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Bridging the gap: evaluating Indonesia's National income and societal welfare through an Islamic economic perspective

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Abstract

National income is a critical indicator of a country's economic health, reflecting its capacity to generate income and distribute wealth. This study focuses on Indonesia, the largest economy in ASEAN, whose Gross National Income (GNI) ranks first in the region, yet its GDP per capita remains comparatively low. The study aims to assess how well Indonesia's national income translates into societal welfare, emphasizing income inequality. Using national data from credible sources such as the World Bank and Indonesian Statistics Bureau, the research employs a macroeconomic framework and Keynesian consumption model to evaluate the distribution of wealth. The findings reveal a substantial gap between Indonesia's high national income and its uneven income distribution, evidenced by a rising Gini Index. The research explores Islamic economic principles, particularly the concept of *maqāṣid sharīah*, to propose a fairer income distribution model that could enhance societal welfare. The study's implications suggest that incorporating Islamic fiscal tools such as zakat could bridge economic disparities, fostering equitable and sustainable development in Indonesia.

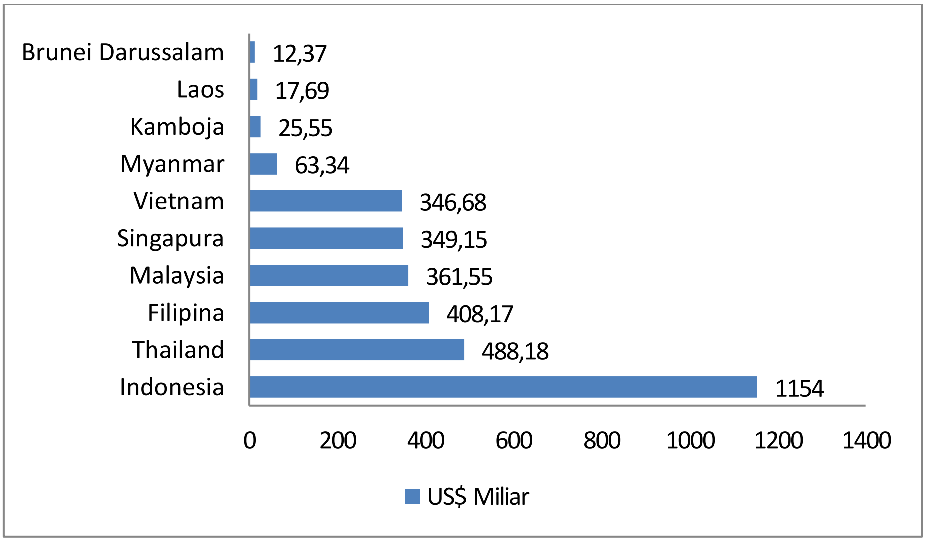
Keywords: National Income; GNI; GDP per capita; Income inequality; Islamic economics.

Introduction

National income is one of the most critical indicators used to assess the economic performance of a country. According to Sukirno (2006), national income reflects the total income received by households within a country over a specific period, typically a year. National income data is used to understand various economic aspects, including the level of societal welfare, the output produced, and the composition of aggregate expenditures in the economy. In macroeconomic contexts, national income is considered a key benchmark for evaluating whether a country has successfully improved the welfare of its people.

Indonesia, as one of the largest countries in Southeast Asia, commands a dominant economy in the region. According to data from the World Bank (2021), Indonesia's Gross National Income (GNI) in 2021 amounted to US$115.4 billion, equivalent to Rp1.684 quadrillion (at an exchange rate of Rp14,200 per US$). This figure makes Indonesia the country with the highest GNI in the ASEAN region, surpassing neighboring countries like Thailand, with US$488.18 billion, the Philippines at US$408.17 billion, and Malaysia at US$361.55 billion. Figure 1 below shows the comparison of GNI among ten ASEAN countries in 2021, with Indonesia at the top.

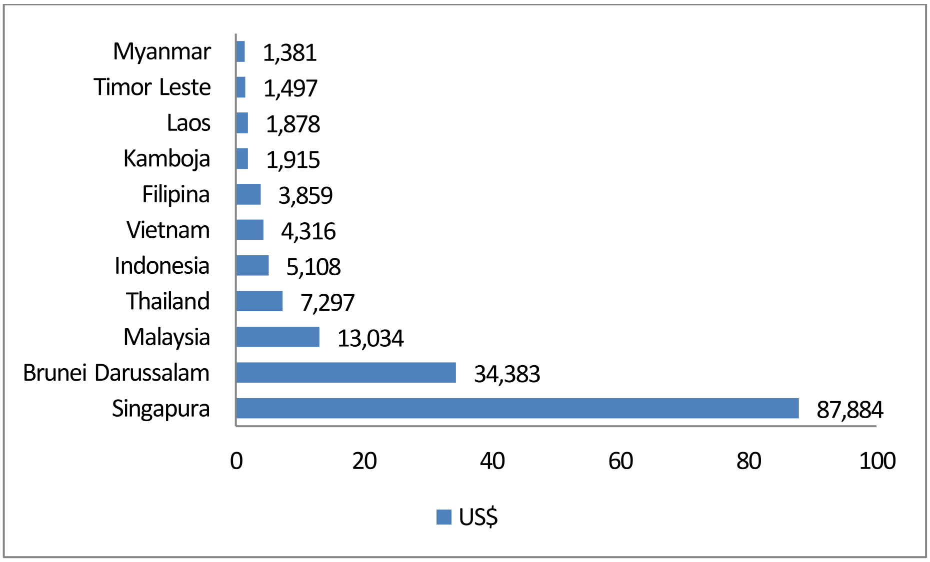
Graph 1. Gross National Income (GNI) of 10 ASEAN Countries (2021)



Source: World Bank (2021)

Despite the significant size of Indonesia's national income, this does not necessarily reflect widespread welfare across its population. To better understand the extent of welfare distribution among individuals within a country, per capita Gross Domestic Product (GDP) is often used. GDP per capita measures the average income per person in a country, providing a clearer picture of income distribution. According to the International Monetary Fund (IMF) projection in October 2023, Indonesia's GDP per capita was estimated at US$5,100. This figure highlights that while Indonesia has the largest GNI in ASEAN, its GDP per capita still lags behind other nations, such as Singapore (US$87,880) and Brunei Darussalam (US$34,380).

Graph 2. Projected GDP Per Capita of ASEAN Countries (2023)



Source: IMF Projection, October (2023)

The discrepancy between Indonesia's large GNI and relatively low GDP per capita underscores the issue of income distribution. In other words, although Indonesia's economy generates substantial output and income, the distribution of income among its population remains far from equitable. For instance, Indonesia's GDP per capita of US$5,100, or approximately Rp79,734,858 when calculated at the current exchange rate (US$1 = Rp15,609.80), is significantly lower than its neighboring countries such as Singapore, Brunei, and even Malaysia (US$13,030). This reveals that high national income does not automatically translate into equitable welfare for individuals across all levels of society.

Income inequality in Indonesia can also be observed through the Gini Index, which measures the extent of income inequality within a country. According to Indonesia's National Statistics Bureau (Badan Pusat Statistik, BPS), Indonesia's Gini Index in March 2023 was recorded at 0.409. A higher Gini Index value indicates greater income inequality. This suggests that while Indonesia has experienced significant economic growth, income inequality remains a serious issue. The Gini Index reflects the fact that certain segments of Indonesian society enjoy much higher incomes than others, thereby showing that economic growth does not necessarily translate into equitable welfare for all.

Graph 1 and 2, illustrating GNI and GDP per capita in ASEAN, further emphasize that while Indonesia has the largest economy in absolute terms, its distribution of welfare across the population remains suboptimal. In terms of GDP per capita, Indonesia ranks fifth in ASEAN, behind Singapore, Brunei Darussalam, Malaysia, and Thailand. This position reaffirms that, when measured by GDP per capita, Indonesia's societal welfare is still considerably lower than that of its neighboring countries.

The primary challenge Indonesia faces concerning national income is the significant inequality. While Indonesia's GDP per capita of US$5,100 is considerable, this figure fails to fully capture the actual welfare conditions across the population. This is because GDP per capita is an average figure, which often fails to account for the disparities between the wealthy and poorer segments of society. For instance, according to BPS, more than 24 million Indonesians still live below the poverty line, earning less than Rp401,220 per month. This demonstrates that a significant portion of the population earns far below the average income reported by GDP per capita.

This inequality in income distribution has direct implications for social welfare in Indonesia. The gap between the wealthy and the poor results in disparities in access to essential services such as education, healthcare, and economic opportunities. The continually rising Gini Index highlights that national income growth has not been accompanied by sufficient redistribution efforts across regions and social groups.

To address these disparities, a more comprehensive approach is required to assess welfare. One relevant framework is the Islamic economic perspective, which emphasizes justice and equitable income distribution. In Islamic economics, welfare is not solely measured in material terms but also encompasses social, spiritual, and moral dimensions. A fundamental principle in Islamic economics is social justice, where wealth and income must be distributed fairly across all strata of society. This concept is rooted in the teachings of maqashid shariah, which emphasizes the fulfillment of basic needs for every individual and a balanced distribution of wealth.

This article aims to examine how well Indonesia's substantial national income reflects the overall welfare of its population. Furthermore, it will explore the Islamic economic perspective, which underscores the importance of equitable and just income distribution. This approach is expected to offer broader insights into how national income can be utilized as a tool to achieve sustainable welfare for the entire society.

Thus, by analyzing the available quantitative data, such as GNI, GDP per capita, and the Gini Index, as well as incorporating Islamic economic principles, this article will explore the challenges and opportunities for improving the welfare of Indonesian society amidst rapid but uneven economic growth.

Literature review

Theory of economic growth (Kuznets)

Simon Kuznets' economic growth theory emphasizes the long-term increase in a nation's capacity to provide a diverse range of goods and services to its population. This growth is facilitated by adjustments in technology, institutional structures, and ideologies that align with the evolving demands of the economy. Kuznets highlights that a nation's ability to adapt to these changes is fundamental for sustained economic growth. Therefore, economic development is not an isolated phenomenon but is shaped by various dynamic factors that work together to meet both economic and social challenges.

A key aspect of Kuznets' theory is the relationship between economic growth and income distribution, famously known as the inverted U-curve hypothesis. This hypothesis suggests that in the early stages of economic growth, income inequality tends to rise, as reflected by an increasing Gini coefficient. This occurs because certain segments of society, particularly those with greater access to resources and technology, benefit disproportionately from the early gains of economic development. However, after reaching a certain level of growth, income inequality begins to decrease as the benefits of economic progress become more evenly distributed across the population. During this later phase, redistributive policies and the growth of inclusive economic sectors contribute to a more equitable distribution of wealth (Todaro, 2003).

National income theory

National income refers to the total income received by a nation's population within a specific period and serves as a measure to assess economic welfare. According to the Central Statistics Agency (BPS), national income is defined as the total income received by households in an economy over a specific period. It reflects the efficiency of macroeconomic allocation as it represents the value of national output produced within the economy. The primary objective of calculating national income is to provide a comprehensive picture of the economic level achieved, the output generated, the composition of aggregate expenditure, contributions from various economic sectors, and the level of welfare attained (Sukirno, 2010). In theory, national income and per capita income tend to increase with economic growth, assuming that the growth rate exceeds population growth.

National income consists of several key components, each playing a role in reflecting a country's economic performance. Gross Domestic Product (GDP) measures the market value of goods and services produced by domestic production units within a country over a year, including production by foreign companies operating within the nation's borders. Gross National Product (GNP), on the other hand, accounts for goods and services produced by a country's citizens, both domestically and abroad, but excludes foreign company production in the domestic economy (Mankiw, 2013). Additionally, national income includes Net National Product (NNP), which is GNP minus the depreciation of capital goods. Net National Income (NNI) further subtracts indirect taxes from NNP, offering a more accurate reflection of household and other economic actors' income. Lastly, Personal Income (PI) encompasses all income received by individuals, including transfer payments not earned through direct economic activity.

The potential of a country's national income also indicates its ability to enhance the welfare of its citizens. However, not all income generated by a country is fully enjoyed by its population, as some income flows out of the country, while income from abroad may be received. Therefore, national income represents the total remuneration received by residents for the factors of production, whether from domestic or foreign economic activities, after deducting payments to non-residents (Sukirno, 2006).

There are three main methods for calculating national income: the income approach, the production approach, and the expenditure approach. The income approach calculates all income received by households, including wages, rents, interest, and profits as returns on factors of production. The production approach measures the value of finished goods and services produced by key economic sectors such as industry, agriculture, and trade. The expenditure approach calculates the total expenditure by households, government, and the private sector, as well as the net value of exports and imports, with the formula $Y = C + G + I + (X-M)$, where Y represents national income, C is household consumption, G is government expenditure, I is investment, X is exports, and M is imports.

Several factors influence national income levels, including aggregate demand and supply, consumption and savings, and investment. Aggregate demand reflects the total expenditure incurred by the economy at each level of employment, while aggregate supply represents the total value of goods and services produced by businesses. Consumption relates to the expenditure on goods and services to meet human needs, whereas savings reflect the portion of income not spent. Investment, which involves expenditure on capital goods to increase production capacity, is also a crucial determinant of national income (Hasan et. al., 2023). The interaction of these factors shapes a country's economic conditions, making an understanding of national income essential for designing effective economic policies.

Social welfare

Social welfare is a fundamental goal of national economic development, emphasizing equitable income distribution as a key measure of societal well-being (Lincolin, 2010). According to Grubel (1998), national income statistics, while useful, are an imperfect measure of human welfare. This limitation prompted the United Nations Development Programme (UNDP) to annually publish a more comprehensive social welfare indicator for 175 countries, known as the Human Development Index (HDI). The HDI evaluates welfare in terms of people's ability to meet material needs, gain dignity, and achieve freedom of choice (Todaro, 2010). These broader dimensions of welfare highlight the inadequacy of relying solely on income data to assess human well-being.

Economic growth and income distribution are critical factors in promoting social welfare. Increased economic growth, paired with equitable income distribution, positively impacts public health, education, and labor productivity (Putra et al., 2022). Growth alone is insufficient if income disparities remain unaddressed, as unequal access to resources and opportunities can undermine the overall welfare of a population. Social welfare initiatives are thus embedded in both the expansion of economic opportunities and the equitable distribution of benefits.

The development of social welfare is an intentional, institutionalized effort that includes various forms of social interventions and services aimed at meeting human needs, preventing and addressing social issues, and strengthening social institutions (Suharto, 2006). The Indonesian Central Statistics Agency identifies key indicators for measuring the adequacy of basic needs, which serve as proxies for welfare achievements. These indicators include population, health, education, employment, consumption patterns, housing and environment, poverty, and other social dimensions. A comprehensive approach to social welfare, therefore, requires addressing both economic growth and the broader socio-economic conditions that influence the quality of life across a range of sectors.

Social welfare in the Islamic perspective

Social welfare in the Islamic perspective is a fundamental and integral concept within the lives of Muslims. In Islam, welfare is not limited to material aspects but encompasses spiritual, social, and moral dimensions as well. This concept is rooted in the principles of maqashid syariah, which emphasize the importance of preserving and enhancing the quality of life for both individuals and society as a whole. Social welfare, as understood through maqashid syariah, includes the fulfillment of basic human needs in terms of economics, education, health, and spirituality (Fauzi et al., 2022). This aligns with the views of Arsyam and Alwi, who argue that welfare in Islam must consider both the vertical relationship with God and the horizontal relationship with fellow human beings (Arsyam & Alwi, 2020).

A key pillar in achieving social welfare in Islam is social justice. Social justice is central to ensuring equitable distribution of wealth and poverty alleviation. In this regard, zakat serves as an essential instrument, not only as a religious obligation but also as a sustainable source of funds for social welfare programs (Rohim, 2019). Through zakat, individuals can meet their basic needs, and social inequalities can be reduced, fostering a more balanced society.

From an economic standpoint, social welfare can also be realized through the fair allocation and distribution of national income. The income distribution system based on Islamic economic principles can generate more equitable welfare across society (Putra et al., 2022). This approach ensures that marginalized groups are not excluded or left in poverty, consistent with the principles of social justice that underpin Islamic teachings.

Sustainability is another critical element of social welfare in Islam. Research by Karwendyanto and Hasan has demonstrated that social organizations such as Karang Taruna play a vital role in enhancing local social welfare (Karwendyanto & Hasan, 2021). Such organizations act as bridges between the government and communities, fostering more effective and sustainable welfare development by engaging the public in the process.

Health, both physical and mental, is another vital determinant of social welfare in Islam. Nurhayati and Fitriyana explain that in the Islamic view, health is influenced by various factors, including faith, behavior, environment, and healthcare services (Nurhayati & Fitriyana, 2020). Good health supports the achievement of social welfare, as healthy individuals are more productive and capable of contributing to society. Therefore, improving public health must be an integral part of any social welfare program.

In terms of governance, social welfare policies must reach all segments of society, regardless of the political system, whether democratic or authoritarian (Nurdin, 2023). The success of these policies depends heavily on the government's commitment to implementing pro-people programs. Social welfare, therefore, can be achieved through collaboration between the government, society, and various stakeholders.

Social welfare in Islam is also closely related to the concept of maslahah, which encompasses all aspects of human life. *Maṣlaḥah* should serve as the foundation for every policy decision to create a prosperous society free from poverty (Khasanah, 2023). Implementing *maṣlaḥah* in public policy ensures that every individual has access to the resources necessary for a dignified life. In the economic context, maslahah-based economic empowerment is also crucial. Economic empowerment should not only aim for material growth but must also consider social welfare and justice (Muhibban & Munir, 2023). Thus, every effort to improve the economy must be accompanied by careful attention to the social impacts it may cause.

Islamic social welfare is also realized through the equitable distribution of wealth. The Islamic economic system aims to reduce economic inequality and create more evenly distributed welfare (Dewantara, 2020). Justice and sustainability are fundamental principles guiding all economic policies in this regard.

Additionally, the importance of social capital in enhancing welfare cannot be overlooked. Laksmi and Arjawa highlight that social capital can encourage collective action among community members, which in turn can improve business performance and living standards (Laksmi & Arjawa, 2023). By building strong social networks, communities can support one another in achieving welfare.

Mental health, often overlooked, is also integral to overall well-being. Sudrajat (2020) emphasizes that social welfare programs must include efforts to support mental health, particularly among adolescents, who frequently face challenges in their daily lives.

Achieving comprehensive social welfare requires an integrated and holistic approach. Social development must be part of a broader national development strategy, with a focus on improving the overall quality of life. Social development efforts must be harmonized with economic policies to achieve optimal results (Hulaifah, 2022). Therefore, social welfare in Islam can be realized as the result of synergy between various sectors within society.

In conclusion, social welfare from an Islamic perspective is a complex and multidimensional concept, encompassing economic, educational, health, and social justice aspects. By understanding and implementing these principles, society can achieve sustainable and holistic welfare, both in this world and in the hereafter.

Reseach methods

The research utilizes national income data as the primary source of analysis, obtained from various credible institutions, including the Indonesian National Statistics Bureau (Badan Pusat Statistik, BPS), World Bank, and the International Monetary Fund (IMF). The data include Gross National Income (GNI), Gross Domestic Product (GDP), and GDP per capita of ASEAN countries, particularly focusing on Indonesia. Graphical representations from 2021 (World Bank, 2021) and projected GDP per capita for 2023 (IMF, 2023) were incorporated. Additional statistical measures like the Gini Index are used to quantify income inequality within Indonesia (BPS, 2023).

Data from international and national bodies were systematically gathered for comparative analysis. The sample selection was guided by relevance, focusing on recent data to capture the most accurate depiction of economic trends. National income data from 2021 provided a baseline for cross-country comparisons within the ASEAN region, while projections from the IMF were utilized to analyze future income distribution patterns. Indicators such as GDP per capita and the Gini Index were calculated based on exchange rates provided by the IMF and Indonesian BPS to ensure consistency (IMF, 2023; BPS, 2023).

The analysis was conducted using a macroeconomic framework, focusing on the relationship between national income and welfare distribution in Indonesia. The study applied the Keynesian consumption model to estimate the effects of national income on societal welfare. The primary equation utilized was the GDP equation: Y=C+I+G+(X−M)Y = C + I + G + (X - M)Y=C+I+G+(X−M), where YYY is the national income, CCC is consumption, III is investment, GGG is government expenditure, and X−MX - MX−M is net exports (Mankiw, 2013). The projections provided by IMF and BPS were integrated into this model to derive future income distribution scenarios for Indonesia.

Key parameters analyzed include Gross National Income (GNI), Gross Domestic Product (GDP), GDP per capita, and the Gini Index. GNI was used to assess the total income generated within the economy, while GDP per capita measured the average income distribution among the population. The Gini Index was employed to evaluate income inequality, with a value closer to 1 indicating higher inequality (Sukirno, 2006; BPS, 2023). This parameter was crucial in assessing how income disparities affect societal welfare.

A descriptive statistical analysis was conducted to explore the patterns in national income and inequality over time. Data trends were analyzed using time-series methods to identify changes in GNI, GDP per capita, and the Gini Index. Additionally, a regression analysis was performed to determine the impact of income distribution on welfare levels, considering factors such as household consumption and poverty rates (Hasan et. al, 2023). Data was presented in graphical form, as seen in the comparison of GNI and

GDP per capita among ASEAN countries (World Bank, 2021). The results were further cross-referenced with IMF projections to confirm the reliability and accuracy of future economic forecasts.

Results and discussion

National income is a crucial indicator in understanding the relationship between a country's welfare and its economic condition. The measure of welfare and economic interdependence is reflected in the ability to produce goods, generate income, consume, and increase assets within a society over a given period.

The importance of national income

National income serves as a key tool for assessing the standard of living and welfare levels in a country. It holds significant implications beyond these basic measures for the economy. Quantitatively, the standard of living and welfare in a country are determined by the ratio of national income to the population, commonly known as per capita income. National income is also essential for understanding the economic composition of a country, as evidenced by the contribution of various economic sectors (Lestari et al., 2023). These insights are valuable for businesses to plan future economic activities and develop strategies for national development. Moreover, factors such as consumption, savings, investment, as well as aggregate demand and supply, significantly impact national income (Sukirno, 2006). Consequently, national income is a reference point for policy-making, such as in the agricultural sector, where policies on food supply, fertilizer industries, and irrigation systems can be formulated.

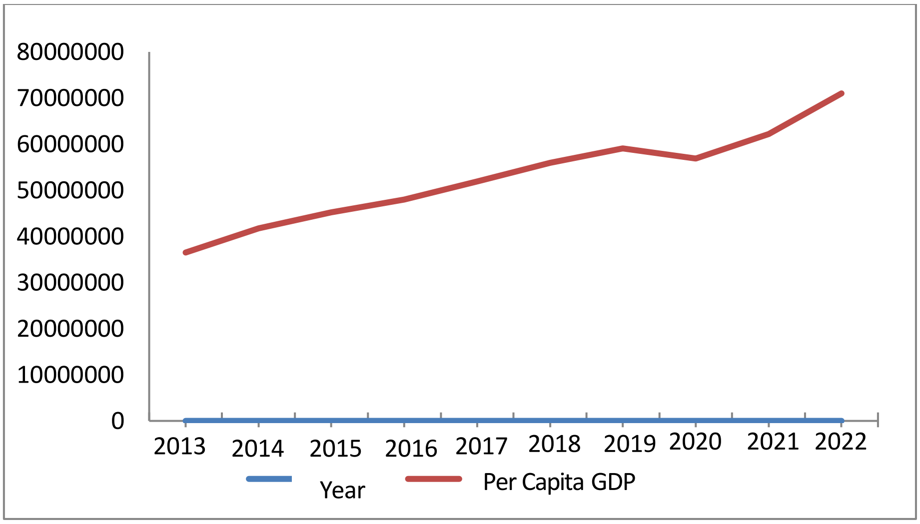
Additionally, national income allows for the comparison of economic activity across specific periods, offering insights into the dynamics of economic movements.

National income levels and social welfare

Several concepts of national income have been explained in the theoretical framework, each addressing different aspects of the same phenomenon. Gross Domestic Product (GDP) is the most frequently used indicator worldwide, despite national income being a more accurate reflection of welfare. GDP is often preferred for its simplicity in comparison and calculation. The Indonesian Central Statistics Agency (BPS) reported that the per capita income in

Indonesia, measured by GDP, reached Rp 71 million (US$4,783.9) per year in 2022, marking a 13.96% growth from the previous year. This is the highest per capita GDP recorded in the past decade, as shown in the following figure:

Graph 3. Indonesia's Per Capita GDP Growth, 2013 - 2022



Source: Databoks, (2023)

Over the last 10 years, the average per capita income in Indonesia was Rp 60 million per year. During the COVID-19 pandemic in 2020, per capita income dropped by 3.37% to Rp 56 million due to economic disruptions aimed at curbing virus transmission. However, by 2021, income levels had rebounded as social restrictions were eased, facilitating the national economic recovery.

Indonesia's per capita GDP reached US$4.29 thousand, equivalent to Rp 62.24 million in 2021. This placed Indonesia fifth in Southeast Asia (ASEAN), behind Singapore, Brunei Darussalam, Malaysia, and Thailand. While Indonesia trailed Thailand, which had a per capita GDP of US$7.23 thousand, it surpassed the Philippines, which stood at US$3.55 thousand.

Economic growth figures alone do not directly reflect societal welfare. Growth is derived from changes in a country's GDP or Gross National Product (GNP) over time. Therefore, some argue that GDP, which includes consumption, investment, government expenditure, and net exports, provides a more realistic indicator of societal welfare.

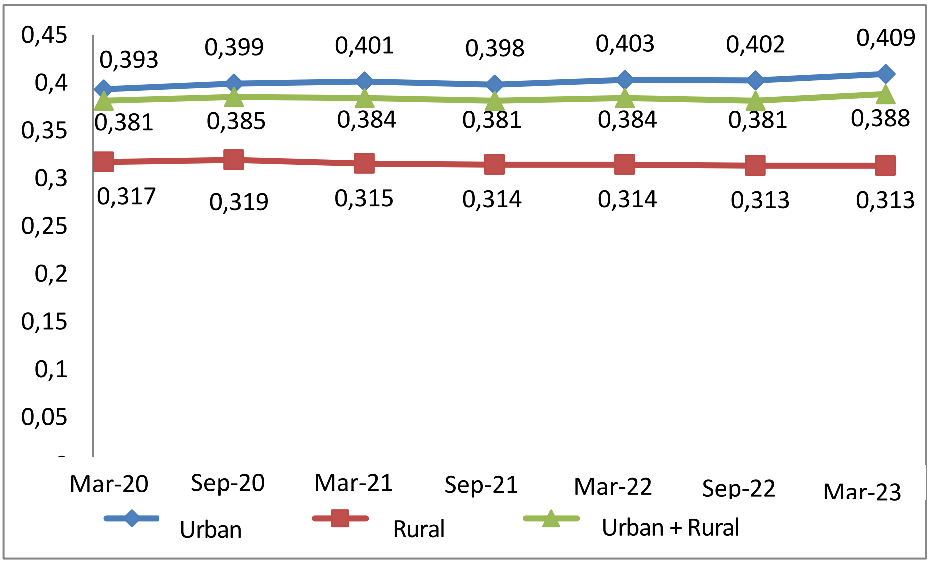
As mentioned, Indonesia's average per capita GDP is US$4,160, or approximately Rp 59.1 million annually—around Rp 161,917 per day. This suggests that the average income per person or family in Indonesia is Rp 59.1 million per year, or about Rp 4.9 million per month, which places Indonesia well above the poverty line, defined as Rp 401,220 per capita per month. On this basis, Indonesia could be classified as a prosperous nation.

However, can per capita GDP truly reflect societal welfare? If we consider the everyday experiences of the Indonesian population, per capita GDP does not fully represent the welfare condition. For instance, while the average income per person/family is Rp 4.9 million per month (GDP), many individuals earn well below this amount. The Indonesian Central Statistics Agency (BPS) reports that over 24 million Indonesians live below the poverty line, with incomes below Rp 401,220 per month. Therefore, GDP alone cannot be used as an absolute measure of societal welfare.

A fundamental issue with using GDP to assess welfare is its failure to account for income disparity among citizens. Since per capita GDP is calculated by dividing the total national income by the population, it provides only an average figure. This obscures income inequality, as the low earnings of a large portion of the population may be offset by the significantly higher incomes of a small number of wealthy individuals.

To address this shortcoming, many countries, including Indonesia, supplement GDP with other tools to measure inequality, such as the Gini ratio. In the Gini index framework, a score of zero indicates perfect equality, while a score of one reflects perfect inequality. The Indonesian Central Statistics Agency (BPS), for instance, reported that Indonesia's Gini ratio has steadily increased from March 2020 to March 2023, as shown below:

Graph 4. Development of Indonesia's Gini ratio, March 2020 - March 2023



Source: BPS, (2023)

As of March 2023, Indonesia's Gini ratio had risen to 0.409, indicating a worsening income inequality. This growing disparity cannot be ignored. Patta (2012) asserts that unequal income distribution negatively impacts economic growth and, in turn, diminishes the welfare of a region's population. At the macroeconomic level, income distribution strongly influences human development and economic growth. As societal incomes rise, the ability to meet basic needs improves, which subsequently drives economic growth and boosts national income.

Indonesia's national income from the perspective of Islamic economics

National income is a primary indicator for assessing a country's economic welfare. From the perspective of Islamic economics, the measurement of national income is not only limited to material aspects such as Gross Domestic Product (GDP) or Gross National Product (GNP) but must also encompass the dimensions of social justice and equitable distribution. This principle is rooted in the concept of *falāḥ*, which refers to the well-being of the entire society, rather than a select group of wealthy individuals (Khaerat, 2022). In Islamic economics, justice (*al-'adl*) and equitable distribution of income are crucial elements in achieving sustainable welfare for all.

According to data from National Statistics Bureau (BPS), Indonesia's per capita income in 2022 reached Rp 71 million, or approximately US$ 4,783.9 (BPS, 2023). While this figure reflects stable growth over recent years, it does not fully represent an equitable distribution of income. Income inequality remains a significant challenge in Indonesia, as indicated by the rise of the Gini coefficient to 0.409 in 2023. Thus, even though national income has increased, economic inequality continues to pose a major obstacle to achieving fair and just welfare.

In Islamic economics, the assessment of national income is not solely based on the magnitude of GDP or GNP, but rather on how income is distributed among the population. This approach emphasizes the importance of ensuring a fair distribution of wealth through social finance instruments such as zakat (obligatory charity), *ṣadaqah* (voluntary charity), and *waqf* (endowment). Fiscal policies in Islamic economics prioritize social justice by ensuring that wealth does not become concentrated in the hands of a few, but is distributed for the welfare of the entire society (Markavia et al., 2022).

Zakat, as one of the pillars of Islamic economics, plays a vital role in income redistribution. In Indonesia, the potential for zakat is immense, and if managed optimally, it could become a significant source for economic development and reducing social inequality. However, the management of zakat in Indonesia has not yet reached its full potential, limiting its impact on poverty alleviation (Fitri, 2017). More organized and effective management of zakat could greatly enhance national income and reduce economic inequality.

In the modern context, the Micro, Small, and Medium Enterprises (MSME) sector holds a critical role in Indonesia's national economy. MSMEs are one of the largest contributors to job creation and directly influence the increase of people's income. However, from the perspective of Islamic economics, the development of MSMEs should be grounded in sharia principles, particularly in terms of funding and investment (Supriyadi et al., 2023). Sharia-compliant approaches such as *qarḍ al-ḥasan* (interest-free loans) and *muḍārabah* (profit-sharing partnership) can support MSMEs' sustainable growth without falling into interest-based debt traps.

In addition, investment in Islamic economics plays a significant role in boosting national income. Sharia-compliant investments, free from riba (usury) and speculative practices, foster a more stable and just economy. Such investments can also increase youth participation in economic activities, as they offer ethical alternatives aligned with Islamic principles. The rise of sharia investments will directly contribute to national income and enhance the well-being of society (Sunarto et al., 2021).

While GDP is often used as a primary indicator for measuring a country's welfare, within the framework of Islamic economics, this approach is seen as insufficient. One key limitation of GDP is its inability to measure income disparities within a society. In an Islamic context, societal welfare should be measured based on principles of social justice and equitable distribution, which align more closely with the concept of *maqāṣid sharīah* (objectives of Islamic law).

The Human Development Index (HDI) or the Gini coefficient may serve as more appropriate metrics within Islamic economics because they encompass broader dimensions of justice and welfare (Hulu & Wahyuni, 2021). In this regard, HDI could complement GDP as a more comprehensive indicator of welfare, focusing on income distribution and holistic social welfare.

Islamic fiscal policy has a dual purpose: to increase national income while ensuring the redistribution of wealth to reduce inequality. During the time of the Prophet Muhammad and the Rashidun Caliphate, fiscal policies based on zakat, *'ushr* (agricultural tithe), and *jizyah* (tax on non-Muslim citizens) were employed as key instruments to finance state expenditures and distribute income to those in need (Habie, 2022).

In Indonesia, the effective implementation of Islamic fiscal policies can address economic inequality. The government can increase the potential of zakat through improved regulations and collaboration with sharia financial institutions. Furthermore, fiscal policies focused on developing sharia-based sectors such as MSMEs, sharia investments, and sharia financial institutions could serve as viable solutions for creating a more equitable national income distribution.

Conclusion

The findings of this study highlight a critical imbalance between Indonesia's large Gross National Income (GNI) and the relatively low per capita income, which indicates significant income inequality across the population. While Indonesia ranks first in the ASEAN region in terms of GNI (World Bank, 2021), its GDP per capita of US$5,100 in 2023, projected by the IMF, remains significantly lower than countries like Singapore and Brunei Darussalam (IMF, 2023). The Gini Index of 0.409, reported by the Indonesian National Statistics Bureau (BPS, 2023), further emphasizes the persistent issue of income inequality. These disparities underscore the necessity of a more equitable distribution of national income to improve societal welfare.

Incorporating principles from Islamic economics, particularly the focus on social justice and fair income distribution, could offer a framework for addressing these challenges (Fauzi et al., 2022). The Islamic concept of *maqāṣid sharīah*, which emphasizes the fulfillment of basic human needs and fair wealth distribution, provides a holistic approach to improving welfare. Thus, future policy directions should not only focus on increasing national income but also on ensuring that income is distributed more equitably, potentially utilizing Islamic economic tools like zakat to achieve more balanced and just economic growth. Further research should explore how these Islamic principles can be systematically integrated into Indonesia's economic policies to promote both growth and equity.

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