and in the afterlife. In practical terms, the implementation of Islamic economic principles can enhance individuals' economic status, reduce poverty, and alleviate hardship, including hunger and financial distress (Hasbi, 2023). Therefore, it can be concluded that while Islamic economics is rooted in religious principles, it extends beyond spiritual aspects by regulating social and economic interactions among individuals and communities. Given the significance of this topic, a more detailed and in-depth analysis is necessary. This article will further explore the relationship between Pancasila and Islamic economics within the framework of Indonesian government policies. (Rofiq & Hasbi, 2022).

Pancasila is taken from the Sanskrit language which means the principle or principle of state life. Pancasila as the basis of the State means that all implementation and administration of the government must reflect the values contained in Pancasila and must not conflict. Notonegoro argued. that Pancasila is the basic philosophy of the State of Indonesia which is expected to be the view of life of every Indonesian nation as a unifying basis, a symbol of unity,

and a form of defense of the Indonesian Nation and State. The five precepts in Pancasila show fundamental ideas about humans and the whole reality, which is believed to be true. Pancasila Economics is an ideology and science as well as an economic system with Indonesian identity that refers to the value system and socio-cultural system of the Indonesian nation based on the ethics and philosophy of Pancasila, explored based on the real economic life real-economic life of the Indonesian people. Thus, Pancasila Economics is an ideology and science and economic system based on Pancasila. Pancasila Economics is a practical description of the ideology and science of economics based on Pancasila, based on the five precepts that exist as a unit (Palley, 2014).

Our Pancasila Economic System adheres to an understanding that rejects the principle of too-free competition such as the Liberal Capitalist Economic system. A more appropriate system is an economic system based on the principle of kinship. Indonesia is a country where the majority of the population is Muslim. Pancasila economy is based on the implementation of Pancasila values that are different from the values in other economic systems. This Pancasila economy does not adhere to the science that contains human greed in human beings or human beings. The main thing is not to seek profit or materialistically utilize other humans and existing resources. All limited to morals and ethics, Pancasila economics has a more humanitarian face. The Pancasila economy has the following system of belief in god almighty meaning that every citizen is driven by economic, social, and moral stimuli. Just and civilized humanity there is the determination of the entire nation to realize social equality. National unity economic nationalism. Democracy is led by wisdom in deliberation or representation democracy. Social justice for all Indonesians decentralization and regional autonomy (Cevik & Correa-Caro, 2020).

The objectives of the Pancasila Economy, namely realizing equity and social justice, namely not allowing the occurrence and development of economic inequality and social inequality. The spirit of economic nationalism, where in the era of globalization it is increasingly clear that there is an urgency for the realization of a strong, resilient, and independent national economy. Economic democracy based on populism and kinship, cooperatives and cooperative enterprises animates the behavior of individuals and communities. A harmonious, efficient, and fair balance between national planning. And economic decentralization and broad, free, and responsible autonomy, towards the

realization of social justice for all Indonesians. The position of Pancasila as the foundation of the Republic of Indonesia is summarized in the Preamble of the 1945 Constitution in the fourth paragraph. This is also based on the historical side history as determined by BPUPKI that the basis of the Indonesian state is called Pancasila. Pancasila as the juridical basis of the state is stated in the Preamble. of the 1945 Constitution, Decree No. XX/MPRS/1966 (Jo MPR Decree) No.V/MPR/1973 and Decree No.IX/MPR/1978).

The position of Pancasila. as the basis of the state is permanent, strong, and cannot be changed by anyone, including the MPR and DPR. The position of Pancasila as the basis of the state can be described as follows: Pancasila as the basis of the state is the source of Indonesian legal order which is further explained into four main ideas in the preamble of the 1945 Constitution. Covering the atmosphere of the 1945 Constitution, namely things that animated at the time of the drafting process of the 1945 Constitution. This means that the values of integrity, humanity, unity, populism, and justice are reflected in the articles. Embody the legal ideals of the country's basic law both written and unwritten law. Contains norms that require the Basic Law to oblige the government and other state administrators including party administrators. And functional groups to uphold the noble moral ideals of the people. This is as stated in the fourth point of thought which reads. The state is based on the Supreme Godhead, according to the basis of humanity and just and civilized. It is a source of enthusiasm for the 1945 Constitution, for state organizers and government executives. This can be understood because it is important for state organizers or executors. Therefore, Indonesian society and state always grow and develop along with the times and the dynamics of society. With the spirit that comes from the spiritual principles of the state as the nation's view of life, the dynamics of society and the state will continue to be covered and directed by the spirituality of the state (Roobavannan et al., 2020).

Islam is a religion, while Pancasila is the philosophy of life in the nation and state. Therefore, in a Pancasila state Islam can live and thrive, even indispensable. Thus, the concept of Pancasila will become clearer when. People practice their respective religions. Based on the concept of Pancasila, the state has an interest in being religious people. Islam is seen. as a path to goodness, glory, safety, and happiness that invites to the path. That should be done with an exemplary approach. The teachings of Islam brought by the previous prophets only apply to their people and do not apply to mankind as a whole because the way of spreading

is still very limited. Meanwhile, the Islamic teachings brought by Prophet Muhammad Saw are the most complete Islamic teachings and apply universally to all humans throughout their lives.

Islamic economics is the study of human economic behavior whose behavior is governed by the rules of Islam and is based on *tauhid* as stated in the pillars of faith and the pillars of Islam. Our Pancasila Economic System adheres to an understanding that rejects the principle of too-free competition such as the Liberal Capitalist Economic system. A more appropriate system is an economic system based on the principle of kinship. Indonesia is a country where the majority of the population is Muslim (Kusuma, 2024). Resource scarcity is the result of an imbalance or gap between the limited availability of factors of production and the unlimited level of demand. Unlimited needs are a reflection of human needs for basic things that are used to sustain life. In conventional economics, humans are portrayed as creatures who have unlimited wants that do not match the amount of resources available. Limited factors of production are something that already exists provided by nature or created by humans that can be used to produce goods and services, such as land and natural resources, labor, capital, and skills. These factors of production are not always available in abundance so humans must think of ways to produce efficiently (Lestari, 2024).

METHOD, DATA AND ANALYSIS

The method used in this article was qualitative research, specifically following the phenomenological approach, which involved scientific research activities by collecting comprehensive data and then describing observed social phenomena to understand them as a whole. Qualitative research aimed to identify the characteristics, properties, and relationships of phenomena by comparing differences and similarities found in various cases. Data collection was carried out by gathering information from various sources such as books, journals, and previous research. The collected materials were then critically and thoroughly analyzed to support the propositions and ideas presented in the study (Crowther & Lauesen, 2017).

In this study, the researcher sought to understand and describe the perspectives of the research subject. Therefore, this study employed a qualitative approach with a descriptive method, using library research as the primary technique. Library research was conducted by

collecting literature in the form of books, notes, or research reports from previous studies. The required data was obtained by identifying themes or discourses from books, papers, articles, magazines, and journals, as well as web-based sources related to the topic of this research. The goal was to find relevant variables in the form of notes, transcripts, books, newspapers, and other sources that discussed the basic principles of the Islamic economic system, Pancasila economics, and the people's economy for societal welfare. The research process involved collecting existing data and analyzing it through various textual sources, including textbooks, documents, and online references.

Once the data was collected, it was analyzed to derive conclusions. Several methods were applied in the data analysis process, including descriptive analysis, where the researcher mapped out the location of the data across various sources. In content analysis, the researcher examined books, magazines, and journals not only for their content but also by considering aspects such as background, timing, and contextual factors. The researcher also expressed opinions based on the collected data. Data analysis was conducted inductively, starting from empirical facts in the field. In qualitative research, data analysis was performed simultaneously with data collection to ensure a continuous refinement of findings.

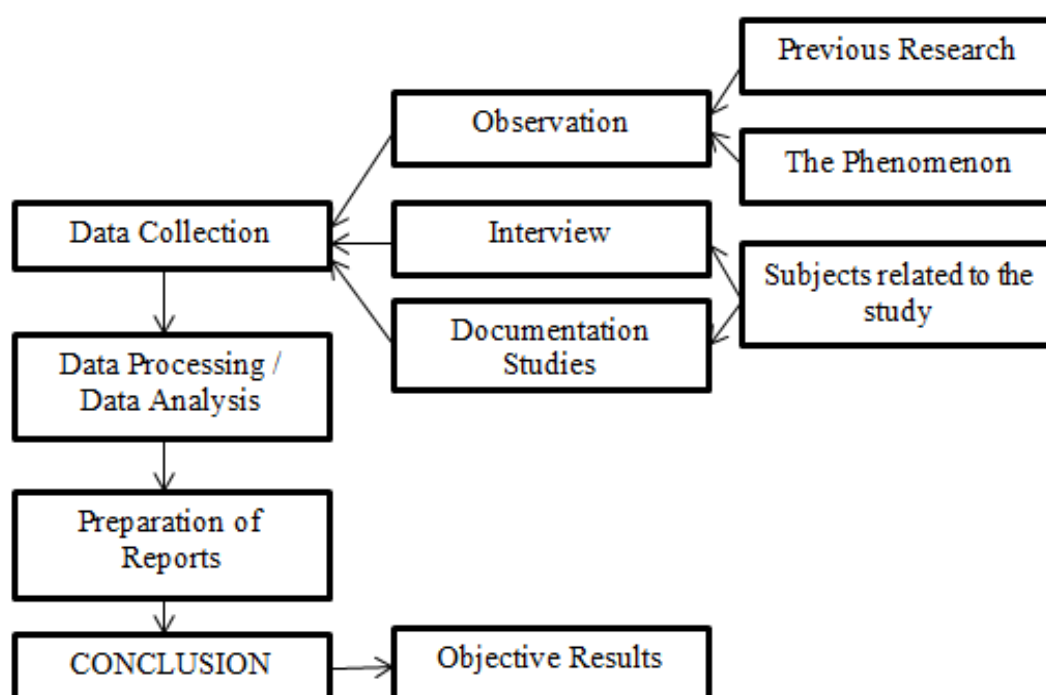


Figure 1

The Process of Descriptive Qualitative Research

The final step was decision-making or verification, where the presented data was used to draw conclusions. This involved identifying patterns, models, themes, relationships, recurring trends, and other relevant findings. The data analysis process consisted of four main stages: pre-field analysis, data reduction, data presentation, and verification. Pre-field analysis involved reviewing data from previous studies, while data reduction was done by summarizing and focusing on essential information aligned with the research objectives. Data presentation was carried out in descriptive form, including explanations, charts, and tables. Finally, verification was conducted by drawing conclusions based on research questions. Through these steps, this study aimed to provide a comprehensive understanding of the relationship between Islamic economics, Pancasila economics, and economic policies for the welfare of society.

RESULT AND DISCUSSION

The Relationship between Pancasila Economics and Islamic Economics

In practice, the Pancasila economic system is founded on Pancasila, which serves as the ideological foundation of the Indonesian nation. Both the government and society are expected to prioritize the economic interests of the people, ensuring that the Pancasila economy effectively promotes prosperity and welfare. Emil Salim, a prominent expert on Pancasila economics, argued that cooperatives represent a concrete manifestation of the Pancasila economy. However, the role and function of cooperatives must align with the objectives of the Pancasila economic system. Consequently, within this framework, cooperatives can flourish and develop with substantial integrity and purpose. The Pancasila economic system is characterized by several key principles. The belief in One Almighty God signifies that every citizen is driven by economic, social, and moral imperatives. The principle of just and civilized humanity reflects the nation's commitment to achieving social equality. Economic nationalism is embedded in the concept of national unity, while democracy is upheld through deliberation and representation. Additionally, the pursuit of social justice for all Indonesian citizens is supported by decentralization and regional autonomy.

Between 1968 and 1978, Indonesia experienced significant economic development. During this period, the country faced economic crises and sought to rebuild its economic foundation to sustain future growth. Emil Salim further conceptualized the Pancasila

economic system, emphasizing that individuals within this system must maintain a balance between work and prayer as a reflection of their faith in God, humanity, democratic principles, social justice, and nationalism. The Pancasila economy rejects exploitative production methods and instead promotes an economic structure that fosters human dignity and aligns with the values deeply rooted in Indonesian society. Functioning as a middle ground between a guided economy and a free-market economy, the Pancasila economic system is ideologically committed to economic democracy and equilibrium. It serves as a mechanism for guiding economic development toward planned objectives while maintaining a balance between economic growth and social justice (Saputra & Sultan, Fadhilah, 2024).

On August 17, 1945, Indonesia gained political independence from colonial rule. This marked the beginning of the formation of all aspects of the state, including its economic system. People's sovereignty must be realized not only through political democracy but also through economic democracy. Although Indonesia's economy at that time was still influenced by the ideology inherited from the colonizers, the spirit of mutual cooperation—deeply rooted in Indonesian identity—played a significant role in shaping its economic landscape. This spirit reflects the fundamental characteristics of the Indonesian economy, which must be built on collective efforts, ensuring that small entrepreneurs are not marginalized and that public activities are not disrupted. Economic decentralization was implemented through cooperatives, envisioned as the foundation of Indonesia's economy, growing like trees in a vast garden, whose fruits could be enjoyed by all citizens.

Pancasila, as the nation's ideology and philosophical foundation, is explicitly stated in the 1945 Constitution. It serves as a guiding principle for achieving national happiness, prosperity, peace, and sovereignty. The relationship between Islam and Pancasila is reflected in its first principle, which acknowledges belief in one almighty god, aligning with the Islamic concept of *tawhid* (oneness of God). Economic policies shaping Indonesia's economic structure are not solely influenced by economic theories but also consider socio-cultural aspects and religious values. Given that the majority of Indonesia's population is Muslim, legal and ethical references for economic activities are often based on Islamic principles. Consequently, the implementation of the Pancasila economic system is best understood when viewed through an Islamic lens (Retnoningsih & Jamin, 2024).

Article 33 of the 1945 Constitution explicitly states that the ultimate goal of Indonesia's economic system is to maximize public welfare. The economy must be organized based on economic democracy, ensuring that collective prosperity takes precedence over individual wealth. This objective aligns with the five principles of Pancasila. Financially, the Pancasila economic system may be perceived as less profit-driven compared to other economic models, but it prioritizes social justice, equality, and solidarity. Since the 1980s, the term Pancasila economy has been closely associated with the economist Mubyarto, who emphasized that this economic system should directly benefit small communities and be grounded in social morality, egalitarianism, economic nationalism, cooperatives, and a balance between central and regional economic planning. Islamic economics, on the other hand, is fundamentally based on monotheism, incorporating elements such as faith, devotion, and ethical human interactions with nature. The Qur'an defines wealth not as an ultimate goal but as a means to an end—serving as an intermediary in fulfilling one's duty to worship Allah SWT. This perspective reinforces the idea that economic activities must be conducted within a framework of ethical and moral responsibility, ensuring justice and social welfare for all.

The preamble of the 1945 Constitution states that Indonesia is a nation that upholds the belief in One Almighty God and is committed to promoting a just and civilized humanity. The principle of divinity in Pancasila reinforces the nation's ethical foundation, ensuring that public and political life is conducted based on high moral values and noble character. More specifically, the first principle of Pancasila serves as the fundamental basis for the remaining four principles. The Pancasila economic system is an economic framework rooted in these values, with the 1945 Constitution—particularly Article 33—serving as its primary foundation. Research on the synchronization between the Pancasila economic system and the Islamic economic system in Indonesian government policy highlights key similarities. The Islamic economy is an economic system based on the Qur'an and Sunnah, which serve as religious pillars for Muslim communities. Meanwhile, the Pancasila economy is the legally recognized economic system of Indonesia, founded on the nation's ideological framework—Pancasila. The Islamic economic system is built upon the principles of tawhid, encompassing faith, justice, welfare, and human interaction (Amalia & Musa, 2023).

The Qur'an emphasizes that the ultimate purpose of human life is to worship Allah SWT by adhering to His commands and refraining from His prohibitions. Indonesia, as a nation

that acknowledges and believes in God's existence and his perfect attributes, embraces monotheism, which shapes its perspectives on human relationships, environmental stewardship, and social harmony. These beliefs align with the first principle of Pancasila, which affirms the nation's devotion to One Almighty God. Furthermore, Indonesia strives to uphold justice, national unity, deliberation, mutual cooperation, and social equity for all its people. Given that Pancasila serves as both the ideological foundation and guiding principle of the state, it also influences the formulation of the Pancasila economic system. The core concepts of this system closely resemble those of Islamic economics, particularly in their shared reliance on tawhid as the ultimate foundation (Nafi' et al., 2022).

The similarities between the Pancasila economic system and the Islamic economic system are evident in their shared commitment to social and moral values. Both systems reflect divine principles, such as the concept of tawhid in Islamic economics and the acknowledgment of divinity in the first principle of Pancasila. This connection is also supported by Surah An-Naml (27:90), which emphasizes the importance of social justice and economic equality. Consequently, both systems advocate for economic policies that promote social security, ensuring equitable distribution of wealth and opportunities for all individuals (Article 5). A strong sense of nationalism is also embedded in both economic systems, promoting mutual respect, tolerance, and solidarity. When these values are consistently applied by the Indonesian people, national unity and social welfare are strengthened. One example of this economic model in practice is the *Baitul Maal wat Tamwil* (BMT), a Sharia-based cooperative that operates in accordance with Islamic financial principles. In line with Islamic teachings, wealth is viewed as a trust from God, and those who possess excess wealth have an obligation to share it with the less fortunate, including the poor, orphans, and those with lower economic status. Islam prohibits economic disparity that leads to social injustice, emphasizing the need for economic institutions that uphold fairness and equity in wealth distribution (Hasbi, 2021).

***Baitul Maal* as a Necessity for Achieving Community Welfare**

Baitul maal plays a crucial role in maintaining balance in the implementation of economic policies, aiming to create equitable public welfare. Achieving this balance is essential to ensure that prosperity is distributed fairly among all members of society. Islam teaches that those who are financially capable must not forget their obligation to assist those in need. Islamic

teachings recognize that even the poor have a right to receive zakat and alms, regardless of the concept of private property. Meanwhile, Pancasila, as the foundation of the Indonesian state, emphasizes the importance of creating social justice for all Indonesian people (Riyadi, 2021). As the primary source of the Pancasila economy, this ideology has a close relationship with the Qur'an, which serves as the foundational source of Islamic economic concepts.

Several connections between Pancasila and the Qur'an can be observed in the five principles that form the basis of the state. First, the principle of Belief in One Almighty God affirms the monotheistic faith embraced by Indonesia. This concept aligns with tawhid in Islam, which asserts that only one God is worthy of worship. This principle is reflected in the Qur'an, Surah Al-Baqarah (2:163), which affirms that Allah is the One and Only God. The Indonesian state guarantees religious freedom for all citizens, and in the economic context, these divine values are reflected in policies that emphasize ethics and morality in economic activities. Second, the principle of Just and Civilized Humanity underscores that humans are social beings with the ability to think, feel, and create. Justice, as highlighted in this principle, means that individuals must not act selfishly but instead uphold fairness in social and economic interactions. This principle is reinforced in the Qur'an, Surah Al-Ma'idah (5:8), which instructs Muslims to act justly in all aspects of life. Third, the principle of Indonesian Unity highlights the importance of maintaining national unity and cohesion. This principle is embodied in the national motto *Bhinneka Tunggal Ika* (Unity in Diversity), which emphasizes that despite differences, all Indonesian people remain united in pursuit of a common goal. National unity is fundamental to ensuring the stability of the country and achieving shared prosperity. Islam similarly emphasizes the importance of fraternity and unity among people, regardless of their backgrounds. The Qur'an, Surah Ali 'Imran (3:103), instructs Muslims to hold firmly to the rope of Allah and not be divided, as unity is the key to creating a harmonious and peaceful society (Afiyah, 2025).

Fourth, the principle of Democracy Guided by the Inner Wisdom in Unanimity Arising Out of Deliberations Among Representatives reflects the democratic system adopted by Indonesia. In Pancasila, democracy prioritizes deliberation as a means of decision-making that involves all societal elements. The principle of wise leadership is also consistent with Islamic teachings, which emphasize that leaders must be responsible, intelligent, and just in governance. The Qur'an, Surah Sad (38:20), describes how Prophet David ruled with wisdom

and justice, serving as an example for leadership in democratic systems. Fifth, the principle of Social Justice for All Indonesian People emphasizes that every individual has the right to fair treatment in all aspects of life, including politics, law, economy, society, and culture. Islam similarly emphasizes the importance of social justice in economic systems. The Qur'an, Surah An-Nahl (16:90), commands believers to act justly, practice goodness, and help others, while forbidding injustice and oppression. The principles of social justice in Pancasila and Islam place societal welfare as the top priority in economic development.

In the context of economic systems, Islam has several fundamental principles that align with the Pancasila economy. The first principle is tawhid, or the belief in the oneness of God, which serves as the foundation for all aspects of life, including economics. This belief affirms that all wealth in the world is a trust from Allah and must be managed according to His laws. The second principle is 'adl (justice), which emphasizes that in economic activities, individuals must not exploit or oppress others for personal gain. Justice in economic interactions requires honesty, the prohibition of riba (usury), and the prevention of social and environmental harm. The third principle is nubuwwah (prophethood), which highlights that prophets were sent to provide guidance for human life, including economic ethics. Prophet Muhammad exemplified honesty, trustworthiness, and responsibility in his business dealings. The four prophetic qualities that should be emulated in business practices are siddiq (truthfulness), amanah (trustworthiness), fathanah (intelligence), and tabligh (conveying goodness) (Wusqo et al., 2022). One of the practical implementations of these principles is Baitul Maal, an institution responsible for managing the distribution of wealth through zakat, infaq, sadaqah, and waqf. Baitul Maal plays a key role in ensuring social justice and financial inclusion for underprivileged communities. In the context of the Pancasila economy, Baitul Maal can be compared to cooperatives and social security systems, which are based on the principles of kinship and social justice. By integrating Islamic economic principles into national economic policies, Indonesia can establish an economic system that aligns with both religious values and state ideology, ultimately fostering sustainable prosperity for all its citizens.

The Qur'an explains that Allah SWT has created humans as caliphs (khulafa') on earth. This concept serves as a fundamental value underlying human life as social beings who cannot be separated from interactions with one another, including in the economic field. Ma'ad, or "Results," linguistically means return. This means that as creatures given life by Allah SWT on

earth, humans will eventually return to Him. Life does not end in this world but continues into the afterlife. Therefore, Allah SWT reminds humans not to be excessively attached to worldly matters. In another sense, ma'ad also means reward. In economic thought, Imam Al-Ghazali interpreted this concept as a motivation for economic actors to seek profit. Based on this, the pursuit of profit is permissible in Islam, as long as it aligns with ethical and moral values. The movement of a nation's economy is driven by economic, social, and moral stimuli, ensuring that all citizens contribute to achieving social equity by preventing economic inequalities and social disparities. All economic actors—producers, consumers, and the government—must act with a nationalistic spirit, prioritizing economic decisions that strengthen the national economy. Cooperatives and economic organizations that promote collaboration and mutual assistance serve as the foundation of community-based economic activities. Given Indonesia's vast and diverse economy, a balance must be maintained between national economic planning, decentralization, and regional autonomy. Through active regional participation, economic justice can be upheld to ensure social justice for all (Raies, 2020).

The principles of Pancasila economics include social justice and kinship. Social justice is reflected in the fifth precept of Pancasila, which serves as the ultimate goal of the other precepts. The principles of Belief in One Almighty God, Just and Civilized Humanity, Indonesian Unity, and Democracy Led by Wisdom in Consultation/Representation are all interconnected. Ultimately, they must result in social justice for all people. This is why the Preamble to the 1945 Constitution, in its fourth paragraph, concludes with the phrase: "to realize social justice for all Indonesian people." The Pancasila Economic System adheres to principles that reject extreme free-market competition, as seen in liberal capitalist economies. Instead, a more suitable approach is an economic system based on kinship and social cooperation. Indonesia, as a country with a Muslim-majority population, naturally aligns with an economic philosophy that promotes fairness and mutual prosperity (Muhammad et al., 2020).

This is where Islamic economics and Pancasila economics share fundamental similarities. The foundational source of Pancasila economics is the five precepts of Pancasila, which are highly compatible with Islamic economic principles. Economic policies in Indonesia are not solely based on economic analysis but also consider socio-cultural aspects, including religious values. Given that Islam plays a significant role in shaping Indonesian society and legal systems, Islamic teachings are widely accepted across various social groups. Therefore,

it is appropriate that Pancasila economic policies align with Islamic economic values to ensure economic justice and social welfare. The application of Pancasila economics must be protected from increasingly liberal economic influences, as excessive liberalization could compromise the social and economic well-being of Indonesian society. By analyzing the characteristics of both Islamic and Pancasila economics, we can conclude that their objectives, visions, and missions are compatible. The synthesis of Islamic and Pancasila economics in Indonesia's economic policies represents a policy reform that best suits the cultural identity of Indonesian society. This approach also acts as a barrier against the dominance of liberal economic systems, which continue to expand due to free-market forces and globalization (Wakaf, 2024).

***Maqāṣid Al-Sharī'ah* in the Islamic Economic System and Pancasila Economics in Indonesia**

Pancasila, as the state ideology, underwent a long historical process. The acceptance of Pancasila did not happen quickly or easily, especially among Muslims. Faisal Ismail identified three main phases of Muslim responses to Pancasila. First, during the pre-independence period (1945) until the Constituent Assembly sessions (1956-1959), Nationalist-Secularists proposed Pancasila as the foundation of the state. Second, in 1978, during the New Order era, the government introduced P-4 (Guidelines for Understanding and Implementing Pancasila) for ratification. Third, in 1982, the government proposed Pancasila as the sole ideological foundation for all political and social organizations.

Ultimately, all Muslim groups agreed to accept Pancasila as the ideology and philosophy of the state. However, they developed their own interpretations of Pancasila. Nahdlatul Ulama was historically recorded as the first religious organization to formally accept Pancasila as the state ideology in 1984, followed by Muhammadiyah in 1985. While Pancasila remains open to various interpretations, this openness fosters dynamism within the Muslim community in Indonesia, strengthening tolerance, inclusivism, human rights, and minority protection (Zuhri Humaidi, 2010). Despite past debates, Indonesian society today generally accepts Pancasila as the philosophical foundation of the state. However, an interesting question arises: What kind of economic system is currently implemented in Indonesia? Does Indonesia lean towards capitalism or socialism? This is where Muslim scholars and Islamic economic activists can introduce an alternative discourse—the Islamic economic system. Indonesia's economic system remains difficult to categorize (Ben Jedidia & Guerbouj, 2021).

First, one argument posits that Indonesia's economic system is neither purely capitalist nor socialist. Instead, the Pancasila economic system seeks a balance between the two, operating as a market economy with strategic planning. This aligns with Mubiyarto's assertion that the Pancasila economic system exists between these two extremes yet remains distinct from both. The second perspective examines Indonesia's economic system from both normative and empirical viewpoints. Normatively, according to the 1945 Constitution, particularly Article 33, paragraphs 2 and 3, Indonesia's economy should lean toward socialism. However, recent developments, marked by increasing economic conglomeration and concentration of power, suggest a growing tendency toward capitalism (Kuncoro, 2009). Over time, the Islamic community has introduced another alternative—the Islamic economic system—as a viable framework for Indonesia.

Argues that Islam presents an economic system fundamentally different from existing models. Rooted in Sharia principles, this system establishes a distinctive worldview, goals, and strategies that diverge from secular economic paradigms. Further contends that if Islamic economics is understood as a system, it must be viewed as an integral part of a holistic way of life, founded on four primary sources: the Qur'an, Sunnah, Ijma', and Ijtihad. The ultimate objective of the Islamic economic system is the realization of Islam *kaffah* in the economic domain, aiming to achieve *mashlahah* (public good) or *falah* (prosperity) for humanity. To attain this goal, the concept of *maqāṣid al-sharī'ah* plays a crucial role, as it defines the objectives of Islamic law in safeguarding human welfare. *Maqāṣid al-sharī'ah* serves as a framework for interpreting and determining what constitutes *mashlahah* without deviating from the core tenets of Islam. This framework seeks to harmonize divine will with human aspirations, ensuring that economic activities remain ethically grounded.

Based on the discussion above while preserving the essence of Islamic economics in Indonesia, its development must remain aligned with the nation's ideological foundation—Pancasila. *Maqāṣid al-sharī'ah* can serve as a point of convergence between the overarching objectives of Pancasila and the noble aspirations of the Islamic economic system. This article does not provide a detailed examination of either the Islamic or Indonesian economic systems but instead highlights how the principles of Islamic economics do not contradict Pancasila as the state's ideological foundation. Furthermore, Pancasila itself can be examined through an Islamic perspective, with *maqāṣid al-sharī'ah* functioning as a conceptual bridge to integrate

Islamic economic principles with Pancasila. Both frameworks ultimately share a common goal—achieving the greater good (*maslahah*) for society. This article will first elaborate on *maqāṣid al-sharī'ah* and the principles of the Islamic economic system, followed by an analysis of Pancasila from an Islamic perspective within the *maqāṣid al-sharī'ah* framework (Wani, 2017).

Islamic economics represents an expression of one's faith in God, Allah SWT. In Islam, the concept of Islam as a way of life is well established, which inherently extends to economic activities. Islam provides a comprehensive set of guidelines for human life, some of which are fixed while others are contextual, adapting to location, conditions, and human needs. By definition, various scholars have attempted to define an economic system describes it as a system that regulates and establishes economic relationships among individuals through a set of institutions within a social framework. Furthermore, he asserts that an economic system does not operate in isolation but is closely linked to the philosophy, worldview, and lifestyle of the society in which it functions. The economic system is one element within the broader supra-system of social life and is an integral part of a nation's ideological framework (Aziz & Ahmad, 2018).

The primary purpose of an economic system is to achieve national prosperity and public welfare. The economic system functions as a social structure designed to foster prosperity. From the perspectives of various scholars, it can be concluded that an economic system is fundamentally a framework that governs a nation's economy to ensure the well-being of its people. Dumairy's definition becomes particularly relevant when applied to Indonesia, which upholds Pancasila as its state ideology while having a predominantly Muslim population that embraces Islamic economic principles. Generally, economic systems are shaped by economic thoughts, theories, or concepts regarded as valid. In the case of the Islamic economic system, Islam, as a religious and foundational way of life, inherently encompasses economic activities. Consequently, the principles governing an Islamic economic system are derived from the Quran and Hadith (Fisol et al., 2017).

An effective economic system must incorporate key elements, including ownership rights, which may be individual, social, or state-based. Information dissemination and coordination mechanisms must be established through market operations, planning, or traditions. Decision-making methodologies can be centralized, decentralized, or hybrid. Lastly,

the system must incorporate an incentive structure to guide economic behavior, whether materialistic or non-materialistic (Gregory & Stuart in P3E U11). Islamic economists aim to explore and integrate these elements within an Islamic framework rooted in Quranic principles. Taqyuddin an-Nabhani, for instance, identifies key principles underpinning the Islamic economic system: ownership, management of ownership (*tasharuf al-milkiyyah*), and wealth distribution. Pancasila is recognized as the final and legitimate ideology of the Indonesian nation. The lengthy deliberations among Indonesia's founding fathers reflect the noble aspiration of establishing a solid foundation for national unity and cohesion. Given Indonesia's immense diversity, ideological conflicts could have posed a significant threat to national stability. As Geertz notes, Indonesia comprises over 300 ethnic groups, 250 languages, and numerous indigenous or local belief systems. The nation's founders displayed great wisdom by setting aside group-specific interests in favor of collective unity. As discussed earlier, the acceptance of Pancasila as the state ideology was a complex process for different groups involved in the independence movement. Each faction envisioned distinct national characteristics, yet as independence approached, they were able to engage in dialogue and reach a consensus on Pancasila as the unifying foundation of the nation (Marfiyanto, 2019).

A nation requires an ideology to provide a clear sense of identity, collective pride, and the ideological strength necessary to pursue social, political, and economic aspirations. Ideology, in theoretical terms, constitutes a set of ideas that underpins economic and political theories or is embraced by particular individuals or groups. The term Pancasila is derived from Sanskrit, where 'Panca' means five and 'Sila' means principle, signifying the five foundational principles of the Indonesian state. Long before the establishment of Indonesia, the term Pancasila appeared in the writings of Empu Prapanca in the *Negarakertagama* and Empu Tantular in the *Sutasoma*. Historically, Pancasila served as an ethical guideline to prevent rulers and citizens from engaging in violence, theft, vengeance, deceit, and alcohol consumption. However, under Sukarno's leadership, Pancasila evolved into a profound reflection of the Indonesian nation's soul and identity. The officially recognized Pancasila, as established by the Indonesian government, consists of five principles: belief in the One Almighty God, just and civilized humanity, the unity of Indonesia, democracy guided by the wisdom of deliberation among representatives, and social justice for all Indonesians (Ni'ami & Bustamin, 2021).

As an open ideology, Pancasila remains subject to various interpretations by scholars and policymakers. Its role as the foundation of the Indonesian state has sparked significant discourse, particularly among Muslim communities. Bung Hatta, a prominent economist, Muslim leader, and one of Indonesia's founding figures, elaborated extensively on the principles embedded within Pancasila. According to Hatta, Pancasila's formulation adequately accommodates the religious beliefs prevalent in Indonesia while encapsulating the nation's philosophical outlook. In the economic context, Pancasila's values must serve as the foundation for economic policies and behavior in Indonesia. Initially, Islamic organizations strongly opposed the adoption of Pancasila as the state ideology. However, over time, through deeper understanding and broader perspectives, they came to accept Pancasila while maintaining their interpretations of it. This acceptance aligns with the flexible nature of Pancasila as an open ideology. Nahdlatul Ulama (NU), one of Indonesia's largest Islamic organizations, was among the first to formally accept Pancasila as both the ideological foundation of the state and its organizational principle (Campra et al., 2021).

CONCLUSION AND SUGGESTION

The results indicate that the Islamic economic system is rooted in the Qur'an and As-Sunnah, while the Pancasila economic system is the framework adopted by the Indonesian state, grounded in the ideology and principles of Pancasila. Islamic economic values are founded on tawhid, faith, justice, and harmonious interaction between humans and the universe. The Qur'an emphasizes that the ultimate purpose of human existence is to worship Allah SWT. As a religious nation, Indonesia acknowledges the concept of monotheism, as reflected in the first principle of Pancasila. Moreover, Pancasila serves as both the ideological foundation of the state and the guiding principle of its economic system.

The economic philosophy of Pancasila aligns with the principles of Islamic economics, which are also based on tawhid. The convergence of these two economic paradigms is further reinforced by Qur'anic verses that underscore the importance of cooperation and familial ties in achieving a dignified economic life. Both the Islamic and Pancasila economic systems emphasize social vision, morality, divinity, economic equity, social justice, tolerance, a communal spirit, and nationalism as fundamental pillars for ensuring the overall welfare of Indonesian society. The integration of Islamic and Pancasila economics into Indonesia's

economic policies represents a reform strategy that aligns with the nation's cultural characteristics, aiming to mitigate the growing influence of liberal economic practices amid free-market expansion and globalization. This approach supports efforts to achieve sustainable economic prosperity and social well-being for all citizens.

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