

Zakāt as an Alternative Redistribution Mechanism: A Review

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Abstrak

Artikel ini membincangkan tentang mekanisma agihan semula. Beberapa kajian dan penyelidikan oleh ahli-ahli ekonomi konvensional dalam mencari mekanisma ini diketengahkan. Kaedah-kaedah agihan semula yang mereka perolehi didapati menimbulkan pelbagai persoalan dan tidak bebas dari masalah-masalah sampingan. Kajian ahli-ahli ekonomi Islam ke atas zakāt sebagai instrumen agihan semula mendapati sistem zakāt berjaya melaksanakan proses agihan semula dengan berkesan. Mekanisma zakāt ini juga mampu menjawab persoalan-persoalan yang timbul dalam mekanisma-mekanisma agihan semula yang diketengahkan oleh ahli-ahli ekonomi konvensional. Oleh itu, artikel ini mencadangkan supaya zakāt diterima pakai sebagai mekanisma agihan semula yang terbaik secara meluas oleh setiap sistem ekonomi.

Introduction

The institution of zakāt is one of the most effective mechanisms available in Islamic economic system for dealing with the dual problems of poverty and inequality. It plays important role as redistribution mechanism to allow the haves to help the

needy and poor in the society towards an efficient, fair and equitable distribution of resources in the society. The question of redistribution of resources from the rich to the poor has been a universal issue concerning all economic systems. Various studies have been carried out on designing, planning and analyzing potential mechanism in order to come out with the best tool for this objective. This article will present various studies done by the mainstream economists in order to come out with the best redistribution mechanism in helping the poor in the society. Comparatively, this article will then show how zakāt could be a better mechanism. In fact, through the zakāt system, all the problems and questions in their findings will be carefully taken care of.

Conventional Studies on Redistribution of Resources

Boadway, Marceau and Sato¹ studied on the design of a welfare system which delivered transfer to the needy financed by revenue obtained by a non-linear income tax on the non-needy. Using the framework of optimal non-linear taxation, the study characterized the form of the optimal tax-transfer system when the government operates a costly welfare system financed by income taxation. Higher-income person self-select into the income tax system. The needy apply for welfare. If tagged, they receive a disability benefit; if untagged, they receive general welfare benefits. The tagging process was done by social workers. The study identified the weaknesses of the present tagging system to identify the welfare recipient by the social workers. Despite of involving least cost, this tagging system might be influenced by the sentiment of the social workers. Errors might occur where the qualified people will be disqualified, *vice versa*. Another point of concern in this study is the issue of whether the welfare recipients should or should not be induced to work. They concluded that of whether the welfare recipients should be induced to work or else depending on the administrative cost involved.

Aghion and Bolton² developed a model of growth and income inequalities in the presence of imperfect capital market. They analyzed the trickle-down effect of capital accumulation. They found out that wealth does trickle down from the rich to the poor and leads to a steady state distribution of wealth under sufficiently high rate of capital accumulation. But, according to them, trickle-down mechanism alone is not sufficient to reach efficient distribution of the resources. This finding is supported by research done by Jalan and Ravallion,³ who studied on the impact of poor-area development program on the household living standards over time for Southern China. The study estimated consumption-growth model by Generalized Method of Moments using farm-household panel data for Southern China. Their findings shown the poor-area development program had a significant impact on

rural living standard in the targeted area, but it did nothing to improve their position relative to other areas. There are strong signs of unconditional divergence over time between the areas covered by the program and those not. These findings confirmed the previous study of Aghion and Bolton that trickle-down mechanism alone is not enough for the development of the poor.

Duncan⁴ proposed another form of contribution from the rich to the poor. In his study, Duncan extended the public goods model to the case in which individuals contribute both time and money to a charity that in turn produces a public good. Previous studies through empirical research found little support for the perfect crowd-out hypothesis in public goods theory says that government spending on charity perfectly crowd-out charitable contributions. However, the empirical work only measures part of a contributor's total contribution, which is gifts of money. Contributors also volunteer labour. Thus, individuals can contribute both time and money. In equilibrium, gifts of time and money are perfectly substitutable and households derive 'warm-glow' utility from their charitable contribution. The crowd-out hypothesis also analyzed by Payne⁵ who looked at the relationship between government grants and private donations. His study on 430 non-profit shelter, human services, and other similar types of organizations that were in operation between 1982 and 1992 found out, private donations to these non-profits effectively do not change with changes in government grants under OLS specification.⁶ In a 2SLS specification, after controlling for possible endogeneity of the government grants, the estimated crowd-out is significantly different from zero and one.⁷ In conclusion, Payne said that crowd-out exists but is not complete.

The effects of allowing individuals to contribute any desired proportion of their endowments toward a threshold public good was studied by Cadsby and Maynes⁸ in 1999. The study focused at the issue of whether the contributors should be rewarded for their contribution. Does reward will motivate contribution and what would be the best reward? Their findings shown continuous contribution from individuals will encourage both contribution and provision. Their experimental outcome influenced by money back guarantee. Thus, it suggested that the existence of reward in terms of money is significant to the level of contribution. Higher reward level will induce more contribution and provision. However, net reward level falls as the threshold rise means a negative relationship between net reward and threshold level.

Zakāt and Redistribution of Resources

Zakāt is actually one of the five pillars of Islam. The word zakāt literally means 'growth' or 'increase' and also 'purity'. As such, this religious obligation has been named zakāt with respect to the first meaning of the word because its giving leads

to increase of prosperity in this world, and growth of religious merit (*thawāb*) in the hereafter. With respect to the second meaning, because its payment purifies from sins.⁹

In short, *zakāt* has been instituted for the purpose of purifying and cleansing both one's soul and one's property. In a wider context, it is also intended as a means to achieve social justice (*al-'adl*).¹⁰ Economically, *zakāt* is a compulsory levy on the wealth of the well-off members of the Muslim community at a prescribed rate in order to provide financial assistance to mainly the destitute and needy. It is an institutionalized transfer of resources from the rich to the lower income group through the state. It is a compulsory social security measure in which funds are contributed not by those who usually benefit from it, but by those who do not need monetary help and have ability to help others.¹¹ *Zakāt* is different from other tools of modern government revenues like taxes and duties in that the obligation of paying *zakāt* is part of Muslim's religious observance (*'ibādah*). The recipient or beneficiaries of the *zakāt* fund can only go to 8 categories (*aṣṇāf*) of people. The Qur'an specifies eight categories of the *zakāt* beneficiaries;

*"Alms are for the poor (fuqarā') and the needy (masākīn), and those employed to administer the fund ('āmilīn); for those whose hearts have been (recently) reconciled (to truth), for those in bondage and in debt; in the cause of Allah; and for the wayfarer. Thus, it's ordained by Allah, and Allah is full of Knowledge and Wisdom."*¹²

It is pertinent to note that at least two out of eight categories mentioned above specifically refer to the poor (*fuqarā'*) and the needy (*masākīn*). *Fuqarā'* are those whose income below half of the poverty line (hardcore poverty), whereas *masākīn* are those whose income just below the poverty line. It should also be noted beside the *zakāt* collectors or those employed to administer the fund (*'āmilīn*), most of the categories are those in need of welfare assistance.¹³ Ataul Huq¹⁴ in his study on development and distribution in Islam highlighted that out of eight beneficiaries of *zakāt* collection, six are for direct benefit of the poor and needy. Thus, according to him, *zakāt* can play a very significant role in the redistribution of income in the society. It is performed by the Muslim out of obligation, who recognized their inborn rights to survival in this world.

The role of *zakāt* as income redistribution mechanism also studied by Jehle.¹⁵ He studied the impact of *zakāt* on income inequality in Pakistan. Data from 1987-88 are used to construct two income distributions - one that would have obtained if *zakāt* had not been given and one that did obtain when such giving took place. AKS relative indices of income inequality were computed. His study found out both intra-province and inter-province components of overall inequality decline, though

the amount of change is small. This findings proven that zakāt is able to reduce measured income inequality in Pakistan.

Zakāt and the Mainstream Redistribution Mechanisms

The system of zakāt collection and distribution provides solutions to the problems of the tagging system of Boadway, Marceau and Sato. In the zakāt system, zakāt is contributed by the eligible zakāt payer out of responsibility as part of *'ibādah*. Zakāt collection is not the same as any other form of donation or contribution. The eight groups of peoples entitled for zakāt distribution is clearly mentioned in the Qur'ān and it is very well-known to almost every Muslim. Automatically, those who are out of these eight categories will not go to this mechanism for help whenever they are in need. Instead Islam has other kinds of financial assistance such as *bayt al-māl*, *waqf*, etc. to fulfilling their needs and to offer them a relief. The beauty of this system in Islam is that, the Muslims know by themselves of whether they are entitled for the zakāt fund or not, and hardly people lie to be qualified for zakāt fund. Thus, there is no question of the situation whereby the qualified people will be disqualified, *vice versa* due to sentiment as happened in the tagging system. As for the issue of whether the recipient should be induced to work or not, it is never be the intention of the zakāt system to establish permanent zakāt recipient. Every Muslim is encouraged to work. The spirit behind the zakāt collection and distribution is to be able to help those who are in need of help. Remember that zakāt is a kind of religious obligation. Those who perform will be rewarded in the hereafter. The ultimate objective of every Muslim is to get as much reward as possible to be success in the hereafter. This kind of spirit will motivate them to work. Zakāt will provide them assistance to be productive either in a short term or in a long run so that they can be zakāt contributor in the future. Zakāt is just a kind of temporary assistance in order to help the needy and poor to be better off.

To expect trickle-down effect of capital accumulation to redistribute resources to the poor as analyzed by Aghion and Bolton is unwise expectation. Trickle-down effect of capital accumulation if it is so happen manage to redistribute resources to the poor, is just a coincidence mechanism. Zakāt system provides a better way. Out of total capital accumulation, zakāt are to be paid at a certain prescribed rate. There is a consensus among all Muslims that the cash or cash-equivalents are subject to zakāt at 2.5% of the capital value.¹⁶ The specific prescribed rate shows a serious effort of the capital owner to help the poor rather than expecting the indirect benefit of their capital reaching the poor.

Development program of the poor as studied by Jalan and Ravallion on the impact of poor-area development program in Southern China revealed that this kind

of program had contributed to the uplift of the household living standard in the targeted area. Unfortunately this program failed to improve their position relative to other areas. In Islam, development of the poor is a serious issue. It should not be taken on seasonal basis, rather should be maintained continuously. Therefore, there should be a short term and long term projects in the development programs for the poor. Muhammad Anwar¹⁷ studied on the potential contribution of the zakāt institution in financing long-term development projects for the uplift in the living standard of the poor. He said, apart from being used for short-term and immediate consumption, zakāt fund can also be channeled to finance a long-term development projects which will benefit the poor and the needy in the society, hence produce long-term benefits. His studies made clear that this kind of spending by zakāt fund is permissible in Islam. Anwar also suggested another form of distribution on zakāt fund. Instead of distributed in terms of money, he suggested the zakāt due to be distributed in terms of shares, which can generate extra income to the recipient. His studies from Shari'ah point of view did not find any objections to this type of payment.

Perfect crowd-out hypothesis in public goods theory which says government spending on charity can perfectly crowd-out charitable contributions is not relevant in the Islamic system. It is the role of government in Islam to spend for public goods. Charitable contributions in Islam as well as zakāt are not subject to government spending. These contributions are mostly done out of self-responsibility for social benefits. These types of spending by individual Muslims are highly motivated by their piety (*taqwā*) to Allah. Again, these are part of *'ibādah* in Islam. Should they be rewarded, does reward will motivate their contribution and what would be the best reward? To the Muslims, they will get their own reward, which will bring them success in the hereafter. This is the best reward every Muslim wants.

Conclusion

Allah says in al-Qur'ān,

*“And in their wealth and possessions (was remembered) the right of the (needy), him who asked, and him who (for some reason) was prevented (from asking).”*¹⁸

The above verse justifies the importance of redistribution of resources among the people. Zakāt, the established redistribution mechanism in Islam has actually provided answers to arguments of the mainstream economists in deriving the most effective redistribution mechanism. Thus, this article strongly recommended zakāt to be accepted as an economy-wide type of redistribution mechanism of transferring resources from the rich to the poor.

End Note

1. Boadway, Robin; Marceau, Nicolas, and Sato, Motohiro, "Agency and the design of welfare systems", *Journal of Public Economics*, vol. 73 (1999): pp. 1-30.
2. Aghion, Philippe and Bolton, Patrick, "A theory of trickle-down growth and development", *Review of Economic Studies*, vol.64 (1997): pp. 151-172.
3. Jalan, Jyotsna and Ravallion, Martin, "Are there dynamic gains from a poor-area development program?", *Journal of Public Economics*, vol. 67 (1998), pp. 65-85.
4. Duncan, Brian, "Modeling charitable contributions of time and money", *Journal of Public Economics*, vol. 72 (1999): pp. 213-242.
5. Payne, A. Abigail, "Does the government crowd-out private donations? New evidence from a sample of non-profit firms", *Journal of Public Economics*, vol. 69 (1998): pp. 323-345.
6. OLS (ordinary least squares) is one of the methods of constructing the sample regression function (SRF). Population regression function (PRF) is estimate on the basis of the SRF. There are several methods of constructing SRF, but insofar as regression analysis is concerned, OLS method is the most extensively used.
7. Zero estimate indicates no crowd-out, estimate equal to one indicates complete crowd-out.
8. Cadsby, Charles Bram and Maynes, Elizabeth, " Voluntary provision of threshold public goods with continuous contributions: experimental evidence", *Journal of Public Economics*, vol. 71: pp. 53-73, 1999.
9. Al-Qur'ān. (9:104).
10. Muhammad, Abd. Aziz, *Zakāt and Rural Development in Malaysia*, Kuala Lumpur: Berita Publishing, 1993, p. 79.
11. AHM Sadeq, *Economic Development in Islam*, Petaling Jaya: Pelanduk Publications, 1991, p. 61.
12. Al-Qur'ān, (9:60).
13. Muhammad, Abdul Aziz, *op.cit.*
14. Ataul Huq (Pramanik), *Development and distribution in Islam*, Petaling Jaya: Pelanduk Publications, 1993, pp. 11-17.
15. Geoffrey A. Jehle, "Zakāt and inequality: some evidence from Pakistan", *Review of Income and Wealth*, Series 40, Number 2, June 1994.
16. Akram Khan, Muhammad, "Some Accounting Issues Relating to Zakāh", *Islamic Studies* 39: 1 (2000), p. 106.

17. Muhammad Anwar, "Financing Socio-Economic Development with Zakāt Funds", *Journal of Islamic Economics*, Vol .4 No. 1 & 2 (1995), Petaling Jaya: International Islamic University Press, pp. 15-32 *op.cit.*
18. Al-Qur'ān, (51:19).