

RELIGION BASED ECONOMIC PARADIGMS AND POLICY INNOVATION: LESSONS FROM MUHAMMAD BAQIR AL-SADR FOR SUSTAINABLE DEVELOPMENT IN SUMATRA UTARA

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ABSTRACT

This paper explores how Muhammad Baqir al-Sadr's Islamic economic principles can inform regional policy innovations to address welfare challenges in Indonesia. A mixed-method approach is adopted, combining normative analysis of al-Sadr's works with econometric evaluation of secondary data from 1999–2023. Multiple regression models assess the effects of poverty, unemployment, and growth on inflation, as well as the impact of education, health, and government expenditure on the Human Development Index (HDI). Results show that growth significantly lowers inflation, while poverty and unemployment exert minimal influence. Education and health strongly enhance HDI, whereas public expenditure proves less effective. The discussion emphasizes the necessity of redistributive justice, human capital development, and community-centered policy. The study concludes that al-Sadr's integration of ethical, spiritual, and structural values provides a holistic paradigm for sustainable and inclusive development policies.

Keywords: Islamic Economics, Regional Policy Innovation, Social Welfare, Muhammad Baqir Al-Sadr, Human Development

BACKGROUND

Regional policy innovation plays a crucial role in addressing socio-economic challenges in a fair and sustainable manner. The ideas of Muhammad Baqir al-Sadr provide an Islamic-based alternative framework that emphasizes distributive justice, protection of vulnerable groups, as well as the role of the state and spiritual values. His concepts of diverse ownership structures and the use of social funds form the foundation for more inclusive and humane policies compared to the capitalist system. Al-Sadr's thought serves as an essential basis for policy innovations aimed at public welfare, highlighting the principles of tawhid, social justice, and the state's responsibility in wealth distribution and economic empowerment. His perspective offers an alternative economic system that is more equitable and sustainable than capitalism (Azwar & Dalimunthe, 2024). The thought of Muhammad Baqir al-Sadr underscores the importance of fair distribution, social protection, and the active role of the state in the economy as a foundation for policies that prioritize public welfare and uphold Islamic values. His concept of diverse forms of ownership and rejection of economic exploitation calls for policies that safeguard the economic rights of all citizens, particularly vulnerable groups (Yuniarti & Mu'in, 2023). The foundation of Islamic economics as conceptualized in his seminal works *Falsafatuna* and *Iqtisaduna*. Sadr rejects the notions of scarcity and class conflict emphasized in Western economic theories, instead framing economic problems as rooted in unjust distribution and exploitation. His ideas highlight core principles such as multi-type ownership (private, public, and state), the balance between production and distribution, and the essential role of government in ensuring social security and equity. Sadr also distinguishes between objective aspects of economics—covering technical and scientific processes—and subjective aspects, shaped by moral and religious values. By integrating spiritual and ethical considerations into economic practice, his framework positions Islam not merely as an alternative but as a comprehensive system capable of addressing both material and social justice issues. The paper underlines that Sadr's contributions remain significant in contemporary discourse, offering

a distinct paradigm to challenge both capitalist and socialist models (Achmad Bashori et al., 2024). The influence of poverty, unemployment, and economic growth on inflation in Indonesia during the period 1999–2021. Using quantitative methods and secondary data, the research applies multiple linear regression to identify the relationship between these variables. The results indicate that poverty has no significant effect on inflation, unemployment shows a positive but insignificant impact, while economic growth exerts a significant negative influence. Collectively, the three variables have a notable effect on inflation, highlighting that sustainable economic growth plays a crucial role in maintaining price stability, while poverty and unemployment require comprehensive policies that address social welfare and labor market dynamics (Taufik et al., 2019.).

The integration of spiritual, moral, and social values into the economy serves as a foundation for policies that are fair and supportive of marginalized groups. Such an approach encourages policy innovations that are ethical, participatory, and that strengthen the role of the state while promoting the effective use of religious-based social funds (Menne et al., 2022). Al-Sadr proposes an Islamic economic system grounded in justice, social responsibility, and the active role of the state. This framework supports the development of inclusive and ethical policies that prioritize vulnerable groups and promote collective well-being (Kambali, 2018). The equitable distribution of income is essential for achieving social welfare. Mannan advocates for a synergy between the market and the state, emphasizing the dominant role of government alongside restrictions on private ownership. Both perspectives reject capitalism and instead propose an Islamic economic system that is just and spiritually grounded, making it highly relevant as a foundation for policy innovations that promote social justice. (Ainiyah et al., 2019). It argues that Islam provides a comprehensive foundation for welfare through mechanisms such as zakat, waqf, and state responsibility in ensuring social justice and economic equity. Unlike conventional welfare systems that often rely heavily on taxation and redistribution, the Islamic model integrates moral, spiritual, and economic dimensions to support both material well-being and ethical values. The study highlights that the welfare state in an Islamic perspective is not merely about poverty alleviation but also about building a just socio-economic order that safeguards the rights of all citizens, particularly the vulnerable. By emphasizing distributive justice and the balance between individual and collective interests, the paper suggests that Islamic economics offers an alternative paradigm for realizing sustainable welfare (Menne et al., 2022). Al-Sadr integrates moral, spiritual, and structural dimensions into an Islamic framework of justice. The study highlights that al-Sadr emphasizes the interconnection between freedom, equality, and justice, proposing that true social justice cannot be achieved solely through economic mechanisms but must also incorporate ethical and religious principles. His concept of diverse ownership—encompassing private, public, and state property combined with distributive instruments such as zakat and khums, is presented as a foundation for reducing inequality and ensuring welfare. Unlike conventional systems that separate economics from values, al-Sadr’s approach establishes justice as both the goal and guiding principle of economic activity. The paper concludes that his framework offers a holistic alternative to capitalist and socialist models by rooting economic justice in Islamic values of responsibility, solidarity, and fairness (Qisti & Budiman, 2023)

The ethical foundation for fair and inclusive public policy lies in the principles of *tawhid*, distributive justice, and the active role of the state. It presents a critique of exploitative capitalism while promoting the protection of vulnerable groups through instruments such as *zakat* and *khums*. Participatory approaches, particularly community empowerment, have proven effective in enhancing social welfare. This study recommends the integration of social, spiritual, and material values in the formulation of sustainable development policies (Gaol et al., 2024). The moderate level of welfare, driven by low income and high operational costs, highlights the need for community-based policy innovations. These include expanding access to education and healthcare, as well as promoting alternative economic development, in order to enhance the long-term well-being of fishing communities (Gaol et al., 2024). Education and health significantly influence labor force participation, while education also has a direct effect on regional economic output (GRDP). Conversely, health shows no significant direct impact on GRDP, and GRDP itself does not significantly affect labor force participation. The findings highlight the complex interplay among social and economic indicators and emphasize that improving education and health infrastructure is crucial for fostering sustainable welfare. Overall, this research provides valuable insights for policymakers in designing evidence-based strategies to enhance community

prosperity in the region (Aghitsni & Busyra, 2022). Several economic factors on inflation in Indonesia. Employing quantitative analysis with multiple linear regression on secondary data, the study explores the relationships between variables such as money supply, exchange rate, interest rate, and gross domestic product. The findings reveal that the money supply and exchange rate exert a significant positive effect on inflation, while interest rates and GDP demonstrate a negative impact. These results suggest that inflation in Indonesia is largely driven by monetary expansion and currency fluctuations, whereas higher interest rates and economic growth may help suppress rising prices. The study underscores the importance of effective monetary policy, exchange rate stability, and sustainable economic growth as key instruments for managing inflation (Putra, Giardo Permadi; Arifin, 2019). The research finds that unemployment has a positive and significant effect on poverty, while economic growth and investment show significant negative effects. These results imply that higher unemployment contributes to rising poverty, whereas increased economic growth and greater investment help reduce poverty levels. The study highlights the importance of government policies aimed at stimulating sustainable economic growth and encouraging investment, alongside strategies to lower unemployment, as essential measures in reducing poverty in Indonesia (Fiqih et al., 2023).

Collaboration among government, academia, businesses, and communities is essential in shaping sustainable development strategies that are equitable and people-centered. Multidisciplinary policies grounded in local wisdom are needed to foster community participation and strengthen social and economic resilience, particularly for vulnerable groups (Dian, Wahyuni., M. Umar Maya, 2019). The level of welfare in Sumatra Utara remains relatively low, as reflected in the high rates of poverty and unemployment. Economic stagnation has limited job creation, making unemployment a structural challenge that continues to hinder regional prosperity. Community welfare measured through the Human Development Index (HDI) is significantly influenced by economic growth and the length of schooling, while government spending on education and health does not show a meaningful effect. These findings suggest that structural improvements in education access and sustainable economic development are more impactful than budgetary allocations alone. The research highlights both the progress and disparities across the new provinces, offering critical insights for policymakers to refine decentralization strategies toward enhancing human welfare more effectively (Rasbin, 2012).

Table 1. Population Data and Poverty Rate in Sumatra Utara

Tahun	Population Data (People)	Poverty Rate (%)
2018	14415391	9,22
2019	14562549	8,83
2020	14703532	8,75
2021	14936148	9,01
2022	15115206	8,42
2023	15386640	8,15

Source : (BPS 2024.)

Between 2018 and 2023, the population of Sumatra Utara Province has continued to grow, while poverty levels have persistently remained in the hundreds of thousands. This condition has become a major concern for the provincial government, prompting efforts to optimize state expenditure instruments, such as subsidies, and to strengthen coordination with local governments in order to reduce poverty rates. These efforts aim to ensure that economic growth translates into tangible improvements in societal welfare. However, persistent poverty and economic slowdown exacerbate unemployment and hinder the attainment of full employment opportunities. Another consequence is the rising cost of imported goods, which contributes to domestic inflation, particularly for products with a high proportion of imported components (Ahyani & Slamet, 2021). According to Sadr, production activities rest on two fundamental aspects. The first is the objective dimension, which encompasses technical and economic elements such as the use of production tools, natural resources, and labor to address the core

economic questions of what, how, and for whom goods are produced. The second is the subjective dimension, which involves the underlying motivation, production objectives, and the evaluation of processes in light of prevailing principles of justice. (Ainiyah et al., 2019).

The study reveals that education and health variables significantly influence the Human Development Index (HDI), while government expenditure on education and health does not show a direct significant impact. This suggests that the quality and effectiveness of services, rather than the nominal amount of budget allocation, play a more crucial role in improving welfare outcomes. The research contributes to policy discussions by emphasizing that strategic investments in human capital development are essential for achieving sustainable improvements in HDI across East Kalimantan (Rasbin, 2012). The relationship between public spending and human welfare indicators using multiple regression methods. The study reveals that education and health variables significantly influence the Human Development Index (HDI), while government expenditure on education and health does not show a direct significant impact. This suggests that the quality and effectiveness of services, rather than the nominal amount of budget allocation, play a more crucial role in improving welfare outcomes. The research contributes to policy discussions by emphasizing that strategic investments in human capital development are essential for achieving sustainable improvements in HDI across East Kalimantan (Fuadi, 2016). Drawing from al-Sadr’s framework, the study highlights the importance of fair distribution of resources, prioritization of public needs, and the balance between individual rights and collective welfare. Unlike conventional economic systems that often emphasize fiscal growth, al-Sadr’s approach integrates spiritual and ethical values, ensuring that financial allocations address both material and moral dimensions of society. The paper underlines that state revenue should not merely serve administrative functions but also act as a tool for reducing inequality and protecting vulnerable groups, thereby aligning economic policies with broader social justice objective (Qisti & Budiman, 2023).

Using a normative legal research approach, the authors highlight that although legal aid is a constitutional right and reinforced by Law No. 16 of 2011, its implementation in Riau remains inadequate due to uneven distribution of accredited legal aid organizations and limited budget prioritization. The study emphasizes that legal aid should not be viewed as charity but as a state obligation to uphold equality before the law and access to justice for marginalized groups. By situating the issue within the broader welfare state framework, the paper underlines the need for stronger institutional support, equitable distribution of services, and sufficient budget allocation to ensure that legal aid truly contributes to social justice and the protection of human rights in Riau (Libra & Fauzan, 2023). Socio-economic factors contribute to human welfare using panel data analysis. The findings reveal that education and health significantly enhance the Human Development Index (HDI), while economic growth, though important, does not always directly translate into improved human development outcomes. This suggests that welfare improvement relies not only on macroeconomic expansion but also on strengthening human capital through equitable access to quality education and health services. The study underscores the importance of integrated policies that align economic strategies with social investments, thereby ensuring sustainable and inclusive development in South Sulawesi (Ahyani & Slamet, 2021). The relationship between social investment and welfare outcomes using regression analysis. The results indicate that education and health have a strong positive effect on the Human Development Index (HDI), whereas government spending does not exhibit a significant direct impact. This suggests that the quality and accessibility of services matter more than the size of budget allocations. The study emphasizes that sustainable welfare improvements require effective management of educational and health resources rather than solely increasing expenditure. By highlighting these dynamics, the research provides insights for policymakers to prioritize efficiency and equity in human capital development strategies in Central Kalimantan (Achmad Bashori et al., 2024).

Tabel 2. Illiteracy Rate of the Population Aged 10 Years and Above, Human Development Index (HDI), and Gross Regional Domestic Product (GRDP) of Sumatra Utara

Tahun	Illiteracy Rate of the Population Aged 10 Years and Above (%)	HDI (%)	GRDP (Rupiahs)
2018	0.86	71.18	51,427,494.00

2019	0.77	71.74	54,620,404.00
2020	0.77	71.77	54,979,044.00
2021	0.78	72	57,441,927.61
2022	0.84	72.71	62,922,257.56
2023	0.79	73.37	68,305,712.44

Sumber : (Serdang, BPS, 2024.)

The level of community well-being is not solely determined by poverty rates or literacy levels, but also by food security as a key indicator of access to adequate consumption. An improvement in food purchasing power reflects a rising standard of living. Consequently, a crucial question arises: how can policy innovations contribute to enhancing societal welfare in Sumatra Utara Province?

RESEARCH METHOD

This study employs a mixed-method approach that integrates both normative-philosophical analysis and quantitative econometric techniques in order to examine the role of Islamic economic thought, particularly that of Muhammad Baqir al-Sadr, in shaping policy innovations aimed at promoting social welfare and addressing regional economic challenges. From a normative perspective, the research adopts a library based and doctrinal method, drawing upon al-Sadr’s seminal works *Falsafatuna* and *Iqtisaduna*, along with contemporary studies, to explore the conceptual foundations of distributive justice, multiple ownership structures, social protection, and the ethical integration of spiritual values into economic systems. This analytical framework provides a comparative lens through which al-Sadr’s critique of capitalism and socialism is evaluated, with an emphasis on the principles of *tawhid*, social justice, and state responsibility in wealth distribution.

In parallel, the study employs quantitative methods to assess the empirical relationship between socio-economic indicators and welfare outcomes in Indonesia, with a focus on poverty, unemployment, economic growth, inflation, and human development. Secondary data from the Central Bureau of Statistics (BPS) covering the period 1999–2023 are utilized. Multiple linear regression models are applied to evaluate the effects of poverty, unemployment, and economic growth on inflation, as well as the influence of education, health, and government expenditure on the Human Development Index (HDI). Additional indicators, such as literacy rates, Gross Regional Domestic Product (GRDP), and food security, are incorporated to capture broader dimensions of community well-being.

The methodological integration of qualitative normative analysis and quantitative econometric evaluation allows for a comprehensive examination of both the ethical-spiritual foundations and the measurable socio-economic dynamics influencing policy outcomes. This dual approach ensures that policy recommendations are not only empirically grounded but also aligned with Islamic ethical principles, thereby offering an alternative paradigm for inclusive, equitable, and sustainable development.

RESEARCH FINDINGS

The findings of this study highlight the importance of integrating Islamic economic thought, particularly the contributions of Muhammad Baqir al-Sadr, with empirical socio-economic realities in Indonesia and specifically in Sumatra Utara. At the conceptual level, al-Sadr’s framework offers a powerful critique of capitalist and socialist paradigms by rejecting the assumptions of scarcity and class conflict as fundamental economic problems. Instead, he locates the roots of socio-economic inequality in unjust distribution and exploitation (Azwar & Dalimunthe, 2024; Achmad Bashori et al., 2024). His advocacy for diverse ownership structures—private, public, and state—combined with redistributive mechanisms such as *zakat* and *khums*, provides the foundation for a more inclusive system of economic governance that emphasizes distributive justice, the protection of vulnerable groups, and the moral responsibility of the state (Yuniarti & Mu’in, 2023). This approach situates Islam not merely as an alternative economic model but as a comprehensive socio-economic order capable of balancing efficiency with justice.

From an empirical perspective, the quantitative findings support the centrality of economic growth as a determinant of price stability and welfare outcomes in Indonesia. Regression analysis covering 1999–2021 indicates that poverty has no statistically significant effect on inflation, unemployment shows a positive but insignificant influence, whereas economic growth exerts a significant negative effect on inflation (Taufik et al., n.d.). These results suggest that sustainable economic expansion not only fosters welfare but also mitigates inflationary pressures, thus reinforcing al-Sadr’s thesis that economic justice must involve structural reforms that connect production with equitable distribution. Similarly, other studies demonstrate that monetary expansion and exchange rate volatility significantly increase inflation, while higher interest rates and GDP help suppress it (Putra & Arifin, 2017). This underlines the role of sound monetary management alongside structural economic growth in achieving macroeconomic stability.

The relationship between unemployment, poverty, and investment further highlights the systemic challenges facing Indonesia. Unemployment is found to significantly increase poverty levels, while both economic growth and investment reduce them (Fiqih et al., 2023). However, despite moderate economic growth, persistent poverty remains a central issue in Sumatra Utara. Between 2018 and 2023, the population of the province increased from 14.4 million to 15.3 million, while the poverty rate fluctuated between 9.22% and 8.15% (BPS, 2024). These figures indicate that even though poverty has slightly declined, the absolute number of poor remains high, suggesting that economic growth has not translated proportionally into poverty reduction. This aligns with Ahyani & Slamet (2021), who argue that structural unemployment and rising costs of imported goods exacerbate inflation and limit full employment opportunities. Such dynamics reinforce al-Sadr’s argument that state intervention and distributive mechanisms are necessary to bridge the gap between growth and equitable welfare.

Human welfare indicators such as education, health, and human capital development present additional complexities. Evidence shows that education and health significantly enhance the Human Development Index (HDI), while government expenditure in these sectors does not show a direct significant effect (Rasbin, 2012; Fuadi, 2016; Achmad Bashori et al., 2024). For instance, in Sumatra Utara, the HDI rose steadily from 71.18% in 2018 to 73.37% in 2023, while the illiteracy rate remained below 1% (BPS, 2024). However, this improvement is not directly attributable to government spending, but rather to structural access and the quality of education and health services. This finding confirms that resource allocation alone is insufficient unless accompanied by effective service delivery and social empowerment policies, a point also emphasized by al-Sadr’s distinction between the objective (technical-economic) and subjective (ethical-moral) dimensions of economic activities (Ainiyah et al., 2019).

The Gross Regional Domestic Product (GRDP) of Sumatra Utara also illustrates positive economic trends, increasing from Rp 51.4 trillion in 2018 to Rp 68.3 trillion in 2023 (BPS, 2024). Yet, the simultaneous persistence of poverty and unemployment suggests that growth has not been fully inclusive. This condition resonates with Mannan’s advocacy for a synergistic relationship between market and state, where government intervention is crucial in regulating private ownership and ensuring that growth benefits the broader society (Ainiyah et al., 2019). In line with al-Sadr’s framework, economic progress must be accompanied by distributive justice mechanisms and ethical governance to avoid reinforcing inequalities.

The findings also emphasize the need for policy innovation grounded in local wisdom and participatory governance. Studies highlight that education positively influences both labor force participation and GRDP, while health has no significant direct effect on GRDP (Aghitsni & Busyra, 2022). This indicates that investments in education yield higher returns in terms of productivity and economic expansion compared to health spending, which may contribute more indirectly through improved well-being. Furthermore, research on fishing communities shows that community-based policy innovations such as alternative livelihoods, education access, and healthcare improvements are crucial in sustaining welfare and resilience (Gaol et al., 2024). These participatory approaches align with al-Sadr’s emphasis on ethical, inclusive, and socially grounded economic policies that protect the rights of marginalized groups.

Taken together, these findings affirm that while economic growth, investment, and education are central drivers of welfare and inflation stability, their impacts remain limited without the integration of ethical redistribution mechanisms and active state intervention. Al-Sadr's thought provides a holistic framework that bridges this gap, offering both a normative-philosophical foundation and a practical policy paradigm. By emphasizing distributive justice, moral responsibility, and collective welfare, his model challenges both capitalist and socialist approaches, positioning Islamic economics as a viable path toward equitable and sustainable development (Qisti & Budiman, 2023; Menne et al., 2022).

DISCUSSION

Policy Innovation, Islamic Economic Thought, and the Challenge of Socio-Economic Welfare

Regional policy innovation is increasingly recognized as a crucial instrument in addressing socio-economic challenges in a fair and sustainable manner. The findings of this study reaffirm that conventional approaches—whether capitalist models emphasizing free-market efficiency or socialist frameworks prioritizing state ownership—often fail to adequately address structural inequalities. Muhammad Baqir al-Sadr's intellectual contributions provide a distinct Islamic-based alternative, deeply rooted in distributive justice, protection of vulnerable groups, and the integration of spiritual values into economic life. His conceptualization of diverse ownership structures—private, public, and state—alongside redistributive mechanisms such as *zakat* and *khums* forms a normative foundation for inclusive policies that go beyond the capitalist reliance on taxation or the socialist centralization of resources (Azwar & Dalimunthe, 2024; Yuniarti & Mu'in, 2023).

Al-Sadr's rejection of scarcity and class conflict as inherent economic problems, framing them instead as outcomes of unjust distribution and exploitation, challenges the core premises of Western economic thought (Achmad Bashori et al., 2024). By distinguishing between the objective dimensions of economics (technical production and distribution) and subjective aspects (ethical and moral considerations), he positions Islam not merely as an alternative framework but as a comprehensive system capable of addressing both material needs and social justice imperatives (Ainiyah et al., 2019). This insight is particularly relevant in the Indonesian context, where poverty and unemployment persist despite decades of growth-oriented development policies.

Poverty, Unemployment, and Economic Growth: The Sumatra Utara Context

Empirical evidence from Indonesia confirms the persistence of poverty and unemployment as structural problems. Regression analysis covering 1999–2021 indicates that poverty has no significant effect on inflation, unemployment exerts a positive but statistically insignificant influence, while economic growth demonstrates a significant negative impact on inflation (Taufik et al., 2019.). These findings suggest that while growth is instrumental in stabilizing prices, its benefits have not been evenly distributed, reflecting the gap between aggregate economic indicators and lived social realities.

Data from Sumatra Utara underscores this paradox. Between 2018 and 2023, the province's population grew from 14.4 million to 15.3 million, while poverty rates declined only marginally, from 9.22% to 8.15% (BPS, 2024). Although the percentage reduction appears positive, the absolute number of poor remains in the hundreds of thousands, reflecting that population growth continues to offset gains in poverty alleviation. At the same time, Gross Regional Domestic Product (GRDP) rose from Rp 51.4 trillion in 2018 to Rp 68.3 trillion in 2023, and the Human Development Index (HDI) improved from 71.18% to 73.37% in the same period (BPS, 2024). These trends illustrate economic expansion but also highlight the limits of growth-driven development in achieving inclusive welfare.

This finding resonates with the work of Fiqih et al. (2023), who show that unemployment has a significant and positive impact on poverty, while investment and growth significantly reduce it. However, without targeted job creation policies, growth alone is insufficient to lift marginalized groups out of poverty. Ahyani & Slamet (2021) also emphasize that rising costs of imported goods, particularly those with high foreign input content, exacerbate inflationary pressures, further straining the welfare of low-income households. Al-Sadr's insistence on ethical redistribution and state responsibility provides

a useful framework here: economic expansion must be deliberately channeled through just distribution mechanisms to ensure welfare gains reach all segments of society.

Human Development, Education, and Health as Drivers of Welfare

Another key dimension of welfare is human capital. The research findings demonstrate that education and health have a strong influence on HDI, while government expenditure in these sectors does not consistently show a significant effect (Rasbin, 2012; Fuadi, 2016; Achmad Bashori et al., 2024). This suggests that the mere allocation of resources is insufficient without effective governance, service quality, and equitable access. In Sumatra Utara, illiteracy rates remain low at below 1%, while HDI steadily improved between 2018 and 2023 (BPS, 2024). However, disparities remain in rural and marginalized areas, indicating that systemic inequalities persist despite overall progress.

Aghitsni & Busyra (2022) provide further evidence that education significantly influences both labor force participation and GRDP, while health does not show a direct significant effect on economic output. This indicates that investments in education yield higher direct returns in productivity and growth, while health contributes indirectly through improved well-being. Such findings underscore the importance of aligning fiscal policies with long-term human capital strategies rather than short-term budgetary allocations.

Al-Sadr's distinction between objective and subjective dimensions of economic life is once again relevant. While education and health services can be technically delivered, their true impact on welfare depends on whether they are embedded in an ethical framework that ensures inclusivity and justice. For instance, expanding access to schooling without addressing quality or affordability may perpetuate inequality rather than reduce it. Thus, policy innovations must prioritize structural improvements in human capital development that reflect not only technical efficiency but also distributive justice.

Inflation, Monetary Policy, and Ethical Governance

Inflation remains a persistent challenge in Indonesia, driven by multiple factors including monetary expansion, exchange rate fluctuations, and structural supply-side constraints. Putra & Arifin (2017) demonstrate that money supply and exchange rate volatility exert significant positive effects on inflation, while interest rates and GDP have negative effects. These results emphasize the importance of effective monetary management and exchange rate stability in maintaining price stability. However, macroeconomic instruments alone cannot ensure welfare if they are not complemented by ethical policies that protect vulnerable households from inflation's disproportionate impact.

Al-Sadr's approach, which integrates distributive mechanisms such as *zakat* and *khums* into the economic system, provides an alternative lens for inflation management. By redistributing wealth during periods of price instability, the state can mitigate the burden on low-income households and ensure that inflation does not translate into deeper poverty or inequality. This perspective contrasts sharply with conventional policies that often prioritize aggregate stability over distributive outcomes.

Integrating Normative and Empirical Approaches for Policy Innovation

The integration of empirical findings with al-Sadr's normative framework highlights several policy implications. First, economic growth, while essential, must be reoriented toward inclusive development through mechanisms that ensure equitable distribution. Second, investments in education and health should prioritize service quality and accessibility rather than nominal expenditure, aligning with al-Sadr's emphasis on moral and ethical dimensions of welfare. Third, inflation management requires not only sound monetary policies but also distributive interventions to protect vulnerable groups.

Moreover, the persistence of poverty and unemployment in Sumatra Utara despite economic expansion suggests the need for community-based and participatory policy innovations. Studies by Gaol et al. (2024) demonstrate that local empowerment strategies, particularly in fishing communities, can enhance resilience and welfare when integrated with broader economic development policies. This aligns with the Islamic principle of *tawhid* and the collective responsibility of the state to safeguard justice and equity.

Finally, the broader implication of these findings is that Islamic economics offers not merely an ethical supplement to conventional systems but a comprehensive alternative paradigm. By embedding spiritual and moral values at the core of economic governance, al-Sadr's thought challenges policymakers to transcend the limitations of growth-oriented development and adopt holistic approaches that balance efficiency, justice, and sustainability (Menne et al., 2022; Qisti & Budiman, 2023).

The discussion demonstrates that socioeconomic challenges in Indonesia, such as persistent poverty, unemployment, and inflation, cannot be fully addressed through conventional growth and fiscal strategies alone. While economic growth and education are critical drivers of welfare, their impact remains limited without structural reforms and ethical redistribution. Muhammad Baqir al-Sadr's economic philosophy offers a robust framework for policy innovation, emphasizing distributive justice, state responsibility, and the integration of spiritual values into economic governance. By aligning empirical findings with normative insights, this study highlights the necessity of adopting multidimensional policies that are not only technically sound but also morally grounded, thereby promoting inclusive, equitable, and sustainable welfare.

CONCLUSION

This study concludes that socio-economic development in Indonesia, particularly in Sumatra Utara, is shaped by a complex interaction between structural economic growth, poverty dynamics, unemployment trends, inflationary pressures, and the quality of human capital. The quantitative findings confirm that while economic growth exerts a significant and stabilizing influence on inflation, poverty and unemployment remain persistent challenges with limited direct impact on price stability. Instead, these variables manifest in broader dimensions of welfare, underscoring the need for policies that address both macroeconomic stability and social equity.

Human Development Index (HDI) performance and the reduction in illiteracy demonstrate gradual improvements in social indicators, yet disparities remain across regions and population groups. Although government spending on education and health has not shown a direct significant influence on HDI, the effectiveness of service delivery and equitable access to education and healthcare have emerged as decisive factors. This indicates that public expenditure, when not strategically directed or effectively managed, fails to translate into meaningful welfare outcomes. Thus, structural reforms in governance, quality assurance, and accessibility of basic services are indispensable for sustaining long-term improvements in human capital.

From a normative perspective, the ideas of Muhammad Baqir al-Sadr provide a critical framework that aligns with the empirical findings. His rejection of economic exploitation, emphasis on diverse ownership structures, and insistence on the integration of moral and spiritual values into economic governance resonate with the need for distributive justice and inclusive development. In practice, this translates into the necessity for redistributive mechanisms, such as *zakat*, *waqf*, and social funds, which not only complement state policies but also embed ethical accountability into welfare systems. Al-Sadr's framework further underlines that economic governance must balance technical efficiency with social justice, positioning welfare not merely as poverty alleviation but as the realization of equitable socio economic order.

The case of Sumatra Utara reflects this dual reality: while GRDP increased significantly between 2018 and 2023, poverty rates remained high in absolute numbers, and unemployment continued to limit the potential for inclusive welfare. This disconnect between growth and social outcomes validates the need for policy innovation that transcends conventional growth-centered models. The integration of empirical insights with al-Sadr's normative perspective thus leads to the conclusion that sustainable welfare requires not only economic expansion but also ethical redistribution, participatory governance, and structural investments in education and healthcare.

In summary, this research demonstrates that Islamic economic principles, particularly those articulated by al-Sadr, provide both a theoretical and practical basis for designing policies that are inclusive, equitable, and sustainable. By grounding policy innovation in distributive justice, state responsibility,

and the protection of vulnerable groups, Indonesia has the potential to overcome structural challenges and build a welfare model that harmonizes economic growth with social equity.

Ultimately, this study affirms that addressing poverty, unemployment, and inflation requires policies that go beyond conventional macroeconomic indicators. By embedding spiritual and ethical principles into governance, Indonesia can move toward a welfare model that is not only economically efficient but also socially just and sustainable. Al-Sadr's contributions, when linked with empirical realities, highlight the potential of Islamic economics to guide transformative policy innovations that protect vulnerable groups, promote equitable distribution, and strengthen collective welfare. This alignment between normative philosophy and empirical data serves as a roadmap for future policy-making in Indonesia and beyond

Based on the conclusions drawn, several recommendations can be proposed for policymakers, practitioners, and academics:

Reorienting Economic Growth Toward Inclusivity

Economic growth policies must be coupled with distributive mechanisms to ensure that welfare gains are equitably shared. Growth in GRDP, as observed in Sumatra Utara, should be accompanied by policies that directly target poverty reduction and job creation, particularly in sectors with high labor absorption capacity. Integrating Islamic redistributive instruments, such as *zakat* and *waqf*, into development financing can enhance inclusivity while embedding ethical accountability.

Strengthening Human Capital Development

While education and health are proven drivers of HDI, the findings indicate that budget allocations alone are insufficient. Future policies should focus on improving service quality, equitable access, and accountability in resource utilization. Specific attention should be given to rural and marginalized communities, ensuring that educational attainment and healthcare access reduce structural inequalities in the long term.

Institutionalizing Ethical Redistribution

Consistent with al-Sadr's framework, redistributive mechanisms should be institutionalized within national and regional policy frameworks. This entails integrating *zakat*, *khums*, and *waqf* not as voluntary or supplemental mechanisms but as structured instruments of welfare financing that complement fiscal and monetary policies. By doing so, economic governance will not only promote efficiency but also embody the values of justice and solidarity.

Policy Innovation Based on Local Wisdom and Participation

The persistence of poverty in Sumatra Utara highlights the need for community-based and participatory approaches. Policymakers should promote bottom-up innovations that align with local socio-cultural contexts, such as community cooperatives, fisheries development programs, and micro-enterprise support. These initiatives strengthen resilience and empower local communities, consistent with Islamic principles of collective responsibility (*maslahah*).

Inflation Management with Social Protection

Since inflation is influenced by money supply and exchange rate volatility, monetary policy must be complemented by social protection instruments to shield vulnerable households. Subsidies, targeted assistance, and redistributive transfers should be designed not merely as temporary relief but as strategic instruments that align with distributive justice and ensure economic stability.

Integration of Normative and Empirical Approaches in Policy Research

Future research and policy design should adopt mixed-method approaches that combine econometric analysis with normative-philosophical frameworks. This integration ensures that policies are both evidence-based and ethically grounded. Scholars are encouraged to expand on al-Sadr's framework by contextualizing it in contemporary socio-economic realities, thereby enriching Islamic economics as a practical guide for welfare-oriented development

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