

ZAKAH AND RE-DISTRIBUTIVE JUSTICE IN ISLAM

Abu Umar Faruq Ahmad
(*University of Western Sydney*)

M. Kabir Hassan
(*University of New Orleans*)

Abul Kalam Muhammad Shahed
(*International Islamic University Chittagong (IIUC)*)

Abstract

The Islamic framework within which this study examines is the role of *Zakah* in redistributive justice. To this end, the following relevant topics were aimed to cover. First, "redistributive justice" is conceptualized. Second, to ground this concept the Islamic viewpoints towards redistribution are highlighted followed by a short discussion on prominent schools of thought in political philosophy of redistributing income. Third, important features of the Islamic strategy for the realisation of the desired pattern of distribution are traced. Fourth, the core topic of the study is elaborated in which the analysis relies on tentative results from an empirical study on how much would be the yield of *Zakah* in modern economy if it was paid on all kinds of assets liable to it. Finally, an attempt is made to establish one of the pertinent conclusions of this study i.e. how *Zakah* being a collection of redistributive measures can play an important role in an Islamic economy.

Keyword : *Zakah*, re-distributive justice, Islam

INTRODUCTION

Zakah is one of the five pillars of Islam, and one of the primary ways of redistributing wealth from the rich to the poor. Distribution of resources is in the hands of Allah. However, He has given firm injunctions on the re-distribution of wealth; *Zakah* is being one of them. In this paper, we intend to achieve four objectives First, we conceptualise “redistributive justice”; Second, we ground this concept through highlighting Islamic viewpoints towards redistribution followed by a short discussion on prominent schools of thought in political philosophy of redistributing income. Third, we trace important features of the Islamic strategy for the realisation of the desired pattern of distribution. Fourth, we examine the core topic in which the analysis relies on tentative results from an empirical study on how much would be the yield of *Zakah* in modern economy should it was paid on all kinds of assets liable to it. Finally, we attempt to establish one of the pertinent conclusions of this study of how *Zakah* being a collection of redistributive measures can play an important role in an Islamic economy

DISTRIBUTIVE JUSTICE – CONCEPTUAL ANALYSIS

Distributive Justice has always been extremely important in all human societies and a lot of conflicts have taken place throughout history because of distributive justice. At one extreme, some economists view that, “our primary problem is production. The common man or average family has a far greater stake in the size of our aggregate income than any possible distribution of income.”¹ At the other extreme, some others assert that, “to determine the laws which regulate distribution, is the principal problem in Political Economy.”² But the approach of Islamic economics towards this issue is quite different. Islam being a religion sent by Allah as a mercy and guidance to people as mentioned in *al-Qur'an*,³ and as its followers believe, provides certain goals and means to deal with this controversial issue of distributive justice. Islamic economics having been essentially value based is not shy of making value judgments.

The very word ‘distributive justice’ is a combination of two distinct words: distribution and justice. The discussion of distribution is closely related to the rights of individuals in a society. It is these rights, in person and property that provide the ground rules for economic behaviour, which, in turn, determines the distribution of income and wealth among individuals. The Islamic concept of ownership rights is fundamental to the determination and achievement of the desired pattern of distribution. Therefore, it is necessary to highlight the Islamic concept of ownership before going into the core topic from an Islamic viewpoint on distributive justice.

¹ Simons, H.C., *Economic Policy for a Free Society*, Chicago, 1948, p.5.

² Ricardo, David, “Principles of Political Economy”, in Piero Sraffa (ed.), *Works and Correspondence of David Ricardo*, Cambridge, 1951, vol.1, p.5.

³ *Al-Qur'an*, 6:157, 7:52, 203, 10:57, 16:64, 89, 31:3, 45:20.

ISLAMIC OBJECTIVES OF DISTRIBUTION

Distribution though can be viewed from a number of angles – personal, functional, temporal, regional, etc. the main concern of the present discussion is with the functional and the personal distributions.⁴ The functional distribution is a distribution of income according to the productive agent who receives the income. In the personal distribution, one is looking how income is distributed among individuals in a society, regardless of how any individual receives his or her share of income. Besides, in discussing personal income, one is referring directly to the welfare of individuals. The Islamic approach to distributional equity almost exclusively centers around the personal distribution of income. Before we go to the core topic i.e., Islamic viewpoints towards distribution we would like to discuss shortly here some prominent schools of thought in political philosophy of redistributing income.

According to philosophers J. Bentham (1748-1832) and J. S. Mill (1806-1873) the founders of utilitarianism⁵, utility is a measure of well being as well as the ultimate objective of all public and private actions. The proper goal of the government, they claim, is to maximise the sum of utility of everyone in the society. According to the Utilitarian school of thought, redistribution of income should be based on the assumption of ‘diminishing marginal utility’.⁶ It seems reasonable that an extra dollar of income to a poor person provides that person with more additional utility than does an extra dollar to a rich person. This plausible assumption, together with utilitarian goal of maximising total utility, implies that the government should try to achieve a more equitable distribution of income. This thought has been criticised thus argued that this might seem to imply that the government should continue to

⁴ See, Munawar Iqbal (ed.), *Distributive Justice and Need Fulfilment in an Islamic Economy*, Leicester, 1988, also, M. Anas Zarqa, “Distributive Justice in Islam”, in Ausaf Ahmad and Kazim Raza Awan (eds.) *Lectures on Islamic Economics*, Jeddah, 1992.

⁵ The political philosophy according to which the government should choose policies to maximise the total utility of everyone in society.

⁶ Gans, Joshua, *Principles of Microeconomics*, London, 2000, p.439.

redistribute income everyone in society has exactly the same income. But, in fact, it is not.

A second way of thinking about redistribution of income is called the 'maximin criterion', which has been developed by philosopher J. Rawls in his book *A Theory of Justice* (1971). Rawls begins with the premise that a society's institutions, laws and policies should be just. Since every person's point of view in society is inevitably based on his or her particular circumstances and one can never objectively determine what a just society would be, he proposes to choose a just set of rules based on fair agreement or bargain in order to consider how those rules will affect every person. Rawls then considers, in particular, what income distribution a person would consider just if that person did not know whether he or she would end up at the top, bottom or middle of the distribution. He argues that a person in the original position would be especially concerned about the possibility of being at the bottom of the income distribution. In designing public policies, therefore, one should aim to raise the welfare of the worst-off person in society. That is, rather than maximising the sum of everyone's utility, as a utilitarian would do, Rawls would maximise the minimum utility.⁷ This thought, however, has been criticised by the opponents saying that it would not lead to a completely egalitarian society. Because, if the government promised to equalise incomes completely, people would have no incentive to work hard, societies total income would fall substantially, and the least fortunate person would be worse off.

A third view of redistributing income is called libertarianism. Unlike utilitarians and supporters of Rawls, libertarians argue that society itself earns no income - only individual members of society earn income, and as such, the government should not take from some individuals and give to others in order to achieve any particular distribution of income. For instance, philosopher R. Nozick says in his famous book *Anarchy, State and Utopia*: "There is no central distribution, no person or group entitled to control all the resources, jointly deciding how they are to be doled out.

⁷ Ibid., pp.440-441.

What each person gets, he gets from others who give to him in exchange for something, or as a gift”.⁸

The libertarian alternative to evaluating economic outcomes is to evaluate the process by which these outcomes arise. When the distribution of income is achieved unfairly the government, as they believe, should interfere to solve the problem. But, as long as the process determining the distribution of income is just, the resulting distribution is fair, no matter how unequal, and the government has no reason to alter the resulting distribution of income. According to them, equality of opportunities is more important than equality of incomes, and as such, the government should enforce individual rights to ensure that everyone has the same opportunity to use his or her talents and achieve success.

Among the ways of thinking about inequality and redistribution of income discussed above, Rawls’s ‘maximin criterion’ seems to be nearer to the Islamic approach to redistributing income. Islam allows freedom of enterprise and accommodates inter-personal economic differences as a part of the Divine Scheme.⁹ Islam believes in striking at the roots of inequality rather than merely alleviating some of the symptoms. It has incorporated into the faith itself a number of measures which would not allow an unjust distribution to take place. Above all, Islam aims at preventing the emergence of malady rather than treating it after its emergence. It has a built-in program to reduce the remaining inequalities even further through *Zakah*, and numerous other methods to bring about a distribution of income which is benevolent and in conformity with its concept of human brotherhood.¹⁰

⁸ Ibid., pp.441-442.

⁹ *Al-Qur’an*, 3:37; 6:165; 13:26; 16:71; 17:21; 28:32; 29:62; 30:37; 42:13; 43:32 and 63:9.

¹⁰ See M. Anas Zarqa’, “Nahwa Nazriyyah Islamiyyah Mi’yariyyah li al-Tawzi’”, paper presented to the 2nd International Islamic Economics Conference, Islamabad, 1983.

The major objectives of Islam in distribution may be described as follows:

1. Guarantee of fulfillment of basic needs for all;
2. Equity but not equality in personal incomes; and
3. Elimination of extreme inequalities in personal income and wealth.

The guarantee of fulfillment of basic needs of all people in society is a fundamental Islamic objective of distribution and redistribution.¹¹ The fulfillment of the basic needs of all humans is an essential component of the Islamic vision and a primary objective of organised Islamic living. It is supported by overwhelming rules explicitly stated in the texts in *al-Qur'an*¹² and the *sunnah*. There is total agreement among Islamic jurists and economists that this is the most important objective of the Islamic distributive scheme. But what are these basic needs the fulfillment of which Islam recognizes to be an obligation of Islamic society? How is this guarantee to be fulfilled? Muslim scholars provided a long list of needs giving precedents from the early history of the Islamic state to support their view, which include food, clothing, shelter, medical care and education.¹³ Depending on social circumstances and the availability of financial resources other needs may also be included. They suggested that the resources for funding need fulfillment programs may come out of *Zakah* revenue, other state revenue and taxes levied especially for this purpose. These scholars provided very strong theoretical basis for the fulfillment of basic needs. They pointed out that it does not mean that a basket full of life's necessities would be doled out to every individual in

¹¹ The allocation of income that takes place through mutually agreed transactions among individuals in the market is referred to as distribution while when society uses extra market or other non-market processes to modify that particular distribution is called redistribution.

¹² There are 60 verses that stipulate, mandate, encourage charity; discuss its virtues and rewards; warn of punishment to those who eschew charity and also warn against hoarding. See for example, 9:34, 2:261, 2:265, 2:276, 2:280, 30:39, 34:39, 35:29, 57:11, 57:18, 64:17, 2:271, 2:245, 5:12, 57:11, 57:18.

¹³ Iqbal, Munawar (ed.), *Distributive Justice and Need Fulfilment in an Islamic Economy*, op. cit., p.81.

all circumstances. Individuals are normally expected to fulfill their needs through their own efforts. If owing to some reason, that is not possible, then the responsibility rests with one's near relatives, neighbourhood and society in general. The state may not have to resort to heavy taxation.

Having ensured the fulfillment of basic needs of all, Islam permits interpersonal differences in income. This drives from the Islamic view of justice to every one. Since naturally human talent and ability are not the same and contribute different amounts to the production process, it would be unjust and inefficient to equate all people in terms of their earnings. It might damage individual incentive and productive efficiency. Furthermore, it would lead to inactivity or to compulsion and both of which are disliked by Islam.

Distributive justice in Islam does not mean perfect equalities of income; the question may arise, i.e., what is the most favourable level of inequality? In order to establish justice and uphold mutual love and brotherhood, Islam discourages extreme inequalities between one person to another.¹⁴ For the same purpose it does not recommend a ratio between the minimum and the maximum income. Thus, all inequalities that can create abhorrence, meanness and ill feeling among individuals should be abolished.

In the Islamic system, in the first place, by eradicating all kinds of exploitative practices, the possibility of excessive inequalities is reduced to a minimum level. Then, to reduce inequalities and encourage social solidarity, Islam advises a person not to be discontent against someone who has more than others.¹⁵ On the other hand, it stipulates a number of

¹⁴ *Al-Qur'an*, 2:273; 25:67; 51:57.

¹⁵ See, for example, a *hadith* related by both Bukhari and Muslim on the authority of Abu Hurairah - which says, "Look at the person who is inferior to you, and do not look at one who is superior to you, so that you would not become ungrateful to Allah for the favour He bestowed upon you". (Bukhari, Abu 'Abdullah Muhammad Ibn Isma'il, *Sahih al-Bukhari*, 11/276; also Muslim, Ibn al-Hajjaj Ibn Muslim al-Qushairi, *al-Jami' al-Sahih*, 2963.)

measures to redistribute wealth among the poor through minimising the negative effect on individual incentives. The giver obtains positive utility and takes pleasure in rather than shows antipathy towards sharing his income and wealth with others.

THE ISLAMIC STRATEGY FOR DISTRIBUTION

The most important features of the Islamic strategy for the realisation of the desired pattern of distribution may be described as follows:

a) Islam favours an 'institutional approach' in its distributive scheme. These institutions include *`awqaf* or endowments i.e., property voluntarily and permanently transferred to a charity or trust by the government so that its usufruct may accrue to other people; *takaful* or scheme of mutual support which provides insurance to individuals against hazards of falling into unexpected and dire need; *manihab* or donation of usufruct i.e., a productive asset granted to a needy person for a specific period to freely utilise it and enjoy its usufruct; inheritance and the elimination of *riba* or interest, etc.

b) Islam prefers a decentralised structure of redistributive scheme. It requires one to look after the needs of his or her near relatives, neighbours, locality and then society at large. From an economic point of view, this minimises the disincentive effects on both the donor and the recipient. When a person spends his or her money on near relatives and neighbours and observes its effects to reduce their grief, he or she does not feel the disincentive effects that a person feels when he or she is subjected to high rate of progressive tax on his or her income even though that money is spent somewhere to relieve similar miseries. Similarly, the recipient cannot become a dependant or living on public funds because in a localized arrangement his or her real circumstances and attitudes are known to the donors who can create social pressure to get him or her involved in work and provide the necessary means for him or her to do so.

c) Islam uses a multiplicity of redistributive measures. Each one of them, taken alone, may appear to be small but their combined effect implies a substantial transfer. This again has a number of economic advantages. On the one hand, it broadens the base on which transfer applies and, on the other hand, it reaches every category of deserving recipient. Again the minimal incidence of each one of them reduces the negative effects. Many of them do not involve any cost to the donor but increase the marginal utility of the recipient substantially.

d) Islam uses a hierarchy of compulsory and voluntary, permanent and temporary measures, which lend flexibility to the system. *Shari`ah* has declared some of the schemes, such as *Zakah*, participation in the ownership of some natural resources and the system of inheritance, as permanent and compulsory. There are additional measures, which are brought into use if and when necessary. The permanent measures normally ensure that the distribution does not deviate too much from the desired pattern, while temporary measures are there to take care of exceptional circumstances.

e) Redistributive measures are important in the Islamic strategy for achieving the desirable pattern of distribution, on the one hand. Other measures such as prohibition of *riba*, the promotion of profit sharing, discouraging monopolies, correcting ownership partners, the equality of opportunities, the emphasis on employment and work, just wages, the prohibition of certain trade practices, etc. have direct implications for the distribution of income, and are no less important in realising the Islamic distributive ideals than redistributive measures.¹⁶

¹⁶ For an elaboration, see Zarqa, M. Anas, "Islamic Distribution Schemes", in Iqbal, Munawar (ed.), *Distributive Justice and Need Fulfilment in an Islamic Economy*, Leicester, 1988. pp.163-203.

f) The Islamic approach is much broader than the approach of conventional economics in the sense that the former does not restrict itself to the elimination of poverty as commonly understood. It attempts to relieve all kinds of hardships. For example, it tries to provide help to travelers in distress even if they are otherwise rich, to debtors even if they have some property but the property is needed by them to earn their living, to farmers i.e., producers whose produce has been destroyed due to some natural calamity, to persons who incur financial liabilities as a result of some accident, and so on.

ZAKAH AND DISTRIBUTIVE JUSTICE

Zakah is one of the five pillars of Islam and is a way of expressing one's appreciation to Allah for seeking Allah's blessings, which reflects in the growth of wealth and the real well-being of all.¹⁷ Technically, *Zakah* implies the financial obligation of Muslims to pay a specified portion from their cash property, trade merchandise, grains and herds of cattle as an indispensable part of their religious duties if these are equaled or more than the *nisab*.¹⁸

The emphasis placed on *Zakah* is clear from the fact that *al-Qur'an* mentions *Zakah* in 29 verses out of which 25 have been mentioned in association with *salah* i.e., regular prayers. After the declaration of faith these two pillars are considered to be the most important fundamentals of Islam. The repeated mention of *Zakah* indicates that worship of Allah is not complete if not accompanied by paying *Zakah*.

Although the *Qur'an* did not specifically identify the *Zakahable* items of wealth, it sometimes classified references to certain wealth such as gold,

¹⁷ Chapra, M. Umer, *Islam and the Economic Challenge*, Leicester, 1992, p.271.

¹⁸ Threshold of wealth owned by an individual, a level or excess over which is subject to pay *Zakah*. So, anyone above the *nisab* is a *Zakah*-payer, while one below it is a *Zakah*-recipient. The *nisab* is set to allow an individual an acceptable standard of living.

silver, fruits, agricultural products, mineral resources etc. which apparently are the subject of *Zakah*.¹⁹ Besides, some oblique references of *al-Qur'an* also suggest that *Zakah* is to be applied on all types of *'amwaal* or wealth.²⁰ However, although *al-Qur'an* refers to applying *Zakah* on wealth in general, it is the Prophetic *sunnah* that came with the bound of *nisab* beyond which it may not be applied. It should be remembered that at the time the Prophet gave the rules for *Zakah*, the possessions Muslims had were gold and silver as currency and/or in stocks, merchandise of trade, flocks of animals and the annual firm produce. The Prophet levied *Zakah* on all of these items. But it is evident in the traditions that the Prophet exempted from *Zakah* taxation articles considered necessities of life, and the means of production and transportation.²¹

Al-Qur'an did not also give the rates of *Zakah*, nor the types or level of income or wealth on which it is to be paid, except mentioning the payment of dues on agricultural produces in general terms.²² The details of all these were given by the Prophet. Later, the Rightly Guided Caliphs²³ added numerous other categories of wealth and produce to *Zakah* tax-base using the principle of *qiyas* or analogy. However, the *Zakah* rates were not changed as part of the moral-legal binding of Prophetic *sunnah*. Since then, a general consensus (i.e., *'ijma'*) has held that the rates should be taken as fixed. According to the rules explained in the *sunnah*, the ratio of *Zakah* is fixed at 2.5 per cent of total net worth of most physical and financial assets including gold, silver, stocks, merchandise of trade etc. But in agricultural produces, the ratio is determined by the means and expenses involved in production. It is described that the applicable rate of *Zakah* on the agricultural produce

¹⁹ *Al-Qur'an*, 9:34; 6:141; 2:267.

²⁰ See, for example, 9:103; also 51:19.

²¹ See *Sahih al-Bukhari*, 2:271-338, *Sahih Muslim*, 2:466-521.

²² *Al-Qur'an*, 6:141.

²³ They are: Abu Bakr Al-Siddiq, 'Umar Al-Faruq, 'Uthman Ibn 'Affan and 'Ali Ibn Abi Talib.

from artificially irrigated land is *`ushr* or one tenth, and on the naturally irrigated land is half of *'ushr* or one twentieth.²⁴

The Prophet gave the lower limits of *Zakah*able assets according to the then commonly held assets or properties. He specified that when any one's net worth equaled or exceeded the following *nisab*, *Zakah* would be levied on the total value of incomes or assets: five *`uqiyahs* of silver (i.e., 796 grams or 26 troy ounces) or 200 dirhams in currency, both equal in value at that time; five *wasqs* of grains e.g. wheat, rice, corn, barley, dates, dates etc. (i.e., 1600 liters or 45.4 bushels), 40 sheep and five camels, all approximately equal in value to 200 Dirhams according to the price estimates available.²⁵ Given the perspective, what becomes evident is that there was a value equivalence of 200 Dirhams among the different *nisab* fixed by the Prophet whether specified by volume, value, currency produce or cattle. The *nisab* of 200 Dirhams or its equivalent represented such levels of income or assets, which could enable a person to meet his or her essential food and clothing requirements and leave some funds for other expenses at that time. As this *nisab* value will differ from country to country and change over time with changes in prices of basic need items, it will always represent *Zakah*ability of assets when they exceed the basic need requirement of an individual. This was perhaps the motivation of the Prophet when he fixed the *nisab* on various forms of wealth.

So far the disbursement of *Zakah* funds has not been left to the whims of any authority, but rather its proceeds have been fixed for eight largely need-based categories, as specified by *al-Qur'an*. The *Qur'an* says:

“Most surely, the *Zakah* is only for the poor, the needy, for those employed to administer it, for those whose hearts are to be won over, the ransoming of slaves, for the relief of those overwhelmed by debts, in the cause of Allah, and for the

²⁴ See *Sahih al-Bukhari*, 2:327.

²⁵ See for a detailed discussion, S. M. Hasanuz Zaman, *The Economic Functions of the Early Islamic State*, Karachi, 1981, p.343-6.

wayfarer: [this is] an obligation from Allah, and Allah is All-Knowing, All-Wise”(9:60).

In this verse, the *Zakah*-entitled categories have been consolidated and clearly demarcated so as to remove all sources of vagueness on the issue.

The payment of *Zakah* by the rich is not merely a moral obligation toward Allah or a basic element of worship and faith. It is also a legal right of certain categories of disadvantaged individuals in the society without the rendering of which, one’s justification and vindication as a Muslim is both doubtful and questionable.²⁶ Furthermore, *Zakah* is not a favour by the rich to the poor. No one except Allah is the real owner of the wealth. Human beings as the possessors of wealth are merely the trustees as described by *al-Qur’an*.²⁷ Therefore, they must spend it in accordance with the terms of the trust, i.e., fulfilling the needs of the poor. The poor should not treat the receipt of *Zakah* as a personal disgrace because what they are also receiving is only their right ordained by Allah on the wealth of the rich.²⁸ They are free to choose how to spend their receipts of *Zakah* on their own priorities within the constraints of the *Shari’ah*.

Al-Qur’an views *Zakah* as the opposite of *riba* in a sense that while the former brings the *Zakah* payer an increase in a beneficial way, the latter brings the lender an increase through an exploitative practice. In terms of distributive effects also the two are opposites. While *riba* transfers wealth away from society to the rich, *Zakah* redistributes wealth from the well to do to the poor. Besides, the multiplier effect of *Zakah* through increased consumption, output, employment and income cannot be denied. However, *Zakah* is largely a temporary relief measure. Its purpose is twofold: to meet the immediate needs, and to help people stand on their own feet so as to move out of poverty, and to be socially and economically productive. Furthermore, it can place funds at the disposal of the government, which are to be used to create potential

²⁶ *Al-Qur’an*, 41: 6-7.

²⁷ *Al-Qur’an*, 57: 7.

²⁸ *Al-Qur’an*, 51:91; also 70:25.

employment and thereby permanently eliminate a major source of poverty: the unemployment. *Zakah* funds can also be used for the unemployed poor, the sick, disabled, destitute and young who are unable to help themselves, and are in need of continuous assistance, so as to eliminate misery and poverty from the Muslim society.²⁹ However, if the proceeds of *Zakah* are not sufficient, it is the unavoidable responsibility of society to find other ways and means of attaining the desired goal.³⁰

The most important feature of *Zakah* as a compulsory religious financial duty is that it transfers some of the income and wealth from the rich to the poor as we mentioned in preceding paragraphs, whereas the duties resembling it in other religions are basically meant for financing the functions of religious intermediaries or for the living expenses of clergymen or for the construction and maintenance of places of worship.³¹ Another distinguishing feature of *Zakah* is the role of the State in its collection and distribution, which was unusual before the advent of Islam. It is to be noted here that *Shari`ah* has made obligatory the complete separation of the *Zakah* budget from the general budget of the State so that the rights of the poor and other beneficiaries of *Zakah* can be protected.³²

As far as the potential distributive effects of *Zakah* is concerned, a question may arise that is "how much would be the yield of *Zakah* in modern economy if it was paid on all kinds of assets liable to it?" Although we do not have any estimate of this but we may draw the following tentative results from an empirical study made in Syria in 1971 and a similar study conducted in Sudan in 1982.³³

²⁹ Haq, Irfan ul, *Economic Doctrines of Islam: A Study in the Doctrines of Islam and Their Implications for Poverty, Employment and Economic Growth*, Herndon, 1995, pp.181-182.

³⁰ Chapra, M. Umer, *Islam and The Economic Challenge*, op.cit., p.274.

³¹ Al-Qaradawi, Yusuf, *Fiqh al-Zakah*, Beirut, 1997, vol.1, p.644.

³² Zarqa, M. Anas, "Islamic Distributive Schemes", in Munawar Iqbal (ed.), *Distributive Justice and Need Fulfilment in an Islamic Economy*, op. cit., p.181.

³³ For Syria see, M. Anas, Zarqa, "Macroeconomic Estimation of Potential *Zakah* Proceeds and their Relationship Economic Development", paper presented to Symposium on *Islam and Development*, Philadelphia, 1976. For Sudan see,

- a) The possible *Zakah* yield reached about 3% of the gross domestic product in Syria and 3.6% in Sudan.
- b) The yield of *Zakah* is relatively high as compared to other major economic variables. It reached 18% of fixed investments in Syria and came to 20% of the current budgetary expenditure while in Sudan it reached 28% of the gross investments and 30% of current budgetary expenditure.
- c) The agricultural sector in Sudan had a share of 38% in the gross product whereas in Syria it was 20% but the yield of *Zakah* as a proportion of gross domestic product is similar in the two countries. This is so because other economic activities whose relative importance increased and which replaced agriculture are also subject to *Zakah*.
- d) If modern forms of income and wealth are disregarded in the imposition of *Zakah* in the contemporary societies, it will greatly affect the expected *Zakah* yield. To be exact, it seems that this will lower the yield of *Zakah* by more than one-third.

From the above results it is found that *Zakah* may amount to 3% of national income each year. If it is assumed that two-thirds of the yield of *Zakah* goes to the poor (while the remaining one-third is spent on other categories), then about 2% of national income can be allocated each year to the poor by way of *Zakah*. It may be mentioned here that in many countries the poorest 10% of the citizens acquire 2% of the national income.³⁴ Under the circumstances, it is possible to conclude that the share of the poor and destitute in the potential yield of *Zakah* each year would approximately be the double of the income of those poorest 10% of the society.

Muhammad Hashim Awad, "Al-*Zakah* wa Mawarid al-Sudan al-Iqtisadiyyah", in *Al-Muqtasid*, Khartoum, 1984.

³⁴ Zarqa, M. Anas, "Distributive Justice in Islam", in Awan, K. R. and Ausaf Ahmad (eds.), *Lectures on Islamic Economics*, op. cit., p.153.

Since hard-core and general poverty rates are predominant in rural Bangladesh, Hassan and Khan (2007)³⁵ suggest that about 70 percent of ADP expenditures go directly to the poor, and the rest goes to the rich who have income above *Zakah* Nisab levels. Following this assumption, *Zakah* funds can replace the government budgetary expenditures in the amount of anywhere from 21 percent of ADP in 1983/84 to 43% percent of ADP in 2004/05. This amounts to a Taka figure from 6490 million in 1983/84 to 96020 million in 2004/05. The government can use this amount of money in other developmental or social expenditures.

It is possible to simulate the expenditure that would be needed to eliminate poverty in Bangladesh at a point in time. The national poverty gap in Bangladesh is 12.9 percent. In order to cover this gap, perfectly targeted transfers to poor households (with no administrative costs or leakage) would cost 4.9 percent and 2.3 percent of GDP. This would bring households to the overall poverty line and the food poverty line respectively. These numbers would be equivalent to about 35 percent and 17 percent respectively of public expenditure. This is unaffordable, particularly in a fiscally constrained environment such as Bangladesh. *Zakah*, could help the government to meet the demand.

It is assumed that not more than one eighth of *Zakah* proceeds can be spent on the administration of *Zakah* governmental organizations, the rest of *Zakah* proceeds (87.5%) are to be spent on the poor and the needy. The Muslim jurists argue that employment in the *Zakah* body must be made on an efficiency basis and the *Zakah* employees should not be paid more than what they would otherwise get in the private sector with equivalent qualifications. If we assume that *Zakah* proceeds are sufficient to cover needs of the poor, equal amounts will be released from the government budget which can be spent on other social needs. In addition, the quality of public expenditure will improve because this fund will be managed by God-fearing employees, and we shall see improvement in the goods and services for the poor. The end result is

³⁵ Hassan, M. Kabir and Junayed Masrur Khan. "Zakat as a Tool for Poverty Alleviation in Bangladesh," Working Paper 2007.

that the disbursement of *Zakah* should be reflected by a marked improvement in the quality of life of the poor and of the whole society, and simultaneously releasing funds from the Government funds which can be used for other purposes.

A similar study by Hassan and Ahmed (1998)³⁶ empirically estimates the impact of *Zakah* funds in the annual development plan of Bangladesh. While the Government of Bangladesh has been very keen of alleviating poverty, it has never looked at the institution of *Zakah* as national strategy of poverty alleviation. They have shown that collection of *Zakah* funds can replace the government budgetary expenditures in the amount of anywhere from 21 percent of Annual Development Plan in 1983/1984 to 35 percent of ADP in 1994/95. This amounts to US\$130 million in 1983/1984 to US\$700 million in 1994/1995. The government can utilise this money in other developmental or social expenditures. *Zakah* funds can increase the taxation potential of the government through the improvement of productivity, employment and output.

SUMMARY AND CONCLUSION

The implications of the Islamic system of *Zakah* for the economy and its role in distributive justice can be summarised as follows:

First, since *Zakah* has to be paid on net worth, regardless of whether the capital is utilised or not, it forces the capital owner to invest in productive activities - both to be able to pay *Zakah* from profits, as well as to prevent the consumption of capital by *Zakah*.

Second, the *Zakah* levy contributes to economic growth. The exclusion and exemption of the means of production from *Zakah* provides an incentive for increased investment in plant and equipment and leads to a high level of capital utilisation, which in turn, promote employment,

³⁶ Hassan, M. Kabir and Mahmood Ahmed. "Substitutability of Zakat Fund in the budget of the Government of Bangladesh," Paper Presented in an International Seminar on Zakat and Poverty Alleviation in Bangladesh, December 14-15, 1998.

output and income and consequently, economic growth. Similarly, *Zakah* exemption of physical capital encourages economically productive activities vis-à-vis speculative activities.

Third, *Zakah* directly contributes to increased consumption through financing the poorest groups in society. In this way effective aggregate demand goes up significantly. This leads to increased employment, output and standard of living, and consequently, the economy moves toward higher output levels.

Fourth, the very institution of *Zakah* contributes to economic development and growth of the country. The expenditures of *Zakah* for provision of essential public goods and services to those who would not have sufficient access to them increase the income levels of the target beneficiaries as well as the growth potential of the economy, especially when employment is provided for the unemployed.

Finally, *Zakah* has an economic stabilising influence in a sense that in a situation where the economy operates much below its full-employment potential, *Zakah* expenditures increase aggregate demand, thereby reducing the output gap: and where the economy reaches full employment, the expenditures of *Zakah* are reduced in proportion. On the other hand, if the *Zakah* collection surpluses it can be saved used for development purposes and transferred to the needier regions of the world.

In conclusion, from the study *Zakah* could eliminate poverty: both in the short-term and long-term. In other words, *Zakah* being a collection of redistributive measures plays an important role in an Islamic economy. Perhaps the reason on why that is why *Zakah* has been given so high importance in the Islamic value framework: as a religious duty, as a moral obligation, as a legal right and duty, and as an economic policy instrument.

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