

Public Finance and Social Policy in OIC and Scandinavian Countries: A Comparative Study of Malaysia and Sweden

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Article Info	Abstract
<p>Keywords: public finance, zakat, welfare state, Islamic economics, progressive taxation,</p>	<p>This study compares the public and social finance systems in Malaysia and Sweden, embodying contrasting ideological paradigms. Malaysia features a dual fiscal structure blending Islamic values via zakat and waqf under decentralized religious governance. Sweden represents a centralized secular welfare state, relying on progressive taxation and universal services. Using a qualitative comparative case study with secondary data, the analysis examines fiscal legitimacy, institutional design, redistribution, and socio-economic outcomes. Malaysia's model draws on moral-religious principles with targeted redistribution to syariah-defined groups (<i>asnaf</i>). Sweden employs a universalistic social contract approach, fostering egalitarian public services. It reveals that public finance systems reflect their normative foundations. Islamic models emerge as contextually valid and ideologically coherent, challenging views of Western secular dominance. This research advocates plural welfare models and inclusive theorizing in public finance scholarship. Compared with prior studies that tend to treat zakat/waqf and welfare taxation as separate technical topics, this article offers an explicitly ideology-centered comparison of Malaysia and Sweden as complete fiscal welfare models, clarifying how normative legitimacy shapes redistribution outcomes.</p>
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1. Introduction

Public finance is one of the key instruments through which the state exercises its functions to realize justice and the welfare of its citizens. From a classical economic perspective, Musgrave (1959) outlined three fundamental roles of the state in managing public finance: the allocation of resources, the redistribution of income, and macroeconomic stabilization. These functions serve as the normative foundation for the formation of fiscal policy and are often used to assess whether a country's public financial system is effectively fulfilling its public responsibilities. However, countries interpret and implement these three functions differently, influenced by their ideological orientation, cultural context, and institutional arrangements.

Recent comparative scholarship indicates that public finance systems are increasingly shaped not only by classical fiscal functions but also by digital governance capacity, demographic transitions, and institutional trust. Across many countries, welfare arrangements are undergoing adaptive reforms in response to aging populations, technological change, and rising expectations of transparency. At the same time, non-Western and religiously informed fiscal systems are receiving greater scholarly attention as legitimate alternatives to conventional secular welfare models (Beland et al., 2021; Kaasch & Martens, 2023).

Sweden is widely recognized as a benchmark among Scandinavian welfare states, adopting a social-democratic model that integrates market mechanisms with strong state intervention. High progressive taxation, broad-based redistribution, and universal access to public services reflect this. The Swedish model views taxation not merely as an obligation but as a civic contribution legitimized through public trust in government institutions. With tax revenues reaching approximately 40.7% of GDP (Statistics Sweden, 2024), Sweden has successfully provided universal services in healthcare, education, and social security.

Malaysia, by contrast, represents a unique case among OIC countries where Islamic values are actively integrated into the fiscal system, particularly through the management of zakat and waqf. Although Malaysia implements a conventional public finance system that includes income tax, subsidies, and social transfers, it also operates a parallel Islamic fiscal system. This dual structure is institutionally supported by state-level religious authorities and coordinated nationally by agencies such as MAIN (*Majelis Agama Islam Negeri*), JAWHAR (*Jabatan Wakaf Zakat dan Haji*), and YWM (*Yayasan Wakaf Malaysia*). Zakat in Malaysia functions not only as a religious obligation but also as a fiscal instrument, as it can be claimed as a tax rebate under Section 6A (3) of the Income Tax Act 1967 (Ahada & Hamidah, 2021).

These two models, Sweden's secular welfare state and Malaysia's religion-based dual system, offer a fascinating opportunity for comparative study. Both countries have established mechanisms for redistribution and social protection, but with divergent ideological roots and policy designs. Sweden relies on a secular social contract model rooted in equality and universalism, while Malaysia adopts a religious-communal approach based on sharia principles, local governance, and normative obligations to God.

This article aims to conduct a conceptual and institutional comparison of public and social finance in Malaysia and Sweden. The focus lies not only on structural aspects such as taxation or zakat administration, but also on the normative foundations that shape each system's legitimacy, efficiency, and redistributive outcomes. In doing so, this paper seeks to contribute to the discourse on pluralism in public finance models and emphasize the necessity of contextual sensitivity in fiscal policy design.

In the field of comparative public finance, the selection of a strong theoretical framework is essential to interpret how states manage public resources, particularly in ways that are ideologically and culturally grounded. This section outlines three foundational perspectives: the classical economic theory of public finance, the typology of welfare regimes in Western political economy, and the Islamic normative framework of fiscal justice.

Richard Musgrave (1959) proposed a tripartite theory of public finance that remains foundational in economic discourse. He argued that the state serves three core functions in public finance: allocation, distribution, and stabilization. The allocation function refers to the provision of public goods and services that the market fails to supply efficiently. The distribution function addresses the reduction of inequality through redistributive fiscal instruments. Finally, the stabilization function refers to the role of fiscal policy in maintaining macroeconomic equilibrium, particularly in times of crisis. While these principles are broadly accepted, the way they are operationalized varies greatly, depending on the prevailing ideology, institutional configuration, and historical experience of each country (Musgrave & Musgrave, 1989).

The work of Gøsta Esping-Andersen (1990) further explores how these principles manifest in practice. His typology of welfare regimes outlines three dominant models of welfare capitalism. The Liberal (US, Australia): market-based, selective, and residual; Conservative-Corporatist (Germany, France): status-based and family solidarity; Social-Democratic (Sweden, Norway): universality-based, equality-based, and progressive redistribution.

Sweden exemplifies the social-democratic type, characterized by high decommodification, universal coverage, and strong egalitarian commitments. In this model, the state takes a central role in ensuring equitable access to public services, primarily financed through progressive taxation. Public trust in government institutions and fiscal transparency are critical to its legitimacy and

effectiveness, as noted by Rothstein (2011), who emphasized the role of good governance and institutional quality in sustaining social contracts.

Maqashid al-sharia, or the objectives of Islamic law shape the theoretical foundation of public finance from an Islamic perspective. These objectives seek to protect five fundamental values: religion (*din*), life (*nafs*), intellect (*'aql*), lineage (*nasl*), and wealth (*maal*) (Chapra, 2000). Zakat and waqf, as fiscal instruments, aim to achieve these objectives by promoting justice, equity, and compassion in economic life. Zakat is a compulsory wealth levy distributed to eight categories of beneficiaries (*asnaf*) as stipulated in the *Qur'an* (*Surah At-Taubah* 9:60). Waqf, on the other hand, is an endowment mechanism for public benefit, often used to fund education, healthcare, and community infrastructure.

In Malaysia, zakat and waqf are not only religious obligations but are institutionalized as part of the broader public finance system. Management is handled by state-level Islamic Religious Councils (MAIN), coordinated nationally by JAWHAR and PPZ. Zakat payments can also be deducted from income tax obligations under the Income Tax Act of 1967, Article 6A (3), illustrating a formal link between religious and secular fiscal policy (Ahada & Hamidah, 2021). Beik (2015) classifies zakat management into three forms. First, the regulative type, which includes comprehensive models such as those in Malaysia and Brunei, where the state plays an active role as an authority. Second, the partial or voluntary type, primarily driven by civil society, is prevalent in Indonesia and most OIC countries. Third, the non-regulative type, namely the secular model, which is a voluntary system without regulation.

Several empirical studies have informed the present research. Rakhmat and Beik (2022) demonstrated that Malaysia's zakat governance system exhibits stronger institutional capacity and legal coherence compared to Indonesia, enhancing its credibility and effectiveness. Similarly, Famulia (2020) argued that the tax-zakat integration mechanism in Malaysia increases taxpayer compliance and fosters public awareness of fiscal responsibility. Meanwhile, analyses by the OECD and Rothstein (2011) underline the strength of Sweden's welfare model, particularly in its ability to minimize inequality and deliver high-quality public services through institutional trust and efficient tax administration.

However, there has been little research that systematically compares the two systems as a complete ideological entity. Most studies only highlight technical or statistical aspects, rather than the normative logic and moral framework that shape the fiscal system.

2. Research Method

This research adopts a qualitative approach with a comparative case study design to explore the structural and ideological differences between the public and social finance systems in Malaysia and Sweden. The qualitative method is considered appropriate for this study because it allows for an in-depth examination of institutional configurations, normative frameworks, and the socio-political values that influence fiscal systems. This approach was chosen because it allows for contextual analysis that does not only rely on numerical data, but also understands the meaning and normative logic behind the fiscal policy system adopted by each country (Yin, 2014). Furthermore, qualitative approaches also allow researchers to interpret how fiscal policy functions not only as an economic tool, but also as a reflection of value systems and political legitimacy in culturally and historically distinct societies.

Malaysia and Sweden were deliberately selected as case studies because they represent two contrasting paradigms of public finance. Malaysia, as a Muslim-majority member of the Organization of Islamic Cooperation (OIC), operates a dual fiscal system that combines modern taxation with Islamic-based instruments such as zakat and waqf. Sweden, by contrast, embodies a secular and highly centralized welfare state model rooted in social-democratic principles. The comparison is designed to explore how differences in ideological foundations and institutional arrangements shape

public finance outcomes in each country. The unit of analysis in this study includes the institutional structure of fiscal policy, the legitimacy of redistribution mechanisms, and the actual delivery of public and social services. The analysis is based on secondary data, which include official documents from relevant institutions such as Malaysia's Ministry of Finance, Department of Statistics Malaysia (DOSM), PPZ-MAIWP, JAWHAR, and YWM; and in the case of Sweden, reports from the Swedish Tax Agency (*Skatteverket*), Statistics Sweden (SCB), the Swedish Ministry of Health and Social Affairs, and Organization for Economic Co-operation and Development (OECD) publications. To analyze the data, the study employs thematic comparison. This involves identifying recurring themes related to fiscal ideology, redistribution logic, administrative structure, and public accountability. These themes are then interpreted in the context of each country's broader normative framework. This study aims to generate a comprehensive understanding of public finance by examining fiscal policy as both a technical framework and a culturally ingrained system within various ideological and institutional contexts.

The selection of secondary sources followed three criteria. First, documents had to originate from credible institutional sources such as ministries, official statistics agencies, OECD, World Bank, or peer-reviewed journals. Second, sources were prioritized from the last five years to ensure policy relevance and contemporary accuracy, while seminal theoretical works were retained where necessary. Third, data were cross-checked across multiple sources to improve consistency and validity through triangulation.

Ultimately, the methodological aim of this study is to produce a conceptually grounded and empirically informed comparison that respects the integrity of each system while drawing attention to their differences and potential complementarities. Rather than seeking to identify a superior model, this research attempts to illuminate the diverse paths that states may take in designing and legitimizing their systems of public finance.

3. Result and Discussions

Public and Social Finance System in Malaysia

Malaysia operates a dual public finance system that integrates conventional fiscal mechanisms with Islamic financial instruments such as zakat and waqf. This structure is deeply influenced by the country's legal and administrative framework as a federal state, in which religious affairs, including zakat and waqf, fall under the jurisdiction of each of the 13 individual states. Each state establishes its Islamic Religious Council (Majlis Agama Islam Negeri, or MAIN), which holds exclusive authority over the administration, regulation, and enforcement of Islamic social finance. Coordination at the national level is provided by federal agencies such as the Department of Waqf, Zakat, and Hajj (JAWHAR) under the Prime Minister's Department, as well as the Malaysia Waqf Foundation (YWM).

This institutional configuration reflects Malaysia's constitutional arrangement, where Islamic matters are decentralized but managed within a coherent national framework. In this system, zakat functions as a religious and social obligation while also being legally formalized through regulations and state fatwas. Each state has full authority to set *nisab* standards, *asnaf* criteria, and zakat governance (Rakhmat & Beik, 2022). There are three types of zakat management systems that can be identified. First, the full corporate model, implemented in Selangor, Penang, and Sarawak, where zakat collection and distribution are carried out by a professional entity. Second, the semi-corporate model, where collection is carried out by a private entity and distribution by a public body. Third, the State Islamic Religious Council (MAIN) directly manages the entire process in the Full Government. This diversity reflects the principle of localization of shariah, but poses challenges for national coordination.

Zakat in Malaysia has not only a spiritual function, but also a fiscal and social function. Since 1986, zakat has been formally regulated with the establishment of a modern zakat management institution. Important reforms occurred in 1991 with the establishment of the Zakat Collection Center

(PPZ), which introduced information technology in zakat management and a large-scale zakat awareness campaign.

Recently, Malaysian zakat institutions have accelerated digital transformation through online payment platforms, mobile applications, integrated databases, and proposed blockchain-based governance systems aimed at strengthening transparency and operational efficiency. Recent studies further note that digital zakat payment systems also require alignment with religious legitimacy, public trust, and user adaptation to remain socially effective (Arsad et al., 2025). Several state institutions have also simplified beneficiary applications through digital channels, improving access and responsiveness (Nazeri et al., 2023; Mohd Nor et al., 2024). However, long-term effectiveness remains dependent on governance quality, accountability standards, and stronger coordination across states (Rahman et al., 2023).

A significant regulation in this context is Article 6A (3) of the Income Tax Act 1967, which states that zakat paid to official religious authorities will serve as a direct tax deduction (rebate). For individuals, the deduction can be up to 100% of the amount of tax payable, while for corporations, since 2005, they can obtain a deduction of up to 2.5% of taxable profits (Famulia, 2020). As of 2023, zakat collection in Malaysia reached RM5 billion, a remarkable increase compared to previous decades. The state thus plays a dual role, both as a promoter of religious duties and as a manager of public resources with redistributive goals. However, the way zakat is managed is selective, as it can only be given to eight specific groups of beneficiaries (*ashnaf*) according to Islamic law.

Waqf, as a form of Islamic endowment, has also become increasingly institutionalized. In addition to traditional forms of waqf such as land, mosques, and cemeteries, Malaysia has pioneered innovations such as cash waqf, waqf shares, and corporate waqf. National initiatives led by YWM, in collaboration with MAIN and JAWHAR, have expanded waqf assets into commercial properties, educational institutions, and healthcare services. Digitization has improved asset monitoring and reporting, although legal ambiguities, especially in the context of dispute resolution between civil and syariah courts, remain a challenge (Qodri, 2025). Moreover, the decentralization of waqf governance sometimes results in administrative inconsistencies across different states.

In terms of conventional public finance, Malaysia maintains a centralized system for taxation, expenditure, and public budgeting. The principal tax authority is the Inland Revenue Board (LHDN), which allocates public spending through national budgets designed by the Ministry of Finance. The Malaysian government also implements a wide array of social protection programs, including cash transfer schemes such as the *Bantuan Sara Hidup* (BSH), *Bantuan Prihatin Rakyat* (BPR) and energy subsidies. These programs coexist with Islamic fiscal instruments, and in some regions for example Selangor, there have been efforts to integrate zakat services into broader social welfare initiatives, including collaboration with healthcare and education agencies.

Integration of zakat programs with public social services in several regions, especially Selangor and the Federal Territory. However, Malaysia's social spending to GDP ratio is still below that of developed welfare countries: Around 12–15% of GDP, with a distribution that is not yet fully equitable (OECD, 2023). The advantages of this system include the integration of sharia and formal fiscal policies, the existence of professional and modern institutions such as the Zakat Collection Center (PPZ) and the Malaysian Waqf Foundation (YWM), as well as a strong community role and high religious legitimacy (Alyusufi et al, 2024). However, challenges faced include fragmentation between regions, reliance on socio-charitable rather than transformative approaches, and the failure to achieve systemic efficiency at the national level.

To assess the extent to which the public and social finance system in Malaysia has an impact on people's welfare, we can refer to a number of key macro and social indicators. These indicators serve as benchmarks for the effectiveness of fiscal policy in both allocation and distribution functions. The following data are compiled based on publications from the World Bank, the United Nations Development Programme (UNDP), and Malaysia's national statistics in the last 5 years. A comparative summary of these indicators for Malaysia and Sweden is presented in Table 1.

Table 1. Malaysian vs Swedish Economic Development Indicators

Indicator	Value (2023)		Source
	Malaysia	Sweden	
GDP per kapita (USD, nominal)	± USD 12,000	± USD 60,500	World Bank, 2024
Annual Economic Growth	4.3%	1.3%	Bank Negara Malaysia, 2024 OECD, 2024
Human Development Index (HDI)	0.809 (HIGH Category)	0.951 (World Rank No-3)	UNDP, Human Development Report 2023
National Poverty Rate	6.2% (2022)	6.7%	Department of Statistics Malaysia (DOSM) Eurostat, 2023
Unemployment Rate	3.3% (2023)	7.5%	DOSM, Labour Force Survey Statistics Sweden, 2024
Quality of Life Index (QLI)	76.2 (World Rank-61)	182.7 (World Rank No-2)	Numbeo, 2024
Social spending to GDP	13.2% (incl. Subsidize & zakat)	28.2	Ministry of Finance Malaysia, 2023 OECD Social Expenditure Database, 2023
Urbanization	78%	88%	World Bank, 2024
National Saving Rate	26.8% from GDP	28.1% dari PDB	IMF, 2023

Public and Social Finance System in Sweden

Sweden has adopted a highly centralized and secular public finance system, based on the principles of egalitarianism and public trust in the state. The main institutions that manage this system include the Swedish Tax Agency (*Skatteverket*), which is responsible for administering all types of taxes, including personal income tax, corporate tax, and consumption tax. In addition, the Swedish National Financial Management Authority (ESV) has a role in overseeing the management of state finances and evaluating the efficiency of public spending. The Ministry of Health and Social Affairs also plays an important role, with responsibility for social security, health insurance, pensions, and child welfare (Gunnarsson, 2003).

The Swedish tax system is highly progressive, with individual income tax rates reaching 52% at the top level. The government sets the general value-added tax (VAT) at 25%, but it provides free public services like education and healthcare. Companies face an income tax rate of approximately 20.6%, yet they enjoy stable access to social services and a highly educated workforce. These high tax rates are well received by the public, thanks to the transparency in the use of funds and the high level of trust in public institutions (Rothstein, 2011). Recent OECD evidence shows that Sweden remains among the higher-tax OECD economies, where labor taxation continues to play a central role in sustaining universal welfare commitments (OECD, 2024a).

Sweden implements a redistribution system based on citizen rights and membership, rather than on selective criteria or specific groups. This reflects the principles of universality and decommodification according to Esping-Andersen's theory (1990). The main programs offered include free education from primary to tertiary level, as well as universal national health care managed by local governments through a single payment system. In addition, child benefits (*barnbidrag*) are provided to all families without income discrimination. The general tax system and social contributions also provide unemployment, pension, and disability insurance.

Several indicators demonstrate the effectiveness of fiscal redistribution. First, the low level of income inequality, with a Gini index of around 0.28 post-redistribution (OECD, 2023). Second, the

very low levels of absolute and relative poverty. Third, high social mobility and strong social resilience in the face of crises, such as pandemics and global recessions.

Unlike developing countries, fiscal legitimacy in Sweden is not based on religious values, but rather on a secular social contract between the state and its citizens. High levels of tax compliance are driven by citizens' belief that taxes are used transparently and efficiently, that the state provides tangible rewards in the form of quality public services, and that the legal system and public audit function effectively. Sweden consistently scores high on the Corruption Perceptions Index (CPI) and the OECD Trust Index.

Despite its many strengths, the Swedish welfare model faces contemporary challenges. The country's aging population has raised concerns over the long-term sustainability of pension and health systems. Additionally, the arrival of large numbers of immigrants and refugees has increased demand for social services, testing the capacity and inclusiveness of existing structures. Critics have also raised concerns about potential disincentives to work arising from high tax rates, especially among young entrepreneurs and professionals.

Nonetheless, Sweden remains a global reference point for equitable and efficient public finance. Its success demonstrates that a secular state can legitimize and sustain high levels of taxation when they are accompanied by trust, transparency, and universally accessible services. It offers a compelling counterpoint to faith-based systems, showing that moral legitimacy in fiscal policy can also be grounded in democratic institutions and shared social values.

While Sweden is often considered a benchmark of welfare success, recent debates highlight emerging structural pressures. Population aging, migration pressures, labor market transformation, and long-term expenditure commitments have generated discussions on sustainability and institutional adaptation. This indicates that even highly successful welfare states require continuous reform rather than static preservation (Beland et al., 2021; OECD, 2024b).

Comparative Analysis: Ideological and Structural Differences between Malaysia and Sweden

The public and social finance systems of Malaysia and Sweden reflect two fundamentally distinct paradigms in both ideological orientation and institutional structure. While both countries have developed mechanisms for redistribution and social protection, the foundations upon which these systems are built diverge sharply, one anchored in religious and communal values, the other in secular and universalist principles.

In Malaysia, the legitimacy of fiscal redistribution is derived primarily from religious obligations under Islamic law. Instruments such as zakat and waqf are not merely policy tools; they are theological imperatives rooted in a moral economy guided by sharia. In this context, religious duty and community norms mediate the relationship between the state and the citizen. Compliance is encouraged not only through legal mechanisms but also through spiritual conviction and communal belonging. This produces a model of selective redistribution, where aid is targeted to specific categories of beneficiaries (*asnaf*), in accordance with scriptural mandates.

In contrast, Sweden's system is grounded in a secular social contract. The legitimacy of taxation and public spending arises from a shared belief in collective responsibility and equality before the law. Redistribution is not selective but universal, based on the premise that all citizens, regardless of income, religion, or background, are entitled to public services as a matter of right. Trust in state institutions and transparent governance, rather than religious obligation, maintains high levels of tax compliance. Public finance in Sweden thus serves as a civic mechanism for promoting social cohesion and minimizing inequality. The main ideological and legitimacy differences between Malaysia and Sweden are summarized in Table 2.

Table 2. Ideological and Legitimacy Comparison

Aspect	Malaysia	Sweden
Ideology	Islam (sharia)	Secular social democrat
Fiscal Legitimacy	Religious obedience and sharia law	Social contract and public trust
Basis of redistribution values	Sharia distributive justice (asnaf, maslahat)	Egalitarianism, universal social rights

Structurally, Malaysia operates a dual system. On the one hand, it has a centralized taxation system managed by the federal government. Decentralized religious authorities in each state administer Islamic fiscal functions, resulting in significant variation in governance quality and policy outcomes. While national coordination exists through agencies like JAWHAR and YWM, jurisdictional fragmentation often hampers systemic efficiency and creates inconsistency in service delivery. Furthermore, the integration between zakat and the national tax system remains partial, and the scope of redistribution remains confined to the eight *asnaf* categories.

Sweden, by contrast, operates a unitary and highly centralized fiscal system with decentralized service delivery. *Skatteverket*, a single agency standardizes and administers tax policy nationwide, while local governments implement public services. This configuration balances administrative efficiency with localized responsiveness. Comprehensive social protection schemes, funded by general taxation rather than earmarked religious funds, further reinforce the system. The structural and governance differences between the Malaysian and Swedish systems are summarized in Table 3.

Table 3. Comparison of Structure and Governance

Aspect	Malaysia	Sweden
Institutional structure	Mixed: central tax, decentralized zakat/waqf	Technocratic and professional centralization
Fiscal governance	Religious-bureaucratic mix, variations between regions	Integrated, efficient, public accountability-based
Social distribution authority	MAIN, PPZ, JAWHAR, LAZ, and sectoral ministries	Ministries, local governments, and state agencies

In terms of redistributive reach and institutional capacity, Sweden's system achieves broader coverage and consistency. Public services are provided to all citizens regardless of religious affiliation, income level, or geographic location. Malaysia's zakat system, while institutionally mature and deeply embedded in religious culture, is more limited in scope and conditional in access, shaped by religiously prescribed eligibility criteria.

However, both systems exhibit internal coherence when evaluated within their respective normative frameworks. Malaysia's system is consistent with Islamic principles of distributive justice and maintains legitimacy among its Muslim-majority population. Sweden's model reflects the ethical values of secular democracy, prioritizing equality, transparency, and rights-based access. Each system functions effectively within its cultural, historical, and political context. The differences in redistribution approach, service provision, and funding sources are presented in Table 4.

Table 4. Comparison of Approaches and Services

Aspect	Malaysia	Sweden
Redistribution approach	Targeted (<i>asnaf</i>)	Universal (all citizens)
Types of services	Direct assistance, subsidies, zakat programs	Free/subsidized universal services (education, etc.)
Primary source of funding	Zakat, fiscal subsidies, waqf, taxes	Progressive taxation

From a comparative perspective, the study underscores that public finance systems are not ideologically neutral. They embody and reproduce the normative values of the societies in which they

are embedded. It's more useful to acknowledge the variety of valid routes to fiscal justice than to judge one model as better than the other. While Sweden demonstrates the potential of a universalist, state-centered welfare regime, Malaysia highlights the role of religious institutions and community ethics in sustaining redistributive mechanisms. The convergence between the two models lies not in structure or ideology, but in their shared objective: the pursuit of social welfare through mechanisms that reflect the values and beliefs of their respective societies. The comparative outcomes of these two models are shown through selected social and economic indicators in Table 5.

Table 5. Comparison of Results Achievement

Indicator	Malaysia (2023)	Sweden (2023)
HDI	0.809 (High Category)	0.951 (World 3rd rank)
Ratio of social spending to GDP	±13.2%	±28.2%
Poverty level	6.2%	6.7% (relative)
Unemployment rate	3.3%	7.5%
Quality of Life Index	76.2	182.7

Empirically, both countries have shown significant social achievements, albeit with different approaches. These data show that Malaysia has succeeded in developing a religious-based system, but its redistribution coverage is not as universal as Sweden's. In contrast, Sweden shows that a highly technocratic secular system can create broad social justice, but at a high fiscal cost.

Despite ideological differences, there is scope for cross-system learning between Malaysia and Sweden. Malaysia can learn from the transparency, universality and efficiency of the Swedish system, especially in non-religious social services. Sweden, on the other hand, can draw inspiration from the mobilization of religious-based solidarity in Malaysia, especially in strengthening social philanthropy in a multicultural context.

Discussion: Ideological and Structural Differences between Malaysia and Sweden

The comparative analysis of Malaysia and Sweden's public and social finance systems reveals that fiscal design is not merely a matter of technical policy but is deeply intertwined with ideological, normative, and cultural dimensions. Both countries pursue redistributive justice and public welfare, yet they do so through markedly different pathways, each shaped by their respective historical legacies, societal values, and institutional configurations.

One of the key theoretical insights from this study is the recognition that public finance systems serve as vehicles for expressing and institutionalizing dominant moral and political values. In Sweden, fiscal legitimacy is grounded in a secular civic ethic. Taxation is widely accepted as a civic duty, legitimized through democratic accountability, transparency, and equitable service provision. The social contract is horizontal: a reciprocal relationship between citizens and the state, based on mutual trust and shared responsibility. Redistribution is framed as a collective endeavor, and benefits are structured to reinforce social solidarity rather than dependency or exclusion.

In Malaysia, fiscal legitimacy is derived from religious teachings and communal obligations. The zakat and waqf systems operate within a vertical moral framework, where individuals fulfill their duties not only to society but also to God. Here, fiscal compliance is motivated by faith-based values, and redistribution is targeted rather than universal. This results in a model that is morally resonant within a Muslim-majority society but faces limitations in terms of systemic inclusiveness and fiscal integration.

These differences emphasize the necessity of acknowledging normative architecture in public finance. A system's success cannot be evaluated solely on technical indicators such as tax-to-GDP ratios or poverty rates. Instead, it must also be judged by the extent to which it aligns with societal expectations, cultural legitimacy, and moral coherence. What may appear as inefficiency from one ideological perspective might be entirely rational within another normative context. The effectiveness and challenges of both systems are summarized in Table 6.

Table 6. Effectiveness and Challenges

Critical Aspects	Malaysia	Sweden
Redistribution effectiveness	Quite successful in a limited group (<i>asnaf</i>)	Highly successful nationally (universal)
Public participation space	High in the community realm (LAZ, MAIN, waqf)	High in the institutional space of the country
Transparency and accountability	Still diverse between regions	High and consistent national
Fiscal sustainability	Relying on religious & political stability	Facing the challenges of high demographics & taxes

From a structural standpoint, Malaysia's dual system creates both flexibility and fragmentation. While it allows for the integration of religious values into fiscal practice, it also poses challenges in term of coordination, standardization, and coverage. The decentralized governance of zakat and waqf results in administrative disparities across states and complicates national policy alignment. Conversely, Sweden's centralized and standardized approach yields institutional efficiency, uniform service delivery, and greater control over fiscal outcomes, but it also requires high levels of taxation and social cohesion, conditions that may not be easily replicated elsewhere.

The findings of this study challenge the notion of a universal model of the welfare state. While much of the global literature on fiscal policy remains rooted in Western, secular frameworks, the case of Malaysia demonstrates that alternative models, grounded in religious norms and community-based ethics, can also offer coherent and legitimate approaches to public finance. This calls for a broader and more inclusive theorization of fiscal systems that accounts for pluralism in values, institutions, and governance structures. This finding is consistent with recent scholarship on welfare pluralism, which argues that multiple models of redistribution may achieve legitimacy when aligned with domestic institutional capacity, historical experience, and prevailing social values (Kaasch & Martens, 2023).

Finally, this comparative analysis has implications for countries seeking to reform or redesign their fiscal architecture. Rather than importing models wholesale from abroad, policymakers should consider the normative fit of fiscal instruments with local cultural and institutional realities. Fiscal systems must work well and align with the ethics and social logic of the societies they serve.

4. Conclusions

This study has examined the contrasting public and social finance systems of Malaysia and Sweden, two countries that represent fundamentally different ideological and institutional approaches to fiscal governance. Malaysia integrates Islamic principles through zakat and waqf within a dual fiscal system that operates alongside conventional taxation, while Sweden exemplifies a secular, centralized welfare state grounded in universal access and high progressive taxation. The overall mechanism of public finance and social policy in both countries is illustrated in Figure 1.

The comparative analysis reveal that deeply embedded cultural, religious, and political values shape public finance systems, in addition to economic considerations. Malaysia's model reflects an Islamic moral economy that prioritizes targeted redistribution and communal responsibility. Its strength lies in its religious legitimacy and community engagement, though it remains constrained by institutional fragmentation and limited scope of coverage. Sweden's system, by contrast, illustrates how a secular democratic state can institutionalize egalitarian ideals through universal policies supported by public trust, transparency, and administrative efficiency. While resource-intensive, the Swedish model offers a coherent and inclusive fiscal framework that has produced consistently high social outcomes.

This paper argues that there is no single normative path to fiscal justice. Rather than presenting the Islamic model as inferior or the Scandinavian model as universally replicable, the study highlights the legitimacy of both systems within their respective contexts. Each model reflects a coherent internal logic that aligns with the values and institutional capacities of its society.

Theoretically, this study contributes to the growing discourse on pluralism in fiscal policy design. It calls for a broader recognition of how fiscal systems are constructed through distinct normative architectures, whether religious or secular. In doing so, it challenges the dominance of Western-centric models in public finance literature and encourages more inclusive analytical frameworks. Beyond the Malaysia–Sweden comparison, this study also suggests that future debates in public finance should move beyond one-size-fits-all institutional assumptions. Effective fiscal systems must combine technical performance with normative resonance, public legitimacy, and adaptive capacity in the face of contemporary challenges such as digitalization and demographic change.

Future research may build on this foundation by exploring hybrid models that draw from both traditions or by empirically investigating the impact of fiscal integration, such as the interaction between zakat and taxation, on social equity and public trust. For policymakers, the study suggest that fiscal reform should not focus solely on increasing spending or adopting a particular welfare template, but on designing normatively legitimate institutions that citizens are willing to support. Model transfer should be replaced by institutional translation, selecting fiscal instruments and governance tools that match domestic moral legitimacy, administrative capacity, and demographic realities. In this sense, cross-learning between religiously grounded welfare pluralism and secular universalism can be used to enhance both effectiveness and trust in public finance systems.

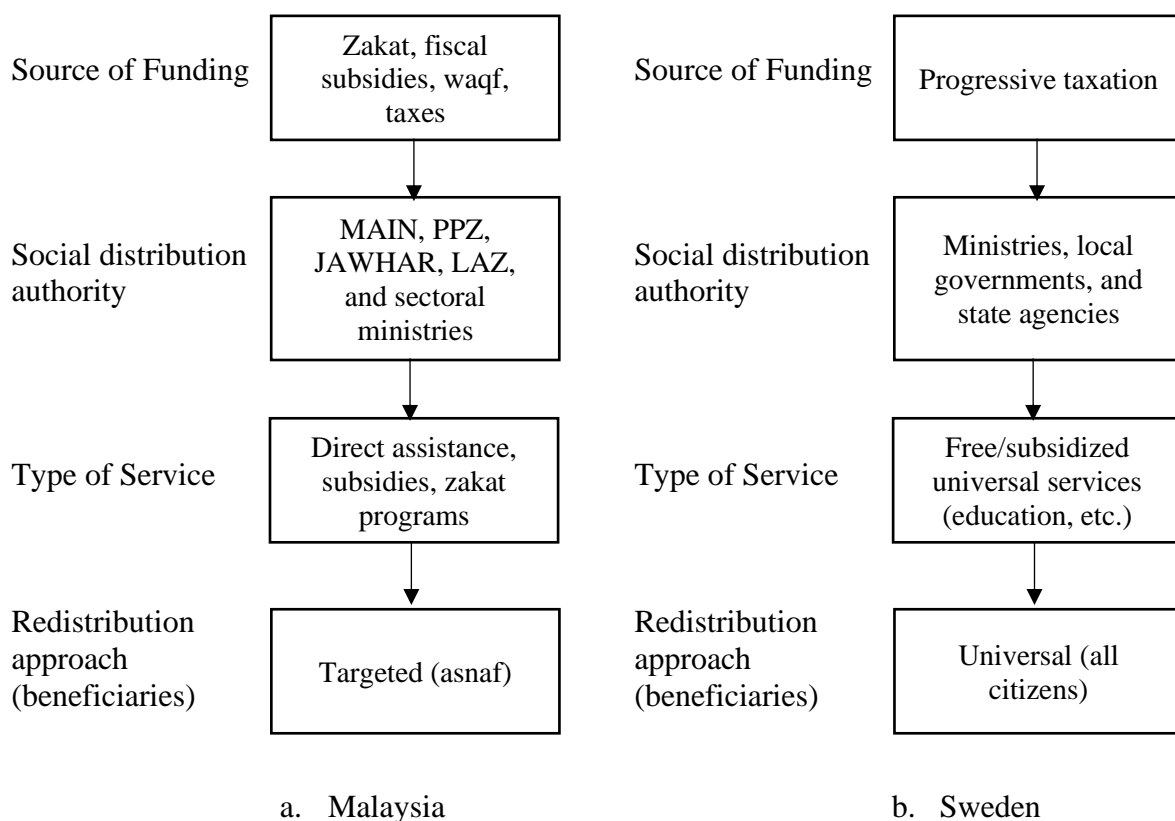


Figure 1. Mechanism Comparison of Public Finance and Social Policy Flow

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