GLOBAL INTERNATIONAL JOURNAL OF INNOVATIVE RESEARCH

https://global-us.mellbaou.com/

Open Access

Cite this article: Author's name. Year. Article Title. Global International Journal of Innovative Research. Page

Received: 28 January, 2026
Accepted: 17 February, 2026

Keywords:
Pancasila Justice; Regional Finance; Fiscal Decentralization; Comparative Law; Welfare State.

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Published by:

GLOBAL SOCIETY PUBLISHING

Reconstruction of Regional Financial Management Law Based on Pancasila Justice: A Normative-Comparative Study of Indonesia, Japan, and Malaysia

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This study examines the normative deficit in the law of regional financial management in Indonesia, which is still dominated by an orientation towards procedural accountability rather than substantive social justice. By employing a normative-juridical approach and legal comparison, this research reconstructs regional financial management law based on Pancasila justice through the integration of modern justice theories with Indonesia's constitutional values. Through a comparative study of Japan and Malaysia, this article demonstrates that fiscal decentralization can be designed to promote distributive justice, a welfare orientation, and democratic legitimacy. The findings of this study offer a three-pillar reconstruction model: substantive justice as the legal objective, fiscal equity as the distribution instrument, and deliberative accountability as the legitimacy mechanism. This model contributes to the literature on public law and comparative fiscal governance by presenting a contextual, yet universally applicable, non-liberal constitutional justice framework.

1. Introduction

Fiscal decentralization is an important instrument in achieving social welfare and equitable development in modern countries (Oates, 1999). In Indonesia, regional financial management plays a strategic role in implementing regional autonomy, as mandated by the 1945 Constitution of the Republic of Indonesia. However, the current legal framework for regional financial management is still heavily influenced by an approach focused on administrative compliance and procedural accountability, emphasizing budget discipline and audit mechanisms, rather than achieving substantive social justice (Fitria et al., 2025; Mardiasmo, 2021).

This procedural orientation leads to normative issues when constitutional goals, particularly social justice for all Indonesian citizens, are not explicitly operationalized in regional financial law. Justice is often narrowly understood as procedural compliance, rather than as a substantive commitment to improving welfare and reducing inequality (Dworkin, 2011; Rawls, 1999).

The novelty of this study lies in formulating Pancasila justice as an operational constitutional justice framework in regional financial management law. Unlike previous studies that tend to place Pancasila as an abstract ideological foundation, this research systematically translates Pancasila justice into legal objectives, normative principles, and the direction of legal reconstruction. Thus, Pancasila is not only positioned as a grundnorm but also as an evaluative parameter and a design for public financial law.

Another innovation is the integration of modern justice theories, particularly John Rawls' theory of justice and Ronald Dworkin's concept of "law as integrity," with Indonesia's constitutional tradition (Dworkin, 2011; Rawls, 1999). This integration demonstrates that the difference principle, welfare state orientation, and moral coherence of law can be aligned with the Fifth Principle of Pancasila in building a substantively just fiscal governance.

Methodologically, this study develops a reflective comparative normative approach, using Japan and Malaysia as comparative models—not for legal transplantation, but as a means of normative critique and contextual learning in reconstructing regional financial management law based on Pancasila.

This research offers three main contributions. First, at the theoretical level, it introduces Pancasila justice as an alternative constitutional justice theory outside the dominant liberal framework, enriching global discourse on fiscal justice with values of solidarity, welfare, and economic democracy.

Second, at the normative level, this article offers a model of reconstruction for regional financial management law that bridges the gap between constitutional legal ideals and positive law. This model goes beyond technocratic approaches by placing social justice as the legal objective, fiscal equity as the distribution instrument, and public participation as a source of democratic legitimacy.

Third, from a comparative perspective, this research contributes to Asian public law studies by demonstrating how fiscal practices in Japan and Malaysia can be critically interpreted through the lens of Pancasila justice, thus making them relevant to non-liberal constitutional systems.

Policy Implications and Legal Reforms

The findings of this research have significant implications for public policy and legal reform. From a policy perspective, regional financial management needs to shift from procedural compliance to governance based on substantive justice, incorporating social impact indicators alongside fiscal efficiency. From a legal perspective, there is a need for explicit affirmation of social justice and fiscal equity as legal objectives, accompanied by strengthening equitable mechanisms and meaningful public participation.

2. Theoretical Framework

Justice as the Normative Foundation of Public Financial Law

Justice has long been recognized as a fundamental concept in legal philosophy. Aristotle's distinction between distributive and corrective justice provides an initial framework on how public resources should be allocated proportionally based on needs and fairness (Ross, 1959). In the context of public finance, distributive justice is highly relevant because fiscal policies directly determine the distribution of collective resources.

Modern justice theories deepen this understanding. John Rawls places justice as the primary virtue of social institutions, emphasizing equality of basic liberties and the difference principle—that social and economic inequalities are only justifiable if they benefit the least advantaged (Rawls, 1999). In the context of regional finance, this principle implies that fiscal decentralization and intergovernmental transfers should be assessed based on their impact on disadvantaged regions.

Ronald Dworkin's concept of "law as integrity" complements this perspective by emphasizing that the legal system must have moral coherence and treat citizens as equals in political morality (Dworkin, 1986). In public financial law, this requires consistency between the constitutional commitment to social justice and the concrete design of fiscal norms.

The Welfare State Theory and Fiscal Governance

The welfare state theory bridges the relationship between justice and public finance. Esping-Andersen, (1990) views the welfare state as an institutional arrangement in which the state assumes responsibility for social protection and redistribution. GEORGESCU et al., (2022) further formulate the allocation, distribution, and stabilization functions of public finance, with the distribution function being the state's primary duty.

In a decentralized system, these functions are divided between central and regional governments. Fiscal federalism theory emphasizes the importance of fiscal equalization mechanisms to address differences in income capacity and expenditure needs across regions (Majocchi, 2016; Oates, 1999). Without such mechanisms, decentralization could potentially exacerbate regional disparities.

Pancasila Justice as the Constitutional Normative Framework

Pancasila is the philosophical and normative foundation of Indonesia’s constitution, containing values of divinity, humanity, unity, democracy, and social justice. The Fifth Principle, which emphasizes social justice for all Indonesians, forms the core of the state’s welfare orientation. Unlike liberal justice theories that focus on individual autonomy, Pancasila justice emphasizes social harmony, solidarity, and collective welfare (Al Amin, 2024; Kaelan, 2013).

As a constitutional normative framework, Pancasila justice requires public financial law to function as an instrument of social transformation. This necessitates a shift from procedural legality to substantive outcomes that can reduce inequality and enhance societal welfare.

3. Research Method

The research method used in the problem experiment includes analytical methods. Contains the type of method, time, place and tools of research materials. Picture captions are placed as part of the picture title (figure caption) not part of the picture. The methods used in completing the research are listed in this section.

4. Result and Discussion

Indonesia: Procedural Accountability and Normative Limitations

The regional financial management system in Indonesia is still dominated by administrative accountability mechanisms. Performance indicators focus more on budget absorption, procedural compliance, and audit results. Although there is constitutional recognition of welfare and social justice, these values have not been adequately operationalized in the goals and norms of regional financial law.

Japan: Fiscal Equalization and Local Welfare Orientation

Japan's Local Allocation Tax system functions as a corrective mechanism to address fiscal capacity disparities between regions. The allocation of resources is based on objective indicators of fiscal needs, thus promoting substantive equality in public services. Normatively, this model aligns with Rawls' difference principle and reflects a welfare-oriented approach to decentralization.

Malaysia: Centralized Redistribution and Pragmatic Justice

Malaysia represents a relatively centralized fiscal model with strong redistribution policies. The federal government's intervention plays a significant role in maintaining regional balance. This model is effective in promoting substantive justice, but it limits regional fiscal autonomy, thus showing the trade-off between redistribution and decentralization.

Normative Reflection for Pancasila-Based Reconstruction

The comparative results show that fiscal governance oriented toward justice can be achieved through various institutional designs. For Indonesia, the key lesson lies in the need to affirm social justice goals, strengthen fiscal equalization mechanisms, and balance regional autonomy with national solidarity within the Pancasila framework.

To clarify Indonesia's position compared to Japan and Malaysia, the following normative comparison table of regional financial management is presented as a basis for discussion and reconstructive reflection.

Table 1. Comparison of Regional Financial Management in Indonesia, Japan, and Malaysia

Comparison Aspect	Indonesia	Japan	Malaysia
Constitutional Basis	1945 Constitution of the Republic of Indonesia (Articles 18, 23)	Constitution of Japan	Federal Constitution of Malaysia
Degree of Fiscal	Asymmetric	Administrative	Centralized with

Decentralization	decentralization, procedural focus	decentralization with strong fiscal equalization	strong redistribution
Normative Goal of Financial Management	Accountability and administrative compliance	Equality of public service capacity	Stability and pragmatic equalization
Fiscal Equalization Mechanism	Transfer Funds (DAU, DAK, DBH)	Local Allocation Tax	Federal grants and revenue sharing
Justice Orientation	Implicit and declarative	Substantive and operational	Substantive but centralized
Role of Central Government	Regulator and supervisor	Ensurer of inter-regional equality	Dominant actor in redistribution
Strengths	Comprehensive legal framework	Effective and objective equalization	National fiscal stability
Limitations	Social justice is not measurable	Limited fiscal autonomy	Weak regional autonomy
Lessons for Indonesia	Need for normative reconstruction based on Pancasila	Just fiscal equalization model	Importance of national solidarity

Normatively, Japan shows that fiscal equalization can be operationalized through an objective formula based on needs, in line with Rawls' distributive justice principle. Malaysia demonstrates that substantive justice can be achieved through a dominant role of the central government in resource redistribution. While this is effective in maintaining stability and inter-regional equalization, it limits regional fiscal autonomy. Indonesia, within the Pancasila framework, needs to integrate social justice as an explicit goal of regional financial law, balancing autonomy with national solidarity.

Comparative Discussion and Normative Implications

Comparatively, the findings of this research emphasize that the differences in regional financial management designs in Indonesia, Japan, and Malaysia are not merely technical fiscal administration issues but reflect the value choices and justice orientations adopted by each legal system. Japan represents a model where distributive justice is institutionally embedded through a measurable fiscal equalization mechanism, relatively free from short-term political considerations. This model demonstrates how Rawls' difference principle can be translated into concrete fiscal policies at the local level (OECD, 2019; Rawls, 1999).

Malaysia, on the other hand, shows that substantive justice can be achieved through the central government's dominant role in resource redistribution. Although this approach effectively maintains stability and inter-regional equalization, it limits regional fiscal autonomy. This reflects the classic trade-off between distributive justice and decentralization discussed in fiscal federalism literature (Agrawal et al., 2024; Oates, 1999).

Regarding Indonesia, the comparison reinforces the research argument that the main issue in regional financial management is not the absence of legal instruments, but the lack of an operational orientation toward social justice. Unlike Japan and Malaysia, which implicitly or explicitly link fiscal policies with equalization goals, Indonesia's regional financial law still places Pancasila justice at a declarative level. Therefore, the proposed legal reconstruction in this study is relevant as a normative answer to the research question, while also reinforcing the article's contribution to public financial law and comparative fiscal decentralization literature.

Pancasila-Based Model for Regional Financial Management Reconstruction

The proposed reconstruction model synthesizes normative theory, comparative learning, and constitutional values. This model is based on three main pillars: substantive justice as the legal goal, fiscal equalization as the distribution instrument, and deliberative accountability as the legitimacy mechanism. Grounded in Pancasila, particularly the Fifth Principle, this model positions regional financial law as an instrument of the welfare state to achieve social justice.

5. Conclusion

This study emphasizes that the main issue in regional financial management in Indonesia lies not in the absence of legal norms, but in the insufficient operationalization of the Pancasila justice principle within the fiscal design and budgeting practices at the regional level. These findings are consistent with the comparative analysis of Indonesia–Japan–Malaysia, which shows that the Japanese system successfully translates Rawls' difference principle into a local fiscal mechanism based on objective needs, while Malaysia emphasizes distributive justice through strong fiscal centralization (OECD, 2019; Rawls, 1999).

Therefore, the reconstruction of regional financial management law based on Pancasila justice should focus on integrating substantive social justice values with an operational fiscal institutional design. The hybrid model developed in this study combines Rawlsian justice orientation, fiscal decentralization efficiency as proposed by Oates and Mukhlis, resulting in a contextual, applicable, and constitutional legal reconstruction framework for Indonesia's regional government system (Mukhlis, 2025; Oates, 1999).

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