

THE ROLE OF ZAKAT IN THE REALIZATION OF POVERTY REDUCTION AND ECONOMIC SUSTAINABILITY

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Abstract: *The paper examines zakat and its role in graduating people out of poverty and uplifting society in every aspect from an economic standpoint and even an emotional, intellectual, and environmental perspective. The paper also explores the views of the renowned scholars of the past and compares and contrasts them with conventional perspectives on the matter. For this report, the paper used three articles as a reference which had an Islamic economic grounding and two conventional articles; one from the World Economic Forum and the other from a news website written by renowned economist, on how we can use wealth taxes to redistribute the needs of society more equally among the people specifically in modern post-pandemic times. The study begins by highlighting the related problems currently faced by the world, going on to source the root of those problems based on human greed, and how savings are leakage in the economy, then how we can uplift society through Zakat how it betters the world. The paper then compares and contrasts wealth tax and Zakat based on the articles researched. The study finally concludes with a summary of the topic covered. The authors have tried to break down the paper into understandable parts, each comprising a central thought and its supporting details, to enable ease of the transmission of ideas and understanding to the readers.*

Keywords: *Zakat, Taxation, Poverty Reduction, Wealth Generation*

INTRODUCTION

We live in a time of technological advancement and happen to be alive during the third industrial revolution, but yet there is so much poverty in the world. Many people go to sleep hungry every night, and some don't have their basic needs of clothing and shelter fulfilled while, at the same time, some billionaires and millionaires have so much wealth that the wealth of a single one of them can end global hunger. Why is there a stark difference in the lifestyles of the world's people? Why are there elite filthy wealthy individuals who have more than enough money for ten lifetimes while others die of hunger? Indeed, it is not because there are not enough resources in the world, for the world can sustain billions more than the current population and still be enough for the needs of all. A root cause of the problem is human greed.

Humans could be better than Angels or worse than animals. When humans find it within themselves to take care of others, they rise above Angels who only know to take care of themselves, and when humans fall to the depths of greed, they don't stop when their stomachs are filled, as opposed to animals. For example, a cat or a lion, when its stomach is filled, it

doesn't hurt anymore so much so that its prey can walk in front of it unharmed! But when humans fall into the evil of greed, their stomachs become bottomless pits, which do not get filled with any amount of wealth, for they keep on cheating and stealing. Their stomachs will only be filled with the dirt of the grave, as was said by the Prophet (peace be upon him) in the understanding of a Hadith. And so, some humans fall to depths worse than animals. (Sahih Bukhari, 6436-6439)

Poverty is not a way of life or a class of society. Poverty is just a condition that can be graduated from, provided the appropriate assistance and available resources. When we see the poor of the world and the oppressed, we must understand that this is only a condition and that if these people are helped, then these people can rise above and beyond and transform into such people who will even go on to help others. Here is where Zakat comes in. We will explain in detail further in this paper.

DISCUSSION

The Importance of Wealth Generation

Sometimes people get the idea that Islam is against wealth generation, and earning a lot is frowned upon when it is not valid. While we are encouraged not to become emotionally attached to the world, there is specific importance to being self-sufficient and independent of others. The Prophet (peace be upon him) is reported to have said to the near meaning: that severe poverty may lead a person to disbelief (Musnad Ahmad, 4056). Another thing to be kept in mind is that the more there is safety and ease of transaction with a conducive environment for doing business, the more money will be generated hence, enabling even more taxes and revenue to be collected, which will then translate into handouts for the poor and help for the needy an expenditure on the eight *asnaf* (people allowed to receive) Zakat.

Zakat is a mandatory wealth tax on liquid assets taken on only 2.5% of the total fluid support after it has been stagnant for a year, provided that the person has enough money to be deemed taxable. The Islamic State is essentially a welfare state where the oppressed are cared for and uplifted and empowered widows and orphans. There are safety nets to ensure social security and the financial stability of every person within every class of society. Zakat plays a significant role in fulfilling this community, among other financial instruments.

Need for the Circulation of Wealth in the Economy

One fascinating fact is the profound link between modern economic theories and the practical implementation of economic welfare and the concept of Zakat. One must understand that in the science of economics, "savings" are considered a leakage to the economy because the money which is not in circulation and is locked away does not contribute to turning the wheels of the economy (Khan, 2020). What Zakat essentially does is that it plays a very crucial role in the recirculation of the stagnant wealth of the rich, enabling it to be injected right back into the economy through the hands of the very poor, not only allowing the poor to survive but also ensuring that the most are made out of that money.

We can explain this through the marginal propensity to consume or MPC. The MPC is the proportion of every dollar that a person will spend. For the rich, because of their needs being fulfilled, they do not pay most of a dollar given to them, unlike a poor person. Because he has a lot of needs, he will spend almost 90% of a dollar given to him. Due to this, we can

see that the most benefit of a dollar given to a person occurs when that dollar is given to the poorest of society (Khan, 2020).

One dollar spent in the economy translates into an impact many times more than the initial expenditure. An example can understand this; that when a person goes to buy bread, he is not only giving business to the baker, but also to the farmer who grew the wheat, to the transporter who transported it from the farmer to the market, to the miller who ground that wheat into flour, to the baker who baked it, and to the wrapper who raps that bread in plastic, to the retailer who sold it directly to the customer and then again when the retailer will further spend that money buying something else which he needs. So, in reality, the effect of one dollar spent has increased many-fold and is known as the multiplier effect. The multiplier effect can have the most significant impact when society's dollars are spent! And that is why a dollar given to a poor person benefits the economy so much more than a dollar in the hands of a wealthy person when we try to understand this in the light of the MPC and the multiplier effect.

Poverty Reduction is Connected to Human Development and Nation Building

The Prophet (peace be upon him) said to the near meaning that poverty may lead to disbelief. (Musnad Ahmad, 4056). Hence, he showed us that despair and hopelessness that a person may fall into due to the plague of poverty should be avoided and is not a good thing. Instead, it may lead to disbelief and should be avoided. The pyramid of needs and wants of the human being works to only think of inventions, ingenuity, research, and innovation when his stomach is filled; he is safe and not fearing for his life and has the time to do so. This will only be possible when there is a general level of prosperity within the economy and society and cannot be done when poverty is rampant amongst the people worried about their daily bread. And since Innovation can only be boosted and encouraged when the dire needs of society are fulfilled, it is for the benefit of the community and a crucial step of spurring innovation and invention that's people's needs to be fulfilled and poverty be alleviated.

The Purpose of Zakat is to Make the Receivers Zakat Payers

The purpose of Zakat is not only to empower the poor and graduate them out of poverty but to make the people who will actively participate in the economy. So, in other words, the purpose of Zakat is to make the receiver of Zakat able to pay Zakat later on down the road. This was accomplished in history during the time of Caliph Umar b. Abdul Aziz (may Allah have mercy on him) and when the Prophet (peace be upon him) sent Muaaz b. Jabal (may Allah be pleased with him) to Yemen (Ibn Majah, 1783), that there was no one eligible to receive Zakat in the whole city to the point that the people of the town were waiting for a traveler to come so they could give him their Zakat. And when the traveler did com, it was found out that he came from his city with his Zakat to see if anybody needed to pay them.

This can also be understood from the fact that Zakat taxes wealth has the intrinsic quality to multiply and appreciate, for example, gold, livestock, and articles of trade. These things will fulfill his needs and enjoy, and bear when given to the deserving person. The cow will have a baby, and the value of the gold will rise, which will enable the person who receives it to slowly but surely increase his wealth and graduate out of poverty.

Zakat is also an initiative for the wealthy to invest their wealth and not let it lay around for a whole year to become Zakatable. Instead, it spurs them to use it and invest it in places

where it will be more profitable and not leave it lying around. This occurs because Zakat is only due to stagnant, liquid wealth after laying around for a whole year. If that wealth was invested or given out as loans or spent, it does not immediately become Zakatable.

Zakat also revives the will in people to spend and give for the sake of Allah and gives birth to a Waqf society. This can be seen in Ottoman times, where they were essentially Waqf for everything thought possible, including one for stray dogs and cats to make sure they were fed and taken care of. There also was one for travelers, and there were public bathhouses, libraries, etc. where people would donate their property to be used by the public for the pleasure of God till the Day of Judgment. A lot of the functions of the welfare state were done by the Waqfs, which not only supported the vulnerable of society but also employed a significant number of people who ran and operated these Waqfs.

COMPARING AND CONTRASTING THE WEALTH TAX AND ZAKAT

The heart of this paper will probably be the comparison and contrast between the wealth tax. The wealth tax is now readily proposed by the left and Democrats of front row countries such as the United States and Great Britain, specifically by Senator Bernie Sanders and Elizabeth Warren. They are both contenders in the Democratic primary for election as president of the United States of America. This shows that the idea of wealth tax is getting the attention it so deserves. (Kurtzleben, 2019). We will break down the similarities and differences in the following paragraphs.

Similarities

Some similarities are that wealth tax has wings that Zakat can be understood when comparing wealth tax and Zakat with income tax. Income tax is a tax taken as a percentage of income earned from those who make it. Now income tax only affects a certain bracket of society as the majority of the world's wealth is inherited and is held in the hands of the top 1%. (Kurtzleben, 2019). Income tax affects those people who live paycheck-to-paycheck and work hard to support their families and fulfill their needs. This is not necessarily fair, and as we had mentioned regarding most of the wealth of the world being held as inheritance or passed down through generations, the elite of society and the extremely wealthy are not affected by income tax which leaves the majority of the wealth of the world untaxed and the massive burden of taxes solely upon the shoulder of the working class. There are minute other taxes, such as a death tax exacted on the estate, which is to be inherited but is a one-time thing and very minimal compared to the monthly income tax deductions from the salaries of the working class. So, in that sense, wealth tax and the Zakat are both taken out on wealth instead of income.

Differences

Wealth tax and Zakat do differ in many ways. The first is that Zakat is only taken out from those with more wealth than a specific amount, whereas wealth tax will be general and blanket society. Zakat is not progressive in that it does not increase with an increase in wealth. For example, for the wealth tax, they are proposing brackets, people who earn more than \$500,000 a year will be taxed 30% of their wealth (Kurtzleben, 2019), whereas Zakat does not differ for anyone above the required amount, and all will only pay 2.5% a year. So, Zakat is very sustainable and accessible. Likewise, Zakat is once a year and not monthly. Another difference

between Zakat in wealth tax is that Zakat is paid only on liquid money that is stagnant, which is in use as opposed to wealth tax which they proposed on all wealth whether close or not.

These are some common and outstanding differences between wealth tax and Zakat in light of the conventional articles we had researched and the Islamic perspective of the scholars we discussed and analyzed. The first article talks about the potential Zakat has to empower Indonesia economically, the author's country, and solve the problems currently being faced in Zakat collection and allocation of the collected funds to eradicate poverty and speed up the economy. (Ihsana, 2016). The second article compares the Zakat collection of three countries, namely Jordan, Palestine, and Sudan. (Machado et al., 2006). And in the third article, we analyze the great philosopher and economist Ibn Khaldun (may Allah have mercy on him). He makes a fascinating analysis and strengthens the fact that Ibn Khaldun (may Allah understand him) was the actual father of economics. He proposed many theories that were later reintroduced 500 years after his time. (Abbadi, 2004).

CONCLUSION

From the Islamic perspective, we see that a Zakat is an engine and has the power to drive society out of poverty, which will spur innovation, invention, and the general well-being of humanity. It is up to the next generation of Muslims to harness its power and explain its meaning and purpose to the world in today's language. May Allah allow us to do so and give us sincerity and steadfastness to aid us along the way.

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