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# BUILDING A LEGAL WELFARE STATE: NORMATIVE ANALYSIS OF INDONESIA'S ECONOMIC LAW POLICIES AND POLITICAL DIRECTIONS

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## ABSTRACT

**Objective:** This article aims to analyze the concept of a legal welfare state in Indonesia by examining economic law policies and political directions, particularly those related to integrating the principles of social justice, environmental sustainability, and community economic empowerment under the rule of law.

**Research Design & Methods:** This research is a normative legal study with a descriptive-analytical normative juridical approach that uses deductive analysis based on document studies and qualitative literature reviews of laws and regulations, policies, and academic literature to provide a comprehensive and systematic picture of the relevance of Indonesian economic legal policies within the framework of the idea of a legal welfare state.

**Findings:** The results of the study conclude that Indonesia's economic policy operates within a hybrid framework between market liberalization and state intervention, which requires institutional strengthening, integration of distributive justice and sustainability, and public participation as the main instruments for realizing policy legitimacy and reducing socio-economic inequality.

**Implications & Recommendations:** The conclusion is that inclusive, participatory, and responsive economic legal policies, supported by strong law enforcement, regulatory harmonization, and consistent application of sustainability and social justice principles are essential to ensure legal certainty and sustainable national development.

**Contribution & Value Added:** This article provides conceptual and practical contributions by enriching the discourse on the legal welfare state in Indonesia by examining economic legal policy and providing a normative basis for formulating fair, sustainable, and inclusive policies.

**Keywords:** Welfare State Law, Economic Law Policy, Social Justice

JEL codes: K10, K33, O43

**Article type:** research paper

## INTRODUCTION

The concept of the welfare state is a key paradigm in modern governance because it integrates legal, economic, and social aspects to achieve comprehensive public welfare. In the Indonesian context, this concept functions not only as a normative ideal, but also as a constitutional and ideological ideal rooted in the principles of the rule of law, the values of Pancasila, and the mandate of the Preamble to the 1945 Constitution, which affirms the commitment to "promote general welfare" as one of the main objectives of the State. The values of Pancasila, especially the fifth principle of social justice for all Indonesian people and the principle of kinship, demand that economic development not only be oriented towards growth, but also towards equity, protection of vulnerable groups, and the state's responsibility to provide basic services such as health, education, and social security (Putra, 2017).

Indonesia's journey towards becoming a welfare state has strong roots in the nation's philosophical foundations, particularly the fundamental values contained in Pancasila as a moral and ideological guide. The establishment of Indonesia as a welfare state is not merely the result of political dynamics, but a tangible manifestation of the internalization of the nation's noble values that emphasize social justice, equitable economic welfare, and the fulfillment of the fundamental rights of all citizens. However, Indonesia's constitutional framework faces significant challenges because it has not been able to optimize its potential to create a comprehensive welfare society fully. This condition differs from countries such as Norway, Japan, or the United States, which have constitutions and legal systems that are more explicit in directing public policy to achieve national welfare (Dimiyati et al., 2021).

Indonesia's economic policy is currently facing a rather complex strategic dilemma. On the one hand, there is a strong push to accelerate economic growth through liberalization policies, reduction of trade barriers, increase in Foreign Direct Investment (FDI), deregulation of the service sector, and efforts to integrate the global economy. These policies can boost productivity and long-term growth, as demonstrated by various studies, including findings on the impact of service sector liberalization on manufacturing performance in Indonesia. However, on the other hand, the need for social protection and a more equitable welfare distribution is becoming increasingly urgent (Sukoco et al., 2020). Without adequate protection and regulatory instruments, liberalization can deepen economic inequality, marginalizing vulnerable groups such as rural communities, informal sector workers, and regions with low fiscal capacity, making it difficult for them to access basic public services such as health, education, and social security.

The concept of a legal welfare state in Indonesia is closely related to the prophetic and transcendental dimensions of Pancasila, which serves as a moral compass and spiritual guide in shaping national policy directions in various sectors, ranging from law, economics, politics, and culture. This approach reflects the unique character of Indonesia's constitutional system, which prioritizes rationality and technocracy and places noble values, culture, and morals as its primary foundation. Thus, every development and implementation of public policy is expected always to be based on the principles of humanity, social justice, and sustainability, to create a balance between material progress and spiritual development of society. This prophetic-transcendental approach also functions as a control mechanism to ensure that state policies do not stray from national cultural roots and remain in line with the constitutional ideals of achieving general welfare for all Indonesian people.

Empirically, Indonesia has implemented various social protection and social safety net programs since the 1998 economic crisis to address rising social and economic vulnerability. These include food security initiatives, employment expansion programs, improved access to education and healthcare, and community-based economic empowerment schemes. While these policies reflect the government's commitment to welfare state principles, their implementation continues to face challenges related to targeting accuracy, fiscal sustainability, regulatory coherence, and institutional effectiveness (Sumarto et al., 2005). These limitations indicate the need for a more robust legal framework that systematically integrates welfare objectives into economic law policy.

The urgency of this research stems from the pressing need to assess the extent to which Indonesia's economic policy effectively supports the realization of a welfare state, while also formulating recommendations for a more adaptive and responsive monetary policy direction that is responsive to the dynamics of society's needs. This research is highly relevant in the global context, where many countries strive to find a development model that is oriented towards economic growth and ensures environmental sustainability, equitable welfare, and social justice. Thus, the results of this study are expected to contribute theoretically and practically to the development of a more inclusive and progressive economic legal policy framework based on the values of Pancasila and the mandate of the Indonesian constitution.

## LITERATURE REVIEW

### The Concept of the Welfare State

The welfare state refers to a system of government that actively ensures its citizens' social and economic welfare through wealth redistribution, social protection, and the provision of basic services such as health, education, and social security. The welfare state not only functions as a mechanism to reduce income inequality, but also aims to protect against risks throughout the life cycle, for example, through pensions or unemployment benefits (Bartels, 2011). This concept arose from the need to balance the role of the market with the state's responsibility to protect vulnerable groups, while strengthening social cohesion and equal opportunities (Vivekanandan & Kurian, 2005). Welfare can be understood as a collective effort to socialize risks, balance individual and public interests, and form a system that guarantees social security, not only as an economic tool but also as part of a modern social contract (Sandmo, 1995).

Generally, the concept of a "welfare state" can be understood as a model of governance oriented toward the comprehensive fulfillment and protection of the socio-economic welfare of citizens. Within this framework, the state is responsible for formulating policies and implementing programs to reduce social inequality, ensuring equal access to essential public services, and promoting a more equitable distribution of resources and wealth. This concept not only positions the state as a regulator, but also as a facilitator and protector of the people's fundamental rights, so that welfare is not solely the responsibility of individuals or the market, but rather a constitutional mandate that must be realized systematically and sustainably.

In contemporary literature, the Welfare State is understood as a system of government that not only provides a social safety net but also continues to evolve in the face of economic crises, health crises, and other global challenges. For example, Farnsworth and Irving (2024) discuss how the welfare state faces a series of crises, ranging from fiscal pressure and neoliberal ideology to pandemics, and emphasize the importance of intellectual skepticism in evaluating the resilience of the modern welfare state, rather than simply being optimistic about the sustainability of existing social policies. Other research highlights how daily living conditions influenced by public welfare policies directly impact the mental well-being of older people, showing that quality of life and public services are essential components of the welfare state concept's effectiveness (Cresswell-Smith et al., 2022).

The concept of the welfare state was initially popularized by T.H. Marshall, who emphasized that social security is a fundamental part of citizenship rights, so that every individual is entitled to state protection against social and economic risks. In its development, Esping-Andersen & Standing (1991) classified welfare states into three main models, namely the liberal model, which tends to rely on market mechanisms with minimal state intervention; the conservative model, which emphasizes the role of traditional institutions such as the family and the church in providing social protection; and the social democratic model, which focuses on the equitable distribution of welfare through extensive state intervention and strong redistribution policies. This classification shows the variety of approaches in regulating the relationship between the state, the market, and society to guarantee citizens' welfare, while emphasizing the importance of policy design appropriate to each country's social, political, and economic context.

In the Indonesian context, the concept of a welfare state has unique characteristics rooted in the values of Pancasila and the constitution's mandate, which place social welfare as the primary objective of state administration. The Indonesian welfare model is oriented towards the distribution of social justice and the fulfillment of citizens' basic needs, but also emphasizes moral, ethical, and cultural dimensions that reflect the nation's identity. This is in line with the principles of economic democracy based on kinship, cooperation, and social solidarity. A Pancasila-based welfare state requires the active role of the state in ensuring equitable welfare, while integrating the roles of society and the market to create harmony in equitable and sustainable national development (Gunawan, 2020; Putra, 2021).

## Political Economy

Based on a philosophical perspective, political economy is not only seen as a study of the distribution of resources and power, but also as a discipline rich in moral dimensions. This approach emphasizes the importance of designing systems and institutions that view humans as interdependent social beings, thereby transcending individualistic views that focus solely on personal interests (Carugati & Levi, 2021). Thus, modern political economy analysis is encouraged to combine rational choice frameworks with historical and institutional perspectives to create a new paradigm that is more comprehensive and responsive to social realities (Gamble, 1995). This integration allows for a deeper understanding of the relationship between values, institutions, and collective action, while also affirming the role of ethics and history in shaping the direction of public policy and economic-political structures in contemporary society.

Economic legal policy is closely linked to economic globalization, which is gradually blurring national boundaries and encouraging cross-border cooperation in global governance. In this context, globalization requires an international legal framework that is not only capable of adapting to diverse legal cultures but also ensures fairness and balance in global economic transactions (Griffin, 2003). The dynamics of global political and economic change necessitate the reform of international governance so that global institutions can function in a more democratic, transparent, and accountable manner, enabling them to respond to new challenges arising from economic-political interactions at the worldwide level (Halliday & Osinsky, 2006).

In Indonesia, economic legal policy is a dynamic and strategic process that involves adjusting legal and financial policies to align with national development goals while considering local characteristics, needs, and values. This approach can be seen, for example, in the implementation of consumer protection laws, which are not only designed to provide security for the public but also demonstrate the state's responsibility in resolving consumer disputes, especially in the context of electronic transactions that continue to grow along with the digitalization of the economy (Subagyo et al., 2023). Furthermore, political and legal transformation in Indonesia reveals a complex interaction between customary law, Islamic law, and state law, each with historical and social legitimacy. This interaction has given rise to new dynamics in policy-making, regulation, and law enforcement, while also opening up space for legal innovation that is more responsive to political, economic, and social changes at the national level (Benda-Beckmann & Benda-Beckmann, 2013).

## Indonesia's Constitutional Framework

Indonesia's constitutional framework as the foundation of a welfare state is rooted in the Preamble to the 1945 Constitution and the values of Pancasila, which affirm the noble ideals of the state, namely to protect the entire Indonesian nation, promote general welfare, educate the country, and realize social justice for all people. Legally, this mandate is reinforced by Article 33 of the 1945 Constitution, which regulates an economic democracy system based on the principle of kinship, state control over branches of production that are important to the state and that control the livelihoods of many people, and the management of resources for the greatest prosperity of the people. Furthermore, Article 34 provides a clear mandate for the state to care for the poor and neglected children as a form of the state's social responsibility towards vulnerable groups. Constitutional law literature emphasizes that these principles not only serve as normative legitimacy for the formulation of pro-welfare economic and social policies, but also as ideological and constitutional pillars to guide national legal policy towards equity, distributive justice, and inclusive development based on public interest (Anisah, 2023; Budiono, 2016).

Through the 1945 Constitution, the Indonesian Constitution explicitly affirms the direction of national economic development based on financial democracy and social justice. This provision is clearly stated in Article 33, paragraph (4), which mandates that the implementation of the national economy must be based on the principles of togetherness, equitable efficiency, sustainability, environmental awareness, independence, and maintaining a balance between progress and national economic unity. This constitutional mandate shows that Indonesia's financial system is oriented towards growth, equity, and sustainability. Furthermore, the idea of a welfare state as a constitutional ideal is reflected in the Preamble to the 1945 Constitution,

which states that the state's goal is to "promote general welfare" as part of the *staatsidee* of the Unitary State of the Republic of Indonesia. [Prasetyo \(2016\)](#) explains that several academic studies underline that this principle is the primary foundation for forming economic and social policies prioritizing people's welfare, distributive justice, and sustainable environmental protection.

The amendment to the Indonesian constitution has strengthened the recognition and protection of human rights, including economic, social, and cultural dimensions, as the primary foundation for building a welfare state. This strengthening demonstrates the state's commitment to guaranteeing the fulfillment of the fundamental rights of citizens, ranging from access to economic resources and social welfare guarantees to cultural development as an integral part of national life. In addition, this step also shows alignment with global standards and practices that promote the integration of the principles of social justice, equitable development, and protection of vulnerable groups, thereby strengthening Indonesia's moral and political legitimacy in building an inclusive and sustainable welfare system. This aligns with international instruments such as the International Covenant on Economic, Social, and Cultural Rights, which Indonesia has ratified. Research on indigenous peoples concludes that the protection of rights to natural resources based on the ICESCR has not been fully realized despite being formally regulated, confirming that the legal framework does not sufficiently guarantee the actual implementation of these ESC rights ([Sahlan et al., 2024](#)).

## METHODS

This research employs a normative legal research design using a descriptive-analytical juridical approach. Normative legal research is applied to examine legal norms, principles, doctrines, and policies related to economic law and the concept of a legal welfare state in Indonesia. The study focuses on analyzing the coherence between economic law policies, constitutional mandates, and welfare state principles within the framework of the rule of law ([Hilborn et al., 2019](#)). The data sources consist of legal materials categorized into three types. Primary legal materials include the 1945 Constitution of the Republic of Indonesia, relevant statutes and regulations concerning economic governance, social welfare, and sustainable development. Secondary legal materials comprise academic books, peer-reviewed journal articles, policy reports, and expert opinions related to welfare state theory, economic law, and public policy. Tertiary legal materials include legal dictionaries and encyclopedias used to clarify legal terminology and concepts.

Data collection was conducted through a document study technique. The collected legal materials were analyzed qualitatively using deductive legal reasoning. As explained by Peter Mahmud Marzuki, drawing on Philipus M. Hadjon, deductive analysis in normative legal research begins with general legal norms and principles, such as social justice, legal certainty, and sustainability and subsequently examines their application and consistency within specific economic law policies and regulatory frameworks. Conclusions are then drawn regarding the extent to which these policies reflect the ideals of a legal welfare state ([Mishra & Negi, 2021](#)).

This research is descriptive-analytical in nature, aiming to provide a systematic and in-depth description of Indonesia's economic law policy orientation while critically analyzing its normative alignment with constitutional values and welfare state objectives. The analytical results are expected to offer normative insights and policy-oriented recommendations to strengthen the realization of a welfare-oriented legal system in Indonesia.

## RESULT

### Indonesian Economic Law Policy

Economic law policy in Indonesia reflects an increasingly comprehensive approach by integrating various aspects, ranging from the relationship between the central and regional governments, the agrarian reform agenda, to the dynamics of digital technology and artificial intelligence in economic governance. Since the political reforms 1998, there have been significant opportunities for strengthening political education at the local level, developing village institutional capacity, and increasing transparency and public participation in policy-making processes. Greater autonomy for village governments not only allows them to make decisions independently without

the approval of higher authorities but also encourages the creation of policy innovations based on local needs, strengthens responsive village governance, and creates a more sustainable and inclusive development ecosystem in line with the demands of the digital age and national economic transformation (Antlöv, 2003).

Current economic policy in Indonesia is moving in a more progressive direction, combining the principles of free market mechanisms with the state's obligation to guarantee social welfare. This approach is evident in the government's efforts to integrate social protection strategies with strengthening the MSME sector as the mainstay of the national economy. For example, regulations such as the Job Creation Law are designed to facilitate business and maintain a balance between the interests of large enterprises and MSMEs so that their rights remain protected from unhealthy market domination (Koeswahyono et al., 2022). Recent findings also indicate that vulnerable communities, especially in rural areas, still rely on informal social protection mechanisms to complement the formal system, so effective policies must be able to accommodate both to reduce inequality and improve equitable welfare (Surtiari et al., 2024; Vel & Warren, 2024). Furthermore, the government is strengthening the formality of businesses and worker protection through social policies that improve access to legality, capital, education, technology, and infrastructure for MSMEs. This strategy aims to create economic justice and strengthen national competitiveness, encourage digital transformation, and support inclusive and sustainable development in an era of a competitive global economy (Torm & Oehme, 2024).

Economic law development in Indonesia aims to achieve harmony between the dynamics of market-based economic growth and fulfilling the principles of social welfare mandated by the constitution. The government seeks to maintain national economic stability while protecting vulnerable groups from being left behind in economic liberalization through various legal instruments, regulations, and strategic programs. This policy covers essential aspects such as adaptive social protection, targeted subsidies, strengthening the competitiveness of MSMEs as the backbone of the people's economy, implementing fair business competition regulations, and managing natural resources, focusing on environmental sustainability. Furthermore, the policy aims to strengthen digital transformation, expand access to financing and infrastructure for the productive sector, and build an inclusive, equitable, and sustainable economic ecosystem in line with the demands of globalization and the industrial revolution 4.0.

Table 1. Details of Indonesia's Economic Law Policy

| Policy Areas                     | Legal Instruments/Programs  | Main Objectives  | Impact  |
|----------------------------------|---|--|---|
| Social Protection                | <ul style="list-style-type: none"> <li>a. Law No. 40/2004 on Social Security System (SJS)</li> <li>b. BPJS Health &amp; BPJS Employment</li> <li>c. Social Assistance Programs, PKH, Pre-Employment Card</li> </ul>       | Provide health insurance, employment, and social safety nets for vulnerable groups | Reduced poverty, improved access to healthcare, and job skills                    |
| Strategic Sector Subsidies       | <ul style="list-style-type: none"> <li>a. Energy subsidies (fuel, electricity)</li> <li>b. Agricultural subsidies (fertilizer)</li> <li>c. Education subsidies (KIP, BOS)</li> <li>d. Transportation subsidies</li> </ul> | Maintain people's purchasing power and support the productivity of vital sectors   | Stable prices for necessities, improved access to education, and transportation   |
| Strengthening MSMEs              | <ul style="list-style-type: none"> <li>a. Law No. 20/2008 on MSMEs</li> <li>b. People's Business Credit (KUR)</li> <li>c. MSME Digitalization (e-commerce)</li> <li>d. MSME Assistance Program</li> </ul>                 | Provide legal protection, access to capital, markets, and technology for MSMEs     | Increased competitiveness of MSMEs, greater contribution of MSMEs to national GDP |
| Business Competition Regulations | <ul style="list-style-type: none"> <li>a. Law No. 5/1999 on Prohibition of Monopoly &amp; Unfair Business Competition</li> </ul>  | Maintain a healthy business climate and  | Fair business competition, protection of small                                    |

| Policy Areas                        | Legal Instruments/Programs                                    | Main Objectives  | Impact  |
|-------------------------------------|---|--|---|
| Sustainable Development             | b. Role of KPPU   | prevent the dominance of large businesses                          | businesses, and consumers   |
|                                     | a. Law No. 32/2009 on Environmental Protection and Management | Ensure environmentally friendly and sustainable development        | Sustainable natural resource management, environmental impact control, and clean energy development |
|                                     | b. Minerba Law<br>c. Renewable Energy Policy                  |  |   |
| Ease of Doing Business & Investment | a. Law No. 11/2020 on Job Creation                            | Improve the investment climate and simplify licensing              | Increased domestic and foreign investment, creation of new jobs                                     |
|                                     | b. OSS System (Online Single Submission)                      |  |   |
|                                     | c. Bureaucratic reform  |  |   |
| Trade & Globalization               | a. International trade agreements (FTA, CEPA)                 | Regional and global economic integration                           | Increased exports and stronger competitiveness of Indonesian products                               |
|                                     | b. ASEAN Economic Community (AEC)                             |  |   |
| Finance & Banking                   | a. Banking Law  | Stability of the national financial system and customer protection | Controlled inflation, a stable financial system, and increased financial inclusion                  |
|                                     | b. OJK Law  |  |   |
|                                     | c. Fiscal & monetary policy (State Budget, BI, OJK)           |  |   |

Based on the table, it can be concluded that the direction of Indonesia's economic policy is comprehensive and multidimensional. Social protection is the primary foundation for reducing inequality and improving public welfare, while subsidies in strategic sectors play a role in maintaining national economic stability. Strong support for MSMEs is positioned as the engine of equitable economic growth. At the same time, implementing fair business competition regulations is essential for creating a healthy and competitive market. Furthermore, the focus on environmental sustainability and efforts to simplify investment procedures reflect the government's commitment to building an economy that is globally competitive, inclusive, adaptive, and sustainable in line with the demands of the modern era.

### Implementation of the Principle of a Welfare State

The implementation of the principle of a welfare state in Indonesia is evident through various regulations aimed at strengthening consumer protection, expanding public access to formal economic activities, and increasing the accountability of the sharia-based financial sector. Policies regarding halal product guarantees, for example, provide legal certainty for Muslim consumers and emphasize the responsibility of business actors to ensure that products on the market comply with applicable standards, thereby protecting consumer rights. In the economic sphere, regulations related to the development of sharia cooperatives help expand public participation in small and medium-sized enterprises and encourage the creation of more inclusive employment opportunities (Erawan et al., 2021). Meanwhile, the increasingly strengthened Islamic financial supervision system demonstrates the state's commitment to maintaining the stability of financial institutions and providing fairer and safer access to services for the wider community (Hanim, 2023).

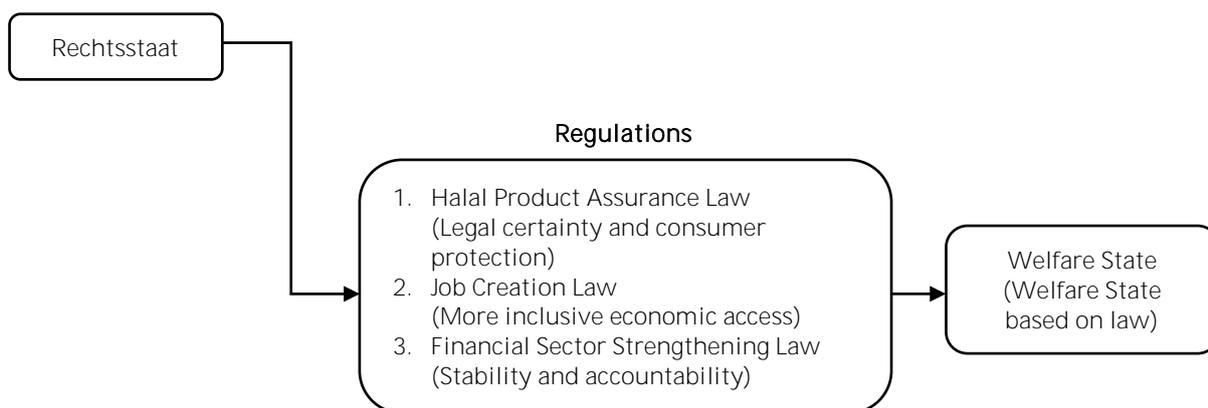


Figure 1. Diagram of the Implementation of the Principles of the Legal Welfare State

The concept of the rule of law (*rechtsstaat*) essentially emphasizes the supremacy of law, certainty, and the protection of human rights as the main foundations of state administration. On the other hand, the concept of the welfare state requires the state's active role in ensuring the people's welfare through inclusive economic, social, and legal policies. In the Indonesian context, these two concepts are closely intertwined: the law is positioned not only as a means of control, but also as a transformative instrument for achieving social justice and shared welfare. Thus, the rule of law in Indonesia does not stop at the normative dimension alone, but has developed into a progressive rule of law, which actively presents pro-people regulations, strengthens the protection of vulnerable groups, and ensures that development is carried out in a fair, transparent, and legally specific manner.

Table 2. Application of the Principles of a Welfare State

| Regulations  | Main Points  | Implementation Details   | Relevance to the Principle of a Welfare State  |
|--|--|--|--|
| Law No. 33 of 2014 concerning Halal Product Guarantee                                    | Regulate halal certification for products entering, circulating, and traded in Indonesia   | <ol style="list-style-type: none"> <li>a. Every product that enters, circulates, and is traded must be halal certified</li> <li>b. The Halal Product Guarantee Agency (BPJPH) is established</li> <li>c. Business actors are required to maintain the halal status of their products and are legally responsible for any violations</li> </ol> | Providing legal certainty and protection for Muslim consumers and strengthening public confidence in products on the market. The state is present to guarantee the right to security and justice |
| Law No. 11 of 2020 concerning Job Creation (which has been revised by Law No. 6 of 2023) | Regulate the acceleration of job creation and investment growth by simplifying regulations | <ol style="list-style-type: none"> <li>a. Simplify business licensing with OSS (Online Single Submission)</li> <li>b. Strengthen MSMEs and cooperatives, including ease of access to financing</li> <li>c. Encourage the creation of new jobs through labor-friendly investment</li> </ol>   | Providing broader access for the community to economic activities, reducing bureaucratic barriers, and promoting prosperity through equal opportunities  |
| Law No. 4 of 2023 concerning the Development   | Regulate the strengthening of regulations and  | <ol style="list-style-type: none"> <li>a. The Financial Services Authority (OJK) expands its</li> </ol>  | The state guarantees public access to fair, transparent, and accountable financial   |

| Regulations                               | Main Points  | Implementation Details  | Relevance to the Principle of a Welfare State   |
|---|--|---|---|
| and Strengthening of the Financial Sector | supervision of the financial sector, including Islamic finance | financial supervisory functions<br>b. Strengthen the governance of Islamic financial institutions<br>c. Ensure financial stability and inclusion through sharia-based instruments | services. This reinforces the principles of legal protection and equitable economic access. |

### Indonesia's Economic Law Policy Model

The welfare state model in Indonesia represents a unique blend of philosophical dimensions and practical implementation, focusing not only on fulfilling material aspects but also on the moral and spiritual values that form the basis of public policy. Various studies show that Pancasila, as the state philosophy, is vital in formulating policies on law, economics, politics, and culture with a prophetic-transcendental foundation (Dimiyati et al., 2021). This approach emphasizes spiritual and moral dimensions, which fundamentally distinguish the Indonesian welfare state model from Western models that are more individualistic and liberal.

From a practical implementation perspective, Indonesia has designed and implemented various social safety net programs as a strategic response to the economic crisis in the late 1990s, which increased the community's vulnerability. These programs focus on improving food security, creating jobs, and expanding access to education and health services to protect vulnerable groups from the negative impacts of the crisis. Several policy evaluations show that these programs have generally positively impacted household welfare, both in terms of meeting basic needs and strengthening economic capacity (Sumarto et al., 2005). Indonesia needs to formulate and develop a welfare state model that aligns with the socio-cultural and financial conditions and the local values that form the basis of national identity. This model can be called the "Pancasila Welfare State," a concept of a welfare state that integrates the principles of Pancasila in public policy formulation, economic management, and social development. The Pancasila Welfare State emphasizes balancing economic growth and social justice, environmental sustainability, and strengthening solidarity and community cooperation. This model also positions the state as a facilitator and protector of society, especially vulnerable groups, through inclusive social protection policies, strategic subsidies, and support for productive sectors such as MSMEs.

Table 3. Model Politik Hukum Ekonomi Indonesia

| Aspects                                 | Concept Description   | Policy Implications  | Potential Challenges  | Examples of Implementation  |
|---|---|--|---|---|
| Mutual Cooperation as a Basic Principle | Optimizing the role of the community in the implementation of social welfare through active participation, collaboration between citizens, and partnerships with the government | Regulations are needed to strengthen community institutions, joint funding support, and collaborative mechanisms | Inter-agency coordination; disparities in community capacity across regions | PKH Program (Family Hope Program), Village-Owned Enterprises (BUMDes) |
| Distributive Justice                    | Ensuring the fair and equitable distribution of development   | Pro-people fiscal policies; targeted social transfers; state and regional budget allocations                     | Inaccuracy in targeting social assistance; disparities                      | Village Funds, Healthy Indonesia Card, Smart Indonesia Card           |

| Aspects                      | Concept Description  | Policy Implications  | Potential Challenges  | Examples of Implementation   |
|------------------------------|--|--|---|--|
|                              | outcomes to all levels of society  | based on regional needs  | between urban and rural areas   |  |
| Environmental Sustainability | Integrating environmental sustainability aspects into economic and social policies to ensure the well-being of future generations            | Implementation of carbon taxes; incentives for green economic practices; low-emission development policies | Resistance from the industrial sector, weak environmental monitoring, and law enforcement | Climate Village Program, Net Zero Emission 2060 policy   |
| Local Wisdom                 | Utilizing local values and practices as the basis for welfare programs, adjusting policy designs to the socio-cultural context of the region | Involvement of traditional leaders, local communities, and traditional institutions in policy formulation  | Risk of national policy homogenization; need for accurate socio-cultural mapping          | Adoption of sustainable local agricultural practices; customary forest management; economic empowerment based on local MSMEs |

The four main characteristics, cooperation, distributive justice, environmental sustainability, and local wisdom, form the strategic foundation for developing holistic welfare policies in Indonesia. This policy does not merely emphasize the fulfillment of citizens' material needs, but also focuses on strengthening social capital through community participation, environmental protection to ensure resource sustainability, and community empowerment rooted in local values. Its practical implementation, as outlined in the table, requires inclusive regulations, proportional budget allocation, and participatory mechanisms that ensure the involvement of all stakeholders, from the central government to local communities. However, various challenges remain in practice, such as regional development disparities, limited community capacity to access programs, and the risk of national policy homogenization that ignores local contexts. These conditions underscore the urgency of an adaptive approach responsive to each region's social, economic, and environmental dynamics, so that welfare policies are effective but also equitable and sustainable.

## DISCUSSION

### Political Dynamics of Economic Law

The political dynamics of economic law in Indonesia show a distinctive pattern of market liberalization and state intervention. Since the deregulation policy that began in the 1980s, the direction of Indonesia's economic development has continued to be in constructive tension between the push for globalization, which demands efficiency and market openness, and the constitutional mandate that emphasizes the state's obligation to guarantee the welfare of the people (Soesastro, 1989). In practical terms, the state has not completely relinquished free market mechanisms. Still, it remains present through various forms of regulation and intervention, such as implementing base price and maximum price policies to maintain economic stability while protecting the interests of consumers and domestic producers (Lusiana & Astrid, 2020). This pattern reflects Indonesia's character as a welfare state that places economic management not only as an instrument of growth but also as a means of equity and protection of public interests per the constitutional mandate (Suseno et al., 2019).

The Indonesian political economy clearly demonstrates a close integration between free market mechanisms and state intervention as a form of a distinctive hybrid approach. This strategy is an adaptation that seeks to balance the demands of globalization, which emphasizes liberalization and efficiency, with the constitutional mandate that requires the state to be present

to protect and ensure the welfare of its citizens. This approach demonstrates a deep understanding that although economic liberalization has the potential to encourage investment, innovation, and faster growth, state intervention is still necessary to ensure a more equitable distribution of benefits, maintain stability in strategic sectors, and prevent excessive socio-economic inequality. Thus, Indonesia's political economy legal system functions not only as a regulatory instrument but also as a means of protection and equitable distribution of development outcomes in accordance with the principles of a socially just welfare state (Okonkwo & McKinnon, 1993; Pitlik, 2008).

Indonesia's hybrid economic policy is reflected in the selective implementation of pro-market strategies, accompanied by regulatory oversight and significant state intervention capacity. This dual approach is essential in responding to increasingly dynamic global economic challenges, where countries must respond to internal and external pressures with measured and nuanced steps (Fox, 1995). By balancing liberalization and regulation, Indonesia protects strategic sectors from market volatility and ensures long-term economic stability. Furthermore, this policy emphasizes the importance of democratic participation in public policy formulation to increase government legitimacy, transparency, and accountability, so that the resulting policies are genuinely in line with the aspirations of the people and capable of overcoming existing socio-economic disparities (Antlöv, 2003).

Public participation in the policy formulation is now increasingly seen as an essential component of Indonesia's legal and political economy system. Through a participatory approach, the policy process becomes more open and democratic, strengthening the involvement of various stakeholders, including civil society, business actors, and academics. This mechanism increases inclusiveness and deepens policies' responsiveness to a diverse society's real needs and preferences. In addition, a participatory approach strengthens the legitimacy of policies, reduces social resistance, and ensures that policies' direction and content align with socio-economic realities and collective aspirations (Antlöv, 2003; Suhardin et al., 2024).

### **The Relevance of Policy to the Concept of the Welfare State under the Rule of Law**

Indonesian economic policy is closely linked to the principle of the welfare state under the rule of law as enshrined in the 1945 Constitution. As a rule of law state oriented towards welfare, Indonesia is not only required to uphold legal certainty, but also to utilize the law as an instrument for economic equality, protection of citizens' rights, and sustainable strengthening of social security. In this context, the concept of the Pancasila legal state, as explained by Bagjastra (2020), becomes the foundation that unites the dimensions of law, economic policy, and social policy to ensure the creation of comprehensive public welfare. This integration also shows that economic legal policy is not merely a regulatory mechanism, but also a development strategy that prioritizes the principles of distributive justice, sustainability, and community participation to achieve the state's objectives.

In the political realm of economic law, Indonesia's policy direction clearly reflects its constitutional mandate, particularly Article 33 of the 1945 Constitution, which stipulates that the state must control essential branches of production for the greatest prosperity of the people. Thus, every economic law policy must be oriented towards the principles of social justice, equitable distribution of benefits, and sustainable national development. Indonesia's monetary policy should not merely follow the liberalization trend or the neoliberal paradigm. Still, it should prioritize the values of justice, economic independence, and protection of the broader community's interests as a form of implementing a legal welfare state (Imaniyati et al., 2021).

Studies on contemporary welfare politics in Indonesia show that regulations, particularly the Social Welfare Law, serve as strategic instruments in strengthening the national social security system. This regulation not only provides a legal framework but also indicates the direction of state policy, which is increasingly consistent with the principles of the welfare state. As described by Mas'udi and Hanif (2017), although its implementation is still in the developing stage, this regulation confirms the government's commitment to realizing equity, social protection, and strengthening the economic rights of citizens as the foundation for equitable welfare development.

On the other hand, regulations such as Law No. 11/2009 on Social Welfare are considered to be insufficient as a blueprint for welfare development in Indonesia because the drafting process lacked ideological debate and still had a residual character, resembling a benevolent state rather than an actual welfare state (Mas'udi & Hanif, 2017). This condition indicates the need for more progressive economic policy reforms based on the principle of social justice so that the state is not only present as a temporary aid provider, but also as a driver of sustainable structural transformation in realizing equitable welfare.

Philosophically, Indonesia projects a model of a welfare state that is unique and rooted in the values of Pancasila. This means that economic law development in Indonesia does not merely emphasize efficiency, economic growth, or market freedom alone, but is directed towards realizing social justice, equitable welfare, and collective prosperity for all citizens. This orientation positions the law not only as a regulatory tool but also as an instrument of social transformation that reflects the values of togetherness, cooperation, and social solidarity that have become an integral part of the nation's culture. Unlike the welfare state model in the West, which tends to be more individualistic and liberal, the concept of the Indonesian rule of law emphasizes a balance between rights and obligations, public interests over personal interests, and sustainable development that favors vulnerable groups, thereby creating an inclusive and equitable economic legal system (Dimiyati et al., 2021).

### Implications for Economic Law Development

The implications of economic law development show that the role of law is no longer limited to being a normative instrument that regulates behavior, but has shifted to become a strategic means of achieving broader goals, such as social justice, environmental sustainability, and community economic empowerment. In other words, the law functions as a catalyst for social and economic transformation in line with the vision of a welfare state. Therefore, an integrative, harmonious, and synchronized legal framework between regulations is needed so that monetary policies are not only formalistic but also capable of creating a real impact on improving people's quality of life and welfare. Avagliano (2023) research also explains that distributive justice and environmental sustainability are two mutually supportive pillars, so the economic legal system must be designed holistically to balance resource distribution, environmental protection, and long-term sustainable development.

Strengthening law enforcement agencies is a fundamental step to ensure legal certainty and the application of sustainability principles in national development. Without credible, independent, and competent law enforcement agencies, regulations will only remain at the normative level without real implementation. Recent studies confirm that constructive dialogue between environmental law and economic law is key to the emergence of a new development model that focuses not only on economic growth, but also on social balance, ecological protection, and long-term sustainability (Messias & Cateli, 2022). This approach requires inter-sectoral coordination mechanisms, regulatory reform to eliminate overlapping regulations, and strengthening the capacity of law enforcement agencies to handle complex cross-cutting issues such as carbon trading, renewable energy, or natural resource protection.

The implementation of the rule of law principle plays a central role in supporting the achievement of the UN 2030 Agenda because this principle ensures the protection of human rights, equal access to justice for all levels of society, and the implementation of transparent, accountable, and inclusive regulations (Mahmutović, 2024). Within economic law development, the rule of law promotes investment certainty, strengthens environmental governance, and enhances the legitimacy of public policy. By combining vigorous law enforcement, regulatory transparency, and participatory oversight mechanisms, Indonesia can create a legal ecosystem that is responsive to economic development needs and aligned with the principles of environmental sustainability and social justice.

From a global perspective, the development of economic law today is required not only to regulate market and investment mechanisms, but also to substantively integrate the principles of social justice and sustainability into the governance of resource distribution. The sustainable economy paradigm emphasizes the importance of structural corrections to the inequalities

inherited from the liberal system, adopting the formula "to each according to their needs" as the normative basis for public policy (Pieńkowski, 2023). In this context, community economic empowerment and strengthening public participation through legal instruments are crucial strategies for reducing socio-economic vulnerability, expanding access to resources, and ensuring equitable distribution of development benefits. Furthermore, applying this inclusive economic law model will create synergy between economic growth, environmental protection, and social welfare, so that the transition to sustainable development is procedural and transformational (Soares, 2021).

The future development of Indonesian economic law requires a comprehensive legal framework that is in line with contemporary economic and social objectives, particularly in addressing the dynamics of new sectors such as the digital economy and financial technology, which currently lack adequate legal support, posing serious challenges for consumer protection, regulatory oversight, and market stability (Dokumaci, 2024; Kharisma, 2021). This gap calls for the formulation of responsive and adaptive laws that not only accommodate the dynamic needs of these sectors but also ensure a positive contribution to national economic growth and a more equitable distribution of wealth. At the same time, the integration of sustainable development principles into the legal framework is a strategic step to promote environmental protection alongside economic progress, including strengthening ecological law enforcement through the establishment of specialized legal institutions such as Environmental Courts to enhance accountability, accelerate dispute resolution, and ensure justice in natural resource management (Jumas et al., 2024). These integrative efforts will simplify regulatory practices and ensure environmental sustainability goals align with law enforcement. On the other hand, the future of Indonesia's economic law development must also prioritize public participation in the policy-making process as a mechanism to increase policy inclusiveness and responsiveness, bridge the gap between regulatory provisions and the real needs of the community, and improve the effectiveness of policies in addressing social and economic inequalities more systematically and sustainably (Aniqoh, 2020; Surya, 2024).

## CONCLUSION

The concept of a legal welfare state in Indonesia is a normative construct derived from the values of Pancasila and the constitutional mandate of the 1945 Constitution, which emphasizes the importance of social justice, equitable welfare, and the protection of the economic rights of the people as the foundation for national economic law development. In the context of economic law and politics, the policy direction shows the dynamics of hybridization between market liberalization and state intervention to create economic stability while protecting the public interest, so that economic law policy is both regulatory and distributive. The urgency of integrating the principles of distributive justice, environmental sustainability, and community economic empowerment in economic law development is increasingly prominent, along with strengthening institutional capacity and law enforcement to ensure legal certainty, policy effectiveness, and sustainable national development. Meaningful public participation in the formulation, implementation, and evaluation of policies is a strategic instrument for strengthening legitimacy and accountability, ensuring that policies are in line with the real needs of the community, and reducing social and economic inequality systematically and sustainably, so that the ideal of a legal welfare state can be realized substantively. This study also confirms the relevance of the policy to the concept of a welfare state under the rule of law and its implications for economic law development in Indonesia, emphasizing the importance of integrating the principles of social justice, environmental sustainability, and community economic empowerment, as well as strengthening law enforcement agencies to ensure legal certainty, sustainable national development, and increased inclusiveness and responsiveness of policies in addressing social and economic inequalities.

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