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Criticism of the Neoclassical Approach in Islamic Economic Policy in Indonesia

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ABSTRACT

This study aims to open up space for reflection and debate on the need for a paradigm shift and new methods in developing Islamic economics in Indonesia. It uses a critical qualitative approach based on political economy theory and Critical Discourse Analysis (CDA) to examine the influence of the neoclassical paradigm on Islamic economic policy in Indonesia. The results indicate that critical reflection on the dominance of the neoclassical approach in Islamic economic policy in Indonesia reveals that Islamic economics remains trapped in epistemological and methodological subordination to the global capitalist system, often failing to realise the ideals of social justice, wealth distribution, and empowerment of vulnerable groups as mandated by the maqaṣid al-shari'ah. This phenomenon occurs because the success of Islamic economics is more often measured through neoclassical indicators that emphasise asset growth, efficiency, and market competitiveness, rather than substantive transformation of inequality and poverty structures. Nevertheless, this criticism should be viewed as a constructive call to rebuild the paradigm, decolonise Islamic economic knowledge, and reaffirm the agenda of social justice and empowerment of the ummah in every policy, innovation, and sharia institution.

A. Introduction

Criticism of the neoclassical approach to Islamic economic policy in Indonesia cannot be separated from the historical development process of Islamic economics. Islamic economics essentially emerged as both an antithesis and a correction to the failure of the capitalist economic system—which is the main basis of the neoclassical approach—in realising social justice, equitable distribution of wealth, and protection of vulnerable groups (El Maghrebi et al., 2023; Karimullah, 2024b). When Islamic economics sought to build a fairer system grounded in moral and spiritual principles based on *shari'ah*, the introduction of neoclassical logic—which is highly mechanistic, materialistic, and individualistic—often gave rise to paradoxes that remain unresolved in the practice of economic policy in Indonesia. In empirical reality, the neoclassical approach distorts the essence and primary objectives of Islamic economics, prioritising *maqaṣid al-shari'ah* (the objectives of *shari'ah*) as the primary orientation for managing economic resources.

The implementation of Islamic economic policies in Indonesia, particularly since the reform era, reveals methodological ambiguities between normative claims about the uniqueness of Islamic economics and the pragmatic adoption of policy instruments based on neoclassical logic (Karimullah, 2024a). This ambiguity is evident in the development of the Islamic financial system, which often merely modifies conventional financial products with a "shari'ah label" without making substantial changes to the underlying logic of risk management, pricing mechanisms, or profit distribution. In this regard, Islamic banking, for example, often adopts financing schemes identical to conventional banking practices, merely repackaged in contracts that appear to be *shari'ah*-compliant (Haerunnisa & Sugitanata, 2024; Lai, 2022). However, in Islamic economic principles, distributive justice and favouritism towards vulnerable groups are top priorities, which are ironically often neglected in practice due to the dominance of considerations of efficiency, profitability, and financial system stability as espoused in the neoclassical approach.

The dominance of the neoclassical approach in Islamic economic policy in Indonesia is increasingly evident as the government, financial authorities, and industry players prioritise integrating the Islamic financial system into the national economic architecture through regulatory harmonisation, product standardisation, and optimising sectoral growth. This strategy replicates the growth-based economic development strategy that has long been a major critique of Islamic economic thinkers. In the neoclassical approach, economic growth is measured by accumulating output and capital. At the same time, structural issues such as inequality, distributive justice, or the marginalisation of low-income people are considered logical consequences that can be "corrected" through the trickle-down effect or ineffective secondary redistribution policies. In Islamic economics, this logic is highly problematic, as in Islamic teachings, distributive justice and collective welfare are not merely side effects of economic growth but non-negotiable primary objectives (Insani et al., 2024).

At the epistemological level, the neoclassical approach, which emphasises value neutrality and the separation of facts and norms, clearly contradicts the integralist epistemology of Islamic economics, where moral and ethical dimensions are an inseparable part of every economic decision. Islamic economics does not view humans as mere homo economicus who always pursue personal interests, but rather as homo islamicus who are responsible not only to fellow humans, but also to God and the environment (Furqani & Echchabi, 2022). The assumption of individual rationality in neoclassical economics often ignores social, spiritual, and environmental aspects, the main pillars of Islamic economics. As a result, economic policies based on the neoclassical framework tend to fail to capture the complexity of human behaviour in Indonesian Muslim society, which is influenced by social norms, traditions, and unique spiritual orientations.

The inability of the neoclassical approach to fully accommodate Islamic values is evident in the failure of several Islamic economic policies to address the challenges of economic inequality, structural poverty, and exploitation of natural resources in Indonesia. Empirical data shows that although the Islamic finance sector has grown rapidly in quantitative terms over the past two decades, this growth has not been able to have a significant impact on welfare distribution, poverty reduction, or improving the quality of life of Muslim communities in disadvantaged areas. The upper-middle class has enjoyed the growth of the Islamic sector. At the same time, people with low incomes remain marginalised due to limited access, low financial literacy, and the dominance of commercial logic that prioritises profitability over social inclusion.

Criticism of the neoclassical approach in Islamic economic policy in Indonesia has become increasingly relevant when linked to fiscal and monetary policy problems that have tended to favour macroeconomic stability and inflation control, while neglecting basic community needs such as education, health, and social protection. The neoclassical paradigm views fiscal and monetary policies as instruments to create aggregate balance through minimal intervention. However, in Islamic economics, the distribution of wealth, poverty alleviation, and job creation are the primary mandates that the state must fulfil. Fiscal policies based on zakat, infaq, sadaqah, and waqf, which are idealised by Islamic economics, often fail to be mainstreamed in national economic planning because they are trapped in the logic of efficiency and tax optimisation adopted by the neoclassical approach. The integration of Islamic economics into a national policy framework that is overly reliant on the neoclassical approach also raises issues of identity and legitimacy.

On the one hand, the government and economic authorities often claim that the Islamic economy is the solution to national and global financial problems. However, Islamic economic policies in Indonesia reflect a "formalistic shari'ah" that emphasises procedural compliance rather than substantive transformation (Asyiqin & Rinaldi, 2025). Instead of fostering an inclusive, humanistic, and equitable economy, policies based on a neoclassical approach tend to reinforce economic segmentation, widen the inequality gap, and strengthen the hegemony of the market and financial elites. Another equally important issue is the problem of research methodology and measurement of Islamic economic performance, which the neoclassical paradigm has heavily influenced. Performance indicators such as Gross Domestic Product (GDP), growth in Islamic banking assets, volume of Islamic capital market transactions, and so on are often used as the main benchmarks for the success of Islamic economics in Indonesia. However, these indicators are measurement tools born from conventional economic traditions. They cannot capture qualitative aspects such as income distribution, social justice, spiritual satisfaction, or character development. This reliance on quantitative indicators ultimately negates the true purpose of Islamic economics, which is to create a just, harmonious, and collectively prosperous social order.

Chapra (2016) criticises the limitations of the neoclassical approach, which focuses too much on market rationality and efficiency while neglecting the moral and social justice dimensions of economic management. Within Islamic economics, Chapra emphasises the importance of *maqaṣid al-shari'ah* as the primary foundation that market logic cannot replace alone. This research serves as a starting point for criticism of the application of neoclassical principles in Islamic economic policy, particularly in Muslim countries such as Indonesia. Antonio (2001) highlights how the implementation of Islamic banking in Indonesia is still influenced by conventional financial structures and profit-oriented logic rooted in neoclassical economics. He finds that Islamic banking products in Indonesia tend to mimic conventional banks, thereby losing the added value that should be created through principles of justice and balance. This study demonstrates the failure of a paradigmatic transformation in Islamic financial policy.

Asutay (Asutay, 2007) emphasises the importance of viewing Islamic economics as an alternative to capitalism and socialism. He criticises the technocratic approach that adopts neoclassical instruments without considering the moral and socio-economic objectives of

Islam. This study is relevant because it raises the need for contextual policies rooted in *maqaṣid al-shari'ah*, rather than merely technical adjustments to the conventional system. Nienhaus (2011) examined Islamic financial policy after the global crisis and found that, despite institutional growth, there is still inconsistency between the ethical goals of Islamic economics and practices in the field, which are heavily influenced by market rationality and efficiency principles. The essence of this study emphasises the need to reposition Islamic economics so that it does not merely become a symbolic adaptation of neoclassical economics.

This study examines how the neoclassical approach has influenced the formulation, implementation, and effectiveness of Islamic economic policies in Indonesia. By tracing the adoption of the neoclassical paradigm in the design of Islamic economic policies—at the banking, micro finance, and macro economic levels—this study seeks to identify the sources of paradoxes, inconsistencies, and failures in efforts to achieve social justice, equitable wealth distribution, and collective welfare by the principles of *maqaṣid al-shari'ah*. Thus, the findings of this study are expected to serve as a foundation for the renewal of Islamic economic policies in Indonesia that are more authentic, inclusive, and relevant to the social, cultural, and spiritual characteristics of Indonesian society.

B. Method

This study employs a critical qualitative approach grounded in political economy theory and Critical Discourse Analysis (CDA) to examine the influence of the neoclassical paradigm on Islamic economic policy in Indonesia. Through extensive library research and policy document analysis, this study traces the narratives, logic, and practices of policies that appear to be 'sharia-compliant' but are still subject to the logic of the market, efficiency, and individual rationality characteristic of neoclassical economics. CDA, as developed by Fairclough (2013), enables this study to unpack dominant discourses, power relations, and the co-optation of Islamic values in policy rhetoric and formal legal products. The political economy approach strengthens the analysis by positioning economic policy as the outcome of the interplay between various political, financial, and global institutional interests that often push Islamic economics toward a commercialistic trajectory.

Epistemologically, this study is grounded in a critique of economic positivism and adopts the Islamic Moral Economy to emphasise the importance of integrating the values of *maqaṣid al-shari'ah*—justice, collective welfare, and protection of vulnerable groups—into the policy process. Thus, this research not only produces a critical and reflective mapping of the phenomenon of the co-optation of the neoclassical paradigm but also provides a methodological foundation for advocacy and the transformation of the Islamic economic policy paradigm in the future to be oriented toward substantive justice and Islamic ethical values.

C. Results and Discussion

1. The Reduction of Islamic Values in Economic Practice

The history of Islamic economic development in Indonesia initially stemmed from criticism of the failure of capitalism and socialism to bring about justice and prosperity for humanity. The narrative of liberation, economic empowerment of the people, and rejection of exploitation became the major themes of the Islamic financial movement in the 1970s to 1990s. However, as Islamic economics began to institutionalise—particularly after the legalisation of Islamic banking, Islamic capital markets, and Islamic microfinance—it was co-opted on a large scale by market logic and neoclassical approaches, which had long been the mainstream of global economics. At this point, Islamic economics in Indonesia underwent a process of formalisation, where its success was measured by neoclassical variables such as asset growth, transaction volume, profitability, cost efficiency, and market share (Choudhury, 2024). The ethical, moral, and *maqaṣid al-shari'ah* values that should have been at the core of Islamic economics were reduced to mere formal requirements and procedural compliance (Karimullah, 2023).

The dominance of the neoclassical approach in Islamic economics in Indonesia is evident in the design of sharia-compliant products and financial policies, which only make minor modifications to conventional products. For example, the prohibition of interest is replaced with profit margins. At the same time, Islamic contracts are packaged with Arabic terms that give a religious nuance but, in substance, do not free society from unequal, exploitative, and capitalist economic relations. Sharia banking offers products such as *murabahah* (sale with a margin), *ijarah* (lease), *mudharabah* (profit-sharing), and *musyarakah* (partnership). Still, in practice, these schemes often resemble conventional credit systems with identical risk levels, management mechanisms, and profit orientation.

Risk management in Islamic financing remains dominated by the logic of prudent banking rooted in neoclassical principles of caution, rather than the spirit of mutual aid, solidarity, and collective risk distribution idealised by shari'ah (Haerunnisa et al., 2023). Even profit and loss sharing, which has long been claimed as an advantage of the Islamic economy, is often reduced to profit sharing alone. Islamic financial institutions tend to avoid loss sharing and opt for fixed margin schemes, as is the conventional practice.

Beyond the financial sector, Islamic economic values are reflected in fiscal policy instruments and social distribution mechanisms such as zakat, infak, sedekah, and wakaf (Mufid & Muhammad, 2023). Theoretically, these instruments are the main pillars in addressing structural inequality and poverty. However, in practice, zakat policies remain unintegrated into the national fiscal system and tend to operate as an additional philanthropic sector outside the tax system based on neoclassical logic. State involvement in zakat management remains partial, focusing on fund absorption and direct distribution without structured, sustainable, and participatory empowerment mechanisms. Meanwhile, national macro fiscal policies continue to prioritise the logic of economic growth, spending efficiency, and tax optimisation as taught by neoclassical theory, so that the distribution of wealth through zakat, infaq, and waqf instruments only plays a complementary or spiritual escape role from the failures of the exploitative national economic system (Nuriskandar et al., 2025).

The reduction of Islamic values in economic practices becomes increasingly evident during economic crises or global pressures that demand quick and adaptive stakeholder responses (Rahmani et al., 2023). In many cases, the policy responses adopted by Islamic financial institutions and the government still refer to the neoclassical macroeconomic framework, such as controlling inflation, financial system stability, and liquidity risk management (Bukido et al., 2025; Iqbal et al., 2024). Solutions based on shari'ah principles, such as qard hasan (interest-free financing) or debt restructuring based on *rahmatan lil alamin* (mercy for all), remain normative jargon with minimal actualisation. The 2008 global economic crisis and the COVID-19 pandemic are clear evidence that the Islamic economy in Indonesia has not been able to provide policy instruments that are truly different from the conventional economy, as the entire system is still measured and regulated by parameters of market rationality, efficiency, and short-term profitability.

The reduction of Islamic values in economic practice cannot be separated from epistemological and methodological problems in Indonesia's Islamic economic education and research. Many universities' curricula and research on Islamic economics are still heavily influenced by neoclassical logic, using basic assumptions about human behaviour, supply and demand theory, statistical methodology and performance measurement. Textbooks, journals, and training modules on Islamic economics tend to align with neoclassical terminology, adding 'shari'ah' as an additional attribute, without thoroughly critiquing the assumptions, theories, and success indicators employed.

As a result, Islamic economics graduates and practitioners in Indonesia are more skilled at replicating conventional economic products, policies, and systems than at developing authentic and transformative economic models, instruments, and policies based on Islamic values. This phenomenon is exacerbated by formalistic logic in the regulation and supervision of Islamic financial authorities.

The standardisation of shari'ah products and the certification process carried out by the National Shari'ah Council and the OJK place greater emphasis on procedural compliance—such as the halal nature of contracts, the validity of documents, and compliance with fatwas—without in-depth evaluation of social impacts, distributive justice, or the substantial achievement of maqaṣid al-shari'ah. In audits and supervision, the performance of Islamic financial institutions is evaluated based on profitability, efficiency, and asset growth ratios, so that all Islamic economic activities are driven by market competition and financial targets, rather than the vision of social justice and equitable prosperity mandated by shari'ah.

This reality shows that, although in theory and regulations, Islamic economics in Indonesia is always associated with the principles of justice, mutual aid, and balance, in practice, these values are often reduced by market demands, competitive pressures, and institutional interests that tend to prioritise business stability and sustainability(Karimullah et al., 2023). Shari'ah-compliant products, such as microfinance, insurance, and shari'ah capital markets, are more accessible to the upper-middle class. At the same time, marginalised groups and micro-small businesses continue to face access barriers, literacy limitations, and relatively high costs. This contradicts the primary objectives of Islamic economics to foster social inclusion, eradicate poverty, and strengthen economic solidarity among the faithful.

Another aspect of reducing Islamic values is how the Islamic economy is marketed and popularised in the public sphere. Campaigns and promotions for the Islamic economy often emphasise legal-formal elements, such as halal logos, Islamic labels, or compliance certificates (Karimullah & Rozi, 2023). In contrast, substantive values such as transparency, honesty, accountability, and a commitment to the weak are less emphasised. Even in various Islamic economic forums, discussions often get bogged down in technical discussions about product innovation, market penetration strategies, and growth targets, rather than deep reflection on social, moral, or value transformation impacts. The result is a shari'ah economy that is rapidly growing in quantitative terms—regarding assets, number of customers, and institutions—but qualitatively failing to bring about significant changes in economic structure, wealth distribution, or collective welfare.

Power relations and the dominance of the economic-political oligarchy also influence the reduction of Islamic values in economic practice in Indonesia. Islamic economics is often used in various policies as a complementary instrument or moral justification for the established national capitalist system. Major economic actors, whether in the financial, real estate, or consumer sectors, easily 'Islamise' their products and services as a branding strategy, without making substantive changes to their business models and economic relations. Practices such as Islamic banks as subsidiaries of conventional banks, Islamic capital market cooperation with global exchanges, and Islamic investments by multinational corporations often aim to expand markets and gain new profits rather than truly embody Islamic values in economic and social relations.

On the other hand, the state, as a regulator and facilitator, often focuses more on achieving macro economic targets for the Islamic economy—such as Indonesia's ranking in the Global Islamic Economy Index, the growth of the Islamic market share, or financial inclusion achievements—without implementing structural reforms in policy design that could promote wealth redistribution, empower SMEs, or protect vulnerable groups. The state also tends to regulate the Islamic economy through bureaucratic and administrative approaches, rather than creating space for participation and dialogue with grassroots economic actors, Islamic boarding schools, cooperatives, and religious communities that have long been the authentic and empowering foundation of the Islamic economy.

The reduction of Islamic values in economic practices in Indonesia, if left unchecked, will not only blur the identity of the Islamic economy but also potentially give rise to social discontent, apathy, and rejection at the grassroots level. Inequality in access, failure to achieve social justice (Nuriskandar et al., 2025), and the exclusivity of Islamic economics enjoyed by only a select few elites can spark resistance from groups that have long been the target of Islamic economic outreach. Furthermore, this phenomenon could also trigger moral and scientific delegitimisation of the entire Islamic economic project, as the public will view Islamic economics as nothing more than another variant of capitalism wrapped in religious symbols.

Addressing the reduction of Islamic values in economic practices in Indonesia is not merely about adding Islamic products, regulations, or institutions, but rather about reaffirming Islamic economics's vision, spirit, and noble aspirations. Only through the courage to engage in radical criticism of neoclassical co-optation, prioritising the values of *maqaṣid al-shari'ah* in all aspects of policy, and building a system oriented towards social justice and the empowerment of the people, can Islamic economics in Indonesia transform into a truly transformative, humanistic economic system that provides substantive meaning for humanity and social justice. Without critical and transformative steps, Islamic economics will remain trapped in a formalistic, symbolic, and commercialistic vortex, thereby losing its potential as an alternative solution to the nation's economic problems and humanity.

2. The Failure of Neoclassical Economics in Realising Social Justice

The neoclassical economic theory and policy paradigm assumes that individuals are rational agents who always seek to maximise utility, while companies always strive to maximise profits. Based on this assumption, the market is considered a perfect balancing mechanism capable of optimally allocating resources, with prices as indicators of scarcity and balancing demand and supply. In practice, policies derived from the neoclassical paradigm have focused more on market liberalisation, privatisation, deregulation, and reducing the state's role in the economy.

Efficiency in resource allocation became the main mantra. At the same time, issues of social justice, wealth redistribution, and protection of vulnerable groups were often seen as secondary concerns that could be fixed later through market mechanisms or, in the most compromising version, through limited social policies that had a 'trickle-down' effect. However, empirical evidence in Indonesia demonstrates that the efficient market mechanisms of neoclassical logic have widened social and economic disparities. Consistent data from the Central Statistics Agency (BPS), the World Bank, and independent research institutions show that Indonesia's economic growth has achieved impressive macroeconomic figures over the past three decades. Still, income inequality, regional disparities, and the concentration of wealth among a small financial elite have become increasingly problematic (Pfeffer & Waitkus, 2021). Indonesia's Gini Ratio, which represents the level of income inequality, has remained in the range of 0.38–0.41 for the past two decades, indicating serious problems in the welfare distribution. Meanwhile, extreme poverty still plagues millions of people in rural and eastern Indonesia, even though the country has repeatedly been praised as a 'successful story' of market-based development.

The implementation of ' finance' or shari'ah finance in Indonesia was expected to provide an answer to the failure of the conventional economic system in addressing inequality and creating social justice. Islamic economics offers concepts that emphasise equality, solidarity, and favouritism towards the weak, with instruments such as zakat, infaq, sadaqah, and the prohibition of usury and speculation, considered the root causes of wealth accumulation (Bashori et al., 2024; Faizin et al., 2024). However, the hope of creating social justice falls short when Islamic economics—particularly the Islamic finance sector—is developed within a neoclassical policy framework. Sharia finance, whether in banking, insurance, or capital markets, has been reduced to variations of the conventional financial system with Islamic shari'ah that replaces interest with margins, Arab contracts, and halal labels (Khan, 2024). The essence of social justice, wealth redistribution, and economic empowerment of the Muslim community, which are the ideals of Islamic economics, have been marginalised by the logic of efficiency, asset growth, and profitability targets imported directly from the neoclassical paradigm.

At the public policy level, 'Islamic finance' in Indonesia is heavily influenced by the tendency to integrate the Islamic financial system into a national financial architecture based on the logic of free markets and neoclassical efficiency. The Financial Services Authority (OJK), Bank Indonesia (BI), and the Ministry of Finance often emphasise the shari'ah market share, asset volume, and product penetration growth, rather than undertaking structural reforms to mainstream distributive justice and social protection. Shari'ah banking products claimed to be interest-free are only accessible to the upper-middle class with relatively low risk profiles. At the same time, people with low incomes, farmers, and micro-small entrepreneurs remain excluded due to limited access, low financial literacy, and high service costs. Even more ironic is that Islamic banking in Indonesia tends to channel financing to the consumer and property sectors, which have historically been engines of inequality, rather than to productive sectors based on economic empowerment.

According to neoclassical theory, high economic growth is believed to trickle down and ultimately reduce inequality automatically. However, the reality in Indonesia shows the opposite: high growth is not accompanied by equitable distribution. The majority of the benefits of economic growth are enjoyed by the top 20% of the population, while the bottom 40% only receive a small share of national income growth. The extraordinary concentration of wealth among a small economic elite is also undeniable. According to Oxfam data, the four richest people in Indonesia control assets worth the same as the combined assets of 100 million poor people. This is Indonesia's most glaring neoclassical paradox: an 'efficient' market strengthens oligarchy, widens the poverty gap, and negates the principle of social justice.

Inequality is also starkly evident in access to education, healthcare, and economic opportunities, ultimately creating a vicious cycle of poverty and intergenerational injustice. Resource-rich regions such as Papua, Kalimantan, and Sumatra remain lagging in infrastructure, healthcare, and human development indices. At the same time, their wealth is extracted and enjoyed in economic growth centres in Java and major cities. Shari'ah financial schemes, which should be the solution, have not been able to effectively intervene in these problems because they remain shackled by profit-oriented logic, prudent banking, and success parameters that are identical to those of the conventional financial system. Profit-sharing financing schemes such as *mudharabah, musyarakah*, and others, which are idealised in Islamic economic literature, often remain mere slogans. At the same time, practices on the ground are still dominated by consumer-oriented financing with minimal risk for Islamic financial institutions.

Infrastructure provider and market facilitator in the neoclassical theory, which guides design, including finance. The state is assumed to be sufficient to set regulations, maintain macroeconomic stability, and ensure the smooth flow of transactions and access to information. However, the state has failed to act proactively in wealth redistribution, social protection, and affirmation of vulnerable groups. Poverty alleviation and community empowerment programmes remain supplementary in state budgets dominated by infrastructure spending and subsidies for the formal sector.

Islamic economic instruments such as zakat, infak, sedekah, and wakaf, which should be the main pillars of wealth redistribution and poverty alleviation, have been marginalised or half-heartedly integrated into the state fiscal system. The zakat-tax integration scheme, for example, remains a polemic without significant results, as fiscal policy remains oriented towards tax revenue and neoclassical spending efficiency. The failure of neoclassical economics to achieve social justice in Indonesia is also evident in the impact of privatisation and liberalisation policies in the public sectors, which should be for the people's welfare. The privatisation of electricity, water, public transport, and other basic services under market efficiency has increased the burden on people experiencing poverty, reduced service quality, and created space for rent-seeking, cartels, and oligopolies. The liberalisation of the education and health sectors has transformed these sectors into commodities, where only those with money can access the best services.

Even when Islamic finance entered these sectors, the profit-oriented logic continued to dominate, so equity and social protection goals became even more distant from expectations. The unequal and oligarchic structure of the Indonesian economy has been perpetuated by the penetration of a neoclassical Islamic financial system, as large Islamic financial institutions prefer to expand in large cities, industrial areas, and established formal sectors. Efforts to penetrate poor areas, rural regions, and the informal sector have progressed slowly, often citing excuses such as infrastructure limitations, credit risks, or low financial literacy. Amid the rapid growth of Islamic banking assets, the tangible contribution to poverty alleviation and welfare distribution remains minimal and is frequently questioned by grassroots communities.

From an authentic Islamic economic perspective, this failure is a betrayal of the principles of maqaṣid al-shari'ah. Islamic economics is not merely about formal compliance with the prohibition of usury or halal labels, but a radical commitment to achieving distributive justice, social solidarity, and a bias towards the weak. The concept of ownership in Islam is relative. It must be linked to social responsibility, while the distribution of wealth is not merely a by-product of economic growth but a primary objective that must be achieved through integrated economic, fiscal, and social instruments.

In Islamic economics, the state is not merely a guardian of the market but an active leader and protector, ensuring equality and protection for all citizens, especially the poor and oppressed. Neoclassical economics' failure to achieve social justice in Indonesia should not be seen merely as a technical policy error but as a consequence of a flawed and biased paradigm choice. As long as efficiency, growth, and market logic remain the primary objectives, as long as the state serves only as a servant of the market and an instrument of the ruling elite, and as long as Islamic finance remains merely cosmetic within the old economic system, inequality and injustice will continue to be the social wounds of this nation. Only the courage to criticise the paradigm, a genuine commitment to redistribution, and a commitment to realising the *maqaṣid al-shari'ah* can lead Indonesia towards true social justice, both in theory and economic policy practice.

3. The Dominance of the Neoclassical Paradigm in Islamic Economic Policy

The uncritical acceptance of the neoclassical approach in Islamic economic theory, practice, and policy in Indonesia is a form of intellectual colonialism, in which the knowledge system, methodology, and basic logic of Islamic economics are usurped and replaced with Western models that are claimed to be more rational, scientific, and universal. In its most problematic sense, the Westernisation of the Islamic economic paradigm impacts the technical aspects of economic and financial management. It destroys the epistemological foundations and substantive objectives that have always been the primary distinguishing features of Islamic economics. Neoclassical economics emphasises homoemphasisess as a rational actor, pursuing utility and subject to neutral price mechanisms. In contrast, *maqaṣid al-shari'ah* emphasises the importance of justice, wealth distribution, solidarity, social responsibility, and an otherworldly orientation as the foundations of economics.

In practice, adopting the neoclassical approach to Islamic economic policy in Indonesia has been massive and systematic, both at the level of regulatory design, financial product development, and academic discourse (Arif, 2021). Shari'ah financial products, ranging from banking, insurance, to shari'ah capital markets, essentially only mimic conventional products with certain modifications to comply with shari'ah fatwas: interest is replaced by margins, bonds are replaced by sukuk, derivative instruments are labelled as shari'ah, and shari'ah contracts are formalised in terms that give a religious impression. However, the underlying structure of economic relations remains rooted in market rationality, efficiency, and mechanistic price-setting mechanisms, detached from ethical and social considerations. Criticism from global Muslim thinkers such as Muhammad Nejatullah Siddiqi, M. Umer Chapra, and Timur Kuran clearly states that Islamic economics has lost its epistemological autonomy and has become subordinate to global capitalist economics' logichis subordination is reinforced by the tendency of states, regulators, and Islamic financial institutions to pursue validation, recognition, and integration with a global system that is historically, philosophically, and politically biased towards capitalist values (Al Hamid et al., 2025). Indonesia, for example, is racing to improve its ranking in the Global Islamic Finance Index, pursuing international halal certification, and adopting Islamic financial standards developed in London, Dubai, or Bahrain. Muslim countries, including Indonesia, rarely dare to build truly radical and contextual Islamic economic models, choosing safe zones to become followers rather than producers of critical, autonomous Islamic economic knowledge and innovation rooted in the real needs of their people.

This situation has led to a loss of sensitivity to social realities, the history of economic colonialism, and the dynamics of global power, which are the real enemies of the Islamic social justice agenda. Under the dominance of the neoclassical paradigm, Islamic economic policies in Indonesia have become highly elitist, top-down, and only adapt to the needs of the urban upper-middle class that is already integrated into the logic of the global market. Islamic financial institutions in Indonesia operate primarily in major cities, offering consumer products, property, and investment services, and targeting established customers with low-risk profiles (Utomo et al., 2021). Meanwhile, the poor, micro-small entrepreneurs, farmers, workers, and indigenous communities remain marginalised, only touched by philanthropy, CSR, or charitable and temporary social assistance programmes.

The Decolonisationnomics should be a movement of epistemological and practical restoration, reaffirming that Islamic economics aims to free humanity from exploitation, end structural inequality, and create a fair and sustainable system of wealth distribution (Hibbatulloh et al., 2025). However, the process of 'Westernisation' has diverted this direction, reducing Islamic economics to a cosmetic layer on the body of global capitalism (Hazzard, 2024). The most evident proof of this intellectual colonisation is the colonisation of neoclassical indicators as benchmarks for the success of Islamic economics in Indonesia: asset growth, transaction volume, market penetration, efficiency levels, and profitability of financial institutions. These indicators are far removed from the spirit of *maqaṣid al-shari'ah*, which should be the main pillars of Islamic economic performance assessment: wealth distribution, poverty alleviation, empowerment of vulnerable groups, and improvement of the collective quality of life.

The decolonisation of economics requires intellectual courage to break the dominance of discourse, dismantle entrenched knowledge structures, and construct an alternative narrative that is truly authentic, critical, and rooted in *maqaṣid al-shari'ah*. This effort is not merely rhetoric but must be realised through methodological criticism, the development of new economic models relevant to the Indonesian context, and the repositioning of the objectives of Islamic economics to become an instrument of social transformation. The articulation of the *maqaṣid al-shari'ah* must be presented as a 'critical framework' in all Islamic economic policy designs, not merely as a normative symbol adorning the vision and mission of financial institutions.

The first step in this decolonisation is decolonial reconstruction in education, research, and advocacy for Islamic economic policy. Universities must dare to restructure their curricula, educate students and researchers to think critically, engage in ijtihad, and create new

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knowledge based on the realities and needs of Indonesian society. Islamic economic models oriented towards economic empowerment of the people, cooperatives, participatory microfinance institutions, and integration between the real and social sectors must become priorities for research and institutional innovation. Collaboration between academics, scholars, practitioners, and grassroots communities is essential to building an independent, reflective, progressive knowledge ecosystem.

At the public policy level, the state must take a firm stance not merely to be a 'policy taker' of global standards, but rather a 'policy maker' grounded in the ideals of social justice and national independence. The state must mainstream wealth distribution, protect vulnerable groups, and strengthen the economy through all shari'ah economic policies. Instruments such as zakat, infaq, sadaqah, and waqf must be substantially integrated with the state's fiscal and social policies, not merely as complements or escape routes from the failures of the tax and market systems. Developing truly inclusive Islamic microfinance institutions, strengthening the role of Islamic boarding schools and Islamic organisations' empowerment, and the courage to intervene in the market to curb oligarchy and monopoly are concrete steps towards authentic Islamic economic decolonisation.

On the other hand, society and the Muslim community in Indonesia must cultivate critical awareness of the importance of economic independence and liberation from the logic of the global market (Qizam et al., 2025). The people's economic movement, Islamic cooperatives, farmer communities, fishermen, workers, and micro-enterprises must be strengthened as the foundation of decolonisation, not merely as consumers of Islamic products, but also as producers of value, knowledge, and innovation relevant to local needs. Critical Islamic economic literacy, policy advocacy, and active participation in economic decision-making ensure that decolonisation remains theoretical but becomes a real movement for change. It is important to note that decolonisation economics does not mean blindly rejecting all knowledge, technology, and innovation from the West. Decolonisation is a selective and creative process where Western economic expertise and practices are filtered, critiqued, and consciously chosen to align with Muslim societies' values, needs, and goals (Faruque, 2024). Decolonisation is the courage to say no to things that contradict the objectives of shari'ah and the people's interests, as well as the ability to engage in ijtihad and innovation in line with the demands of the times.

Whether Islamic economics in Indonesia is truly independent or merely subordinate to Western economic logic packaged in a shari'ah narrative must be answered honestly and reflectively. The facts above indicate that, so far, Islamic economics in Indonesia is still heavily influenced, even co-opted, by Western economic paradigms, methodologies, and objectives. Islamic economics more often serves as a complement, cosmetic, or validation tool for the global capitalist system rather than as a transformative force capable of reconstructing national and international economic structures.

The decolonisation of economics is an agenda that cannot be postponed, because without critical steps, intellectual courage, and radical policy innovations, Islamic economics will only become a 'shadow' of the Western economic system, losing its spirit, authenticity, and transformative capacity. Therefore, it is time for Indonesia and the Muslim world to build an Islamic economy that is truly epistemologically independent, innovative in methodology, and bold enough to place the *maqaṣid al-shari'ah* at the centre of all economic policies. Without decolonisation and practice, Islamic economics will remain in the shadow of the West, failing to fulfil its primary function as an agent of social justice and empowerment for the ummah. Decolonisation is about opposing the West, building self-identity, independence, and the courage to establish an economic system that is more just, humane, and in line with the natural purpose of human creation as stewards of the earth.

D. Conclusion

A critical reflection on the neoclassical approach to Islamic economic policy in Indonesia indicates that the most fundamental failure lies in the dominance of the Western paradigm, which permeates almost all aspects of the Islamic economy, from theory to policy and industry. Instead of becoming a transformative force rooted in social justice and *maqaṣid al-shari'ah*, Islamic economics has become trapped in a logic of imitation and global validation, so its existence is often merely a new variant of the global capitalist system with formalistic modifications. The success of Islamic economics is then measured more by neoclassical parameters, such as asset growth, efficiency, and market competitiveness, while the agenda of social justice, wealth distribution, and protection of vulnerable groups is still far from substantive realisation.

This epistemological and methodological entanglement with the neoclassical paradigm has placed Indonesian Islamic economics in a subordinate position, rather than as a pioneer of value-based economic renewal rooted in the noble goals of Islam. However, this profound critique is not a call for pessimism, but rather a call for the courage to reconstruct paradigms and decolonise Islamic economics more radically and contextually. The transformation of the Islamic economy in Indonesia requires collective courage to break free from the trap of imitation logic, develop new epistemologies and indicators of success rooted in the *maqaṣid al-shari'ah*, and place the agenda of social justice and empowerment of the people at the core of all policies and institutional innovations. Indonesia's Islamic economy transforms into an authentic, progressive, and liberating system only by integrating criticism of the neoclassical approach, building knowledge independence, and empowering the people's economy through real wealth distribution. This process is the cornerstone for the realisation of an Islamic economy that is truly just, inclusive, and relevant to the needs of society and the social justice aspirations mandated by *shari'ah*.

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