



Munich Personal RePEc Archive

# **A Treatise on Socioeconomic Roles of Zakah**

Shehu Usman Rano, Aliyu

Bayero University Kano

1 September 2017

Online at <https://mpra.ub.uni-muenchen.de/81155/>  
MPRA Paper No. 81155, posted 06 Sep 2017 15:51 UTC

# A TREATISE ON SOCIOECONOMIC ROLES OF ZAKAH

Shehu U.R. Aliyu<sup>1</sup>

*A major preoccupation of policymakers is the design and implementation of public policy for efficient resource mobilization, allocation, stabilization of the economy and redistribution of wealth to guarantee minimum standard of living for all. At the extremes, the Capitalist and Socialist systems are characterized by the supremacy of self-interest in the former and total state control in the latter. Exacerbated by the prevalence of riba in the systems, unwanted economic outcomes; social and economic inequality, poverty, unemployment, crimes, booms and recessions, thrive. The Islamic economic system which blends the material pursuit with spiritual upliftment tailors economic policies towards attainment of Maqasid al-Shari'ah. As a pillar of Islam and an omnibus instrument of economic stabilization, Zakah serves as an automatic catalyst with backward and forward implications on resource mobilization, allocation, stabilization and redistribution of wealth. Using a heuristic approach, the paper conducts an in-depth assessment of the socioeconomic impact of Zakah in an Islamic economy. Evidences from review of both classical and empirical literature unveil the positive impact of Zakah on consumption, savings, investment leading to employment and higher productivity, (Kahf 1980; Metwally 1983; Khan 1984; Ahmad, 1985; Kuran 2006; Azmi, 2009 and Norulazidah, Ali & Myles, 2010. Further, Zakah acts as an expansionary tool to those at lower income level and a discretionary tool to those at higher income level to redistribute income, remove poverty and facilitates provision of desired public good for the benefit of the poor Faridi (1983). The paper posits that in view of the overwhelming empirical evidences in the literature, Zakah is an effective tool for tackling socioeconomic problems of our modern times.*

**Keywords:** Zakah, socioeconomic, resources allocation, stabilization, redistribution, poverty

**JEL classification:** E62, I131, P24, Z12.

## 1.0 Introduction

Economic stabilization within the context of Islamic economic system is embedded in the principles of the Shari'ah, otherwise the Islamic law. The tools or mechanisms and invariably the objectives of economic stabilization owe their origin to the broad *Maqasid al-Shari'ah*, that is, the objectives of Islamic law. Through economic stabilization, policymakers achieve managing the economic system free from extreme fluctuations in the aggregate level of prices, output, employment, disparities in income and opportunities<sup>2</sup>, as well as open up more frontiers for effective resource mobilization, and the like. These culminate into attainment of socioeconomic

---

<sup>1</sup> Shehu U.R. Aliyu is a Professor of Financial Economics at the Department of Economics and the Pioneer Director of the International Institute of Islamic Banking and Finance, Bayero University, Kano, Nigeria. His teaching and research interests are in Islamic economics and finance, Islamic fiscal policy, welfare and redistribution. Mobile: +2348037875246, Email address: [suarano.eco@buk.edu.ng](mailto:suarano.eco@buk.edu.ng)

<sup>2</sup> What Allah has bestowed on His Messenger (and taken away) from the people of the township, belongs to Allah, to His Messenger and (his) kindred, the orphans, the needy, and the wayfarer in order that it may not (merely) make a circuit between the wealthy among you". Qur'an 59:7.

justice for all and a balanced society<sup>3</sup>. Accordingly, economic management must tally not only with the objective of attaining a stable and highly prosperous economy, but must ensure that the instruments are strictly within the confines of the Islamic laws<sup>4</sup>. Contrary to the capitalist instruments of economic stabilization which are themselves cradles of destabilization in view of their strong association with *riba*, the Islamic instruments, and above all, the entire economic system have strong inbuilt mechanism for stability and control<sup>5</sup>. The two pillars upon which the whole economic system of Islam is erected and the measures employed to achieve growth and distributive justice are: prohibition of interest, and the implementation of *Zakah* (Yakoob, 2009).

*Zakah* is one of the foundations of Islamic economy based on social welfare and fair distribution of wealth to the poor (Ali and Hatta, 2014). It is both a pillar<sup>6</sup> of Islam and an omnibus instrument of economic stabilization. It is a form of Islamic tax, right of the poor<sup>7</sup>, which is not only capable of ensuring economic stability, but is chiefly applied as a tool of wealth creation and redistribution, poverty alleviation and social insecurity antidote. An optimum allocation of resources in an Islamic economy establishes an equilibrium between the moral and economic imperatives of the society, given its income, and the state of technology. Shafi (1979) identifies three objectives of wealth distribution in Islam; the freedom of individuals to pursue Allah's bounties in a normal way according to his ability, his aptitude, his own choice and liking, for Allah is the ultimate Giver (Q28:77 and 43:32); to enable everyone, the poor, the helpless, the needy, the paupers and the destitute too have a right to wealth and for the wealthy in the society to discharge their obligation and to a share their wealth, (Q70:24-25 and 93:10); and to avoid concentration of wealth in the hands of the few individuals, which is line with the Holy Qur'an, (Q59:7). Further, Faridi (1983) opines that fiscal dynamics of an Islamic system in view of absence of empirical studies relies on relevant norms and values that are relevant to allocation, distribution and stabilization functions of

---

<sup>3</sup> In an Islamic economic system, the institution of *Zakah* incorporates proper balance between the extremes of capitalism and communism (Mawdudi, 1975; and Hairunnizam & Radiah, 2010).

<sup>4</sup> According to Chapra (1979) "... that all instruments of direct and indirect controls, including wage-price controls and nationalization, to the extent considered necessary in the overall interest of the Muslim society. What instruments are to be used and to what extent, would be determined essentially by the circumstances, given the guiding principles of the *Shari'ah*.

<sup>5</sup> The Holy Qur'an states: Those who, when they spend, are not extravagant and not niggardly, but hold a just (balance) between those (extremes). (Q 25:67). The Qur'an further states: "Indeed We sent Our Messengers with Clear Signs and sent down with them the Book and the Balance that people may uphold justice..." Q57:25

<sup>6</sup> Narrated by Ibn Umar (RA): Allah's Apostle said: "Islam is based on (the following) five (principles): To testify that no one has the right to be worshipped but Allah and Muhammad (PBUH) is Allah's Apostle. To offer the (compulsory congregational) prayers dutifully and perfectly. To pay *Zakah* (i.e. obligatory charity). To perform pilgrimage (i.e. pilgrimage to Mecca). To observe fast during the month of Ramadan." Regarding the injunction in the Holy Qur'an, Allah the Almighty says: "Alms is for the poor and the needy, and the officials (appointed) over them, and those whose hearts are made to incline (to truth) and the (ransoming of) captives and those in debts and in the way of Allah; and Allah is Knowing, Wise." Q9:60.

<sup>7</sup> The fourth Caliph Ali ibn Abi Talib (RA) says: "God has made it obligatory on the rich to provide the poor with what is adequate for them; if the poor are hungry or naked or troubled, it is because the rich have deprived them [of their right], and it will be proper for God to hold them responsible for this deprivation and to punish them". Further, Al-Qardawi argues that *Zakah* is not just a form of worship but also that the receipt of the proceeds of *Zakah* is a right of the poor.

the state and the model behavior of an Islamic economic system in the early period as the datum for theoretical projection of the future.

Against this background, this paper employs a *heuristic* technique, a practical approach to problem solving, to assess the socioeconomic impact of *Zakah* in an Islamic economy on the basis of injunctions from the Holy Quran and Sunnah, conceptual and empirical studies. It specifically analyzes the allocation, stabilization and distribution functions of *Zakah* on individual livelihood and of the economy as a whole. The rest of the paper is organized as follows: following this section is section two which discusses the role of *Zakah* in resource mobilization/allocation in an Islamic economy. Section three explores the thesis of *Zakah* on stabilization of the Islamic economy. The significance of *Zakah* as an antidote instrument for redistribution is presented in section four while section five offers concluding remarks and recommendations.

## II. Allocation Function of *Zakah* in an Islamic Economy

Regardless of the type of economic system; capitalism, socialism or Islamic economic system, efficient allocation of scarce resources remains indispensable. The capitalist and socialist systems aside being purely materialistic, push the four basic economic questions – what goods and services and how much to produce, how to produce, for whom to produce and who owns and controls the factors of production, to the unmodulated forces of demand and supply otherwise the *invisible hand*, and or the machinery of the state, respectively. The Islamic economic system, in addition to the seeking positive material advancement, entrenches the pursuit of material progression with spiritual upliftment as enunciated in the Shari’ah<sup>8</sup>. The Shari’ah stipulates how the four basic questions should be addressed and regulates the economy neither by relegating it to the *invisible hand* nor by assuming complete ownership and control/disposition<sup>9</sup>.

Several studies have disclosed the positive effect of *Zakah* on the economy; Siddiqi, 1979; Rahman, 2003; Kuran, 2006 and Khan, 2007. The effect works through increase in aggregate demand leading to increase in capital stock and a rise in the economic growth trajectory of the economy. Therefore, evidence of both theoretical and empirical underpinnings on the role of *Zakah* in mobilization and efficient allocation of scarce resource abound in literature. Thus, as the pivot of Islamic fiscal policy, *Zakah* promote utilization of productive resources via empowerment of effective demand. Pioneering work in this regard include the works of Faridi (1983), Metwally (1983), Salama (1983) and Kahf (1983) in the compendium edited by Ziauddin.

---

<sup>8</sup> The Qur’an says: “*And seek in that which Allah has given thee, the home of the Hereafter; and neglect not thy share in this world...*” (Q28:77). And when praying to the Almighty, a believer seeks the both the good in this world and the hereafter and enunciated in the Holy Qur’an as: “*And there are some among them who say: Our Lord! grant us good in this world and good in the hereafter, and save us chastisement of the fire*”. Q2:201.

<sup>9</sup> According to Chapra (1979) The synthesis of the material and the spiritual is what is missing in the welfare concepts of the other two systems, capitalism and socialism, as they are morally neutral... The fulfillment of the spiritual and material needs of individuals and the society would naturally necessitate the playing of a vital role by the State in the economic system of Islam.

Two strands of arguments in support of positive effect of *Zakah* are one; the fact that *Zakah* constitutes a transfer of wealth from the rich to the poor, which invariably, have a higher marginal propensity to consume than the rich, hence a rise in the level of aggregate demand (Chowdhury, 1989; and Sadeq, 1990). Second, the claim that *Zakah* payers will increase their savings ratio<sup>10</sup> following intersectoral and intrasectoral allocation of resources utilization due to expansion in aggregate demand (Mannan, 1989). This is in spite of a fixed rate of zakah which will cause depletion of idle wealth over time. Early scholars embedded these arguments within a static Keynesian model leads to the conclusion that the increase in saving will ultimately be complemented by an increase in investment (Kahf 1980, Khan 1984). Similarly, Metwally (1983) and later Azmi (2009) stresses that that both the average propensity to consume (APC) and marginal propensity to consume (MPC) following *Zakah* distribution would be higher in Islamic economy than in any other economy in view of its direct link to production and consumption. Further, the demand for investment at a given expected rate of profit would equally be higher.

Norulazidah, Ali and Myles (2010) although misconstrued *Zakah* as a voluntary payment applied model of overlapping generations to analyze both warm-glow, that is, the reward the payer expects from making *Zakah* payment, and social custom, that is, the religious obligation behind contributions to *Zakah*, frameworks. Results show that *Zakah* can raise the capital-labor ratio when it is motivated by the warm-glow but the social custom model could lead to a reduced capital-labor ratio as the rate of *Zakah* increases. In earlier empirical study, Wahid (1985) applies neoclassical model of labor supply in a micro context and concludes that zakah would increase individual labor supply if income effect of zakah is greater than substitution effect. Similarly, Awan (1980) analyses the effects of zakah on employment of labor. He opines that since both labor employment and capital input are taken into consideration in fixing *Zakah*, employment of labor will be unaffected.

Expediently, on the basis of different studies carried out by Abdullah (1991) in Indonesia, Khan (1995) in Pakistan, Faridi (1995) in India, Ajeel (1995) in Kuwait, Abdul Wahab (1995) in Malaysia, Azharuddin (1988) in Bangladesh, Balogun (1999) and Dogarawa (2009) in Nigeria, and many others, it has been projected that the institution of *Zakah* serves as a unique philanthropic mechanism that promotes participatory economic growth and development.

### **III. *Zakah* and Macroeconomic Stabilization**

As an embodiment of fiscal policy, *Zakah* acts both as an instrument of revenue generation and robust expenditure tool. It is capable of instilling macroeconomic stability in an Islamic economy. It regulates consumption among the rich without negating savings, promotes aggregate demand and invariably investment and paves way for non-inflationary growth in the gross domestic product (GDP). A number of pioneering works unveiled the positive impact of *Zakah* on aggregate

---

<sup>10</sup> Chowdhury (1983) who opines that zakah is likely to stimulate ex-ante savings of the zakah payers and capital formation because it irrevocably takes away a part of payer's net worth and hence may take precaution by increasing savings to avoid fall in future income level.

consumption based on a static Keynesian framework – see Kahf, (1983); Metwally, (1983); Khan, (1984); Ahmad, (1985); Darwish and Zain, (1985). Further, Iqbal (2002) on the basis rigorous Keynesian model of income determination proves that although Metwally overestimated the effect of *Zakah* on APC and MPC, the net effect on consumption is still positive. This is in spite of call for moderation in Islam which may somewhat contracts consumption. He further adds that aggregate consumption is a crucial component in the determination of level of income and prices and that the stability of national income is linked to the stability of the MPC through the interaction of multiplier and accelerator. Further, Mannan (1989) adds that zakah influences the composition of goods and services because an increase in the demand for necessities leads to an increase in their production.

Yusoff (2006) opines that *Zakah* is an effective tool of economic stabilization working both as expansionary tool to provide income to those at lower level, and a discretionary tool to those at higher income level. His empirical findings based on Keynesian model in Malaysia supports the potency of *Zakah* as an effective fiscal policy tool of economic stabilization. The Holy Prophet (PBUH) describes *Zakah* as *namaa* which essentially means an expansionary tool. Inescapably, wealthy people who 'evade' paying *Zakah*, for instance, by investing their cash earnings before the year ends manifestly hearken to the call of *Zakah* by turning their cash into investments (Mannan, 1989). That is, a wealthy man who drains his hoardings to less than the *nisab* is rendering greater community service than the one who pays only 2.5 percent *Zakah* rate. The poor are likely to benefit more and longer from employment opportunities created as a result of increased investment expenditure than from the *Zakah* payment, hence achieving higher economic growth and greater macroeconomic stability.

On their part, Sarif and Kamri (2009) extol the positive effect of *Zakah* on national savings and investment and on the whole, its impact on efficient allocation of resources, stabilization and economic growth. Metwally (1986) although opines that zakah may reduce savings when viewed on absolute income sense, it is likely going to increase national savings in relative income sense. Hoe, the effect according to him on savings is neutral on the basis of both permanent income and life-cycle hypotheses. Karwai (2012) emphasizes the role of in reducing the risk of debt failure as debtors are specifically recognized as recipients. Expectedly, given the low rate of *Zakah*,

compared to conventional taxes<sup>11</sup> in modern economies and together with the prohibition of *riba*<sup>12</sup> and hoarding<sup>13</sup> in the economy, both savings<sup>14</sup> and investment will naturally flow.

Unenviably, inflation, uncertainty, business-cycles, booms and recessions are inextricably some of the permanent features of a capitalist economy. Economic management to contain inflationary and deflationary pressures, therefore is an ongoing concern. For instance, Rab (2006) opines the creation of inflation via depreciation of currency invariably implies reduction in the quantity of goods represented by the currency<sup>15</sup>. This according to him constitutes the worst fraud against humanity, breeds concentration of wealth, segregation of labor, underemployment and poverty at the lower level. Coupled with abolishing interest, *Zakah* collection and its disbursement act as an automatic stabilizing force in the economy. However, Muslim economists like Khan (1983) opines *Zakah* expenditure is inflationary in nature in view of higher MPC among its beneficiaries, especially the *fuqara* and *masakin*. That is, careless distribution of *Zakah* revenue during periods of rising prices could be counterproductive to the poor because of imminent inflation. Therefore, some economists propose budget surplus during the periods of rising prices and budget deficit during period of deflation and or developing and optimal *Zakah* distribution mix among the different beneficiaries<sup>16</sup>.

El-Din (1986) supports the view that *Zakah* can be paid in kind in the form of consumer and producer goods and the ratio between the two can be used a fiscal tool. He states that a reduction in the ratio produces dual effects; a fall in the consumer good will reduce the accelerator effect, and a rise in the producer goods will enable capital stock to be adjusted to its desired level as more *Zakah* money will be used in purchasing equities. On the other hand, an increase in the ratio during contractionary period will produce favorable expansionary effects, since higher consumption

---

<sup>11</sup> Tax rates in the Capitalist economies are obscenely very high. Tax rate in Scandinavian countries and other parts of Europe reaches as high as 48 percent. For instance, the former French Prime Minister, Francois Hollande, proposed a tax rate of 75% from an initial rate of 48% in December, 2012, on income level above €1m (one million Euros). The proposed rate, though turned down by the parliament, was estimated to affect between 7,000 and 30,000 households of the population of France.

<sup>12</sup> Among other series of injunctions on prohibition of *riba* (usury) in the Holy Qur'an, the Almighty Allah says: "*O you who believe! Be careful of (your duty to) Allah and relinquish what remains (due) from usury, if you are believers.*" Q2:278

<sup>13</sup> Concerning those who hide Allah's bounties, the Holy Qur'an says: "*Those who are niggardly and bid people to be niggardly and hide what Allah has given them out of His grace; and We have prepared for the unbelievers a disgraceful chastisement.*" Q4:37

<sup>14</sup> The Holy Qur'an roots how the Almighty Allah distributes his bounties, in His wisdom unequally. "*...We distribute among them their livelihood in the life of the world, and We have exalted some of them above others in degrees, that some of them may take others in subjection; and the mercy of your Lord is better than what they amass.*" Q43:32.

<sup>15</sup> According to Safi el Din in History and Rules of Currency Issuing in Islam, *Adwaa el Shari'a*, No. 12 (1982) pp. 209-237, deficit financing through printing of money is contrary to Islamic teaching since it is in effect a form of currency debasement which Islam frowns upon, as suggested by various pronouncements on the reduction of weight or quality of coins.

<sup>16</sup> In deciding the *Zakah* mix, majority are of the opinion that the state may arrange the share of each group bearing in mind the need of the hour, Imam Shafi'i, however, favors equal division among the eight groups. The Malikis and Hanafies do not accept time lag between collections and spending of *Zakah* without any valid reason, however, a time lag of a few days is permissible.

oriented disbursement of zakat will help recovery to take place. It is instructive to note that the combined effects of these measures would curb excessive booms and recessions in the economy. In view of several advantages identified by El-Din (1986), he also supports introduction of *Zakah* equity certificates and distribution of dividends the beneficiaries to promote production and dampen business-cycles.

Sharing the same opinion with Khan (1983), Awad (1985) argues that the re-injection of hoarded wealth, that is, *Zakah* revenue, into the circular flow of income is inflationary in nature. However, wealth hoarding during economic boom tends to be relatively smaller, and although it adversely affects the volume of *Zakah* proceeds, unemployed recipients of *Zakah* will as well be fewer to the extent that the reduction in *Zakah* proceeds will be matched by a cut in the demand for it. Hence, this dampens *Zakah*'s inflationary pressures on the economy. Similarly, during recessions, the impact of *Zakah* on investment is great since it has a wide base of hoarding to reach and more needy to help. Increased revenue during recessions therefore will stimulate aggregate demand and takes the economy out of the crises (Awad, 1989). Thus, *Zakah* is essentially an automatic built-in stabilizer in the economy. Historians report that when inflationary pressures appeared in the days of the Caliph Umar Ibn Khattab (RA) as a result of the dispatch of *kharaj* from the conquered lands in cash, he astutely acted by instructing his provincial governors to send the tax in kind, particularly grains and oil. He also resorted to borrowing against future *Zakah* revenue when he needed camels for the armies and did not possess the required funds.

#### **IV. *Zakah* as Instrument of Distributive Justice and Social Security**

The inability of interest-ridden economic system to attain full employment and eradication of poverty has been pointed out in unmistakable terms by renowned economists like John Maynard Keynes, Samuelson and Domar. On the contrary, Islamic economists maintain that *Zakah* performs major functions of modern public finance that deals with social security entitlements, social assistance, grants for childcare, food subsidy, education, health care, housing, and public transportation in a welfare state. *Zakah* mitigates social inequalities incurred as result of exploitative economic behavior of man and covers the areas of social justice and social security (Shehatah, 1989; Qardawi, 1999; Yusoff, 2008; Mohsin, 2013). In particular, Muslim experts concur that *Zakah* is the best “pro poor growth” model that would have the maximum effect on poverty<sup>17</sup>, provided it is allocated on the basis of the poverty rate<sup>18</sup> and the quality of economic policy, (El-Din, 1986; Hairunnizam and Radiah, 2010; Hassan, 2007; Yusoff, 2008; Dogarawa, 2009; Ibrahim and Nirmala (2011); Fuadah et al., 2013 and Malik, 2016).

---

<sup>17</sup> This is glaring in view of the fact that out of the eight heads of expenditure on which *Zakah* revenue can be spent on, at least six of them are related towards removing poverty among the poor and the needy in one way or another.

<sup>18</sup> El-Din (1986) summarizes the views of the classical schools of thought as: the Hannafi School sets a limit of 200 dirhams while the Shafi'i recommends a life support by giving capital goods to eligible persons. The Maliki School allows giving a year's provision. Qardawi supports Maliki's view in case of zakah disbursement to children and disabled persons, and Shafi'i's opinion for disbursement to able-bodied and qualified persons.



In spite of this, it is pertinent to emphasize that seeking for life sustenance is a religious duty<sup>19</sup> on every abled individual in the Islamic state and that one should not unnecessarily constitute a burden on others. Accordingly, it is a moral responsibility of an individual to cater for his own needs through his own efforts. The role of the State through *Zakah* and other social security instruments is therefore to fill the gap that could arise due to differences in natural or physical characteristics of individuals that could impair attainment of decent standard of living and in view of the fact that the Almighty, in His own wisdom, distributes His bounties unequally<sup>20</sup>. Sadly (1990) emphasizes that that when the Islamic mechanism of functional distribution of income through just factor pricing is implemented, distribution of income is not expected to be widely unequal. When this is reinforced by the redistributive role of *Zakah* as a compulsory transfer payment, income distribution will be more equal, a view shared by Awad (1989).

As a subset of public finance, distributive justice in Islam therefore enjoins the State to guarantee a respectable standard of living to all individuals through proper job training, equal access to job opportunities, social security, financial assistance to the needy and the poor. The role of *Zakah* revenues in this regards is indispensable. Faridi (1983), for instance, identifies two approaches of redistributing real incomes through *Zakah* revenues. These are through transfer payments (in cash or kind) or through direct provision (through public expenditure) of certain important socioeconomic infrastructure to the poor. However, a mix of both the approaches is a realistic policy goal.

Under the transfer payment approach, the Islamic government uses *Zakah* as a negative tax where income is redistributed to the poor at a level enough to keep him above a defined poverty threshold. Some scholars however observe that this may affect work effort<sup>21</sup> when the lump sum transfer discourages one from seeking for work. Alternatively, scholars recognize the need, under the second approach, for an exhaustive expenditure for provision public goods<sup>22</sup> such as education and healthcare. Thus, Faridi (1983) emphasizes that an increase in the supply of education, Medicaid, Medicare facilities through *Zakah* proceeds to the poor has a redistributive role as well as conferring direct financial benefit on the recipient and ensures future financial returns in terms of

---

<sup>19</sup> The Qur'an says: "*And seek in that which Allah has given thee, the home of the Hereafter; and neglect not thy share in this world...*" (Q28:77). In addition, Islam condemns begging and laziness and instead it stresses hard work and dedication. The Holy Prophet says: *Beg not anything from people; the hand that giveth is better than the hand that receiveth*. In another Hadith, *that a man has not earned a better income than that which is from his own labor*. Furthermore, the second caliph, Umar ibn Khattab (RA) epitomizes earning one's own livelihood saying: *No one of you should stay away and from seeking livelihood through hard work and say O God! Give me sustenance', for the sky will not rain gold and silver*.

<sup>20</sup> The Almighty Allah says: "*Will they distribute the mercy of your Lord? We distribute among them their livelihood in the life of this world, and We exalted some of them above others in subjection; and the mercy of your Lord is better than what they amass.*" Al-Qur'an 43:32. See also 6:165

<sup>21</sup> Shehatah (1989) opines that zakah will not affect work effort especially when it is given to able-bodied persons.

<sup>22</sup> A commodity or service that is provided without profit to all members of a society, either by the government or by a private individual or organization. In economics a public good is one which market mechanism is neither capable of excluding those people who haven't paid for it nor does the consumption by one individual precludes the consumption by others.

increased earnings<sup>23</sup>. Some scholars opine that spending on social infrastructure projects as means of improving socioeconomic well-being in the Islamic state is synonymous to spending in the 'cause of Allah'. Despite concerns by some scholars according to Imtiaz, Mandan, Niaz and Deria (1989), the need for the spending cannot be ruled out altogether, provided "free rider effect" is minimized or the rich who have the ability to pay should be excluded from access to *Zakah*-provided goods and services free of charge simply because they are not entitled to it.

More broadly, the views of Allama Syed Rashid Riza and Sheikh Mohamoud Shaltout, *fi sabilillah*, on what constitutes in the, 'cause of Allah' opine that it generally means public welfare expedients which may not pertain to an individual, and benefit of which does not accrue to an individual alone. Sheikh Hasanain Makhlof, *Mufti* of Egypt, says it permissible to use *Zakah* funds to fund Islamic welfare organizations (for their maintenance). Yousuf Qardawi's view of *fi sabeelillah* includes establishment of centers of learning for the Muslim youth, centers for propagating Islam and Islamic values in every nook and corner of the world, preparation of literature which may counteract the literature published for misguiding the Muslims, the publication of impressive books on Islam, the assistance to all those Muslims who have to bear all the atrocities at the hands of the enemies of Islam and the context with the latter on the ideological and cultural front.

Unleashing the capacity of *Zakah* in achieving redistribution of wealth, Zarqa (1976) and Awad (1977) report *Zakah* estimates for Syria and Sudan, respectively, indicate that the amount reached 3 to 4 percent of the GNP. Extrapolating, Awad (2000) states that since public consumption in developing countries averages about 13 percent of the GNP, a single tax that draws 3 percent to 4 percent of the GNP constitute a significant transfer from the rich to the poor which few wealth taxes in the world can be that effective. Thus, Al-Mamun and Haque (2015) opine that the goals of distribution of *Zakah* therefore are; to decrease inequality, establish human rights, remove social injustice and bring empowerment of the poor people. The failure of the "Trickle Down" economic model in contemporary economics is very glaring. Evidences, for instance, show that when the richest 20 percent of the society increase their income by 1 percentage point, the annual rate of growth shrinks by nearly 0.1 percent within five years (IMF, 2015).

Further, Hoque, Khan, and Mohammad (2015) investigate the cause of poverty in Muslim countries, the effectiveness of *Zakah* management institutions, the mode of *Zakah* distribution and the necessity for an entrepreneurial framework. They found that poverty is not due to lack of resources only, but in most cases due to lack of participation and entrepreneurship. Hence, introduction of entrepreneurship development programs through the institution of *Zakah* could promote economic growth. Earlier on, a study by Shirazi and Amin (2006) shows that 15 out of 37 Muslim economies (OIC member countries) require only a small amount of resources for poverty alleviation and that is easily possible through the revival of *Zakah* institutions.

---

<sup>23</sup> In addition, Sadeq (1990) argues that zakah this will rise the standard of living of the poor which will improve their health and skills and a rise in productivity of the workforce. This ultimately contributes to economic growth.

Extending the frontiers of Islamic social security system, Muslim scholars opine that *Zakah* could be disbursed to the non-Muslims who are generally poor provided that they are made to pay at least the equivalent of *Zakah* in the form of some kind of welfare tax. Documented historical evidences in the early days of Islam allude to this view<sup>24</sup>. This clearly operationalized the Islamic concept of universal brotherhood, thereby attracting non-Muslims to the fold of Islam. Besides, it is the duty of an Islamic State to ensure provision of minimum living standard for all its citizens including non-Muslim.

## V. Concluding Remarks and Recommendations

The paper seeks to analyze the socioeconomic effects of *Zakah*, an omnibus instrument of Islamic fiscal policy on the basis of injunctions from the Holy Quran and the Sunnah, conceptual and empirical studies. Using the heuristic approach, the paper investigates and analyzes the allocative, stabilization and distributional functions of *Zakah* on individual livelihood and of the economy as a whole.

Firstly an important consideration in both conventional and Islamic macroeconomics is how resources are efficiently allocated. The paper found that *Zakah* promotes consumption especially among those people (needy and poor) with higher MPC, while it complementarily stimulates increase in investments, all of which rise overall productivity and wellbeing of the society. Secondly, as the economy grows and prosper, the challenge of maintaining economic stability emerges. The paper discovers that on the basis of broader Islamic economic principles, absence of *riba* and profit and loss sharing and the institution of *Zakah* in particular, *Zakah* could serve as an effective economic stabilization instrument working both as expansionary tool to provide income to those at the lower level, and a discretionary tool to those at higher income level. Further, inflation, uncertainty, business-cycles, booms and recessions which inextricably are permanent features of capitalism are effectively brought under control through the automatic stabilizing effect of *Zakah* on the economy. Thirdly, in line with the cardinal principles of Islam of justice, fairness and equity, *Zakah* performs the major functions of modern public finance; guarantees social security, fights inequality in the distribution of wealth, contains poverty, facilitates provision of socioeconomic infrastructure, otherwise public goods, for the needy and poor, promotes mutual harmony and social cohesion, in the society (Awan, 1980; and Mawdudi, 1988).

In conclusion, *Zakah* in and Islamic economy is much more than a pillar of Islam or a tax on wealth. It was found that *Zakah* exerts great influence on socioeconomic wellbeing of the society, impacts positively on resource allocation, stimulates economic stabilization and capable of attaining distributive justice and social security. Its proper application through efficient system of collection and distribution is capable of solving the challenges of our times. Borrowing from Shehatah (1989) who opines that in the absence of a public treasury (Baitul-Mal) and in line with

---

<sup>24</sup> Caliph Umar Ibn Khattab (RA) stressed that he is the supporter of him who has no supporter and as a mark of his sense of responsibility, he once saw an old Jew begging and after giving him some cash, he ordered the treasury officer that such people who could not earn their living should be granted stipends from the public treasury.

the requirements of our time, this paper calls the establishment of more *Zakah* institutions and reinvigoration of existing ones in Muslim dominated areas in Nigeria and the creation of mass awareness campaigns and transparency in its activities.

## References:

- Abdullah, Taufik (1991). *Zakat collection and distribution in Indonesia*, in *The Islamic Voluntary Sector in Southeast Asia*, Ed. Mohammed Ariff. Pasir Panjang, Singapore: Institute of Southeast Asian Studies.
- Abdul-Wahab, Mohammed, et al., (1995). Malaysia: A Case Study of Zakat Management. In el-Asker and Sirajul Haq (eds.), *Institutional Framework of Zakat: Dimensions and Implications*, Jeddah, IRTI/IDB, pp. 297-378.
- Ahmad, Ausaf (1985). *Income Determination in an Islamic Economy*, Jeddah, Scientific Publishing Centre, King Abdulaziz University, Jeddah, Saudi Arabia.
- Ajeel, Abdu Al Qader Dahl (1995). Kuwait. Cited in: el-Asker and Sirajul Haq (eds.), *Institutional Framework of Zakat: Dimensions and Implications*, Jeddah, IRTI/IDB, pp. 259-295.
- Ali & Hatta (2014) cited in Al-Mamun, Abdullah and Haque, Ahasanul (2015). *Tax Deduction through Zakah: An Empirical Investigation on Muslim in Malaysia*, Vol. 4(2) | July - December 2015
- Al-Mamun, Abdullah and Haque, Ahasanul (2015). *Tax Deduction through Zakah: An Empirical Investigation on Muslim in Malaysia*, Vol. 4(2) | July - December 2015
- Awad, M. H. (1977). *Zakah and our Contemporary Economy*
- Awad, M. H. (1982). *Zakah and Sudan's Economy Resources – Unpublished*
- Awad, Mohammad Hashim (1985) Adjusting Tax Structure to Accommodate in *Zakah Management of Zakah In Modern Muslim Society* (Eds.) by Imtiaz, I.A., M.A. Mandan, M.A. Niaz and A.H. Derma, Paper presented to the first Seminar on Management of *Zakah* in Modern Muslim Society held in Karachi, Pakistan during 02-12 Sha'aban 1405 H (22 April -02 May 1985). *Islamic Development Bank Islamic Research and Training Institute*
- Awad, Mohammad Hashim (1989). "Adjusting Tax Structure to Accommodate Zakah", in: I. A. Imtiaz, et al., (eds.), *Management of Zakah in Modern Society*, Jeddah, IRTI, IDB, pp. 77-96.
- Awan, M. Mahmud (1980). Economic Policy for Development – A Treatise on Zakat, in Raquibuzzaman (Ed.). *Some Aspects of the Economics of Zakah*, pp. 185-207.
- Azharuddin, M., (1988). "Role of Zakat in a Modern Economy with Reference to Bangladesh," in: Rafiqul-Islam Molla (et al.) (eds.), *Frontiers and Mechanics of Islamic Economics*, Sokoto, Nigeria, University of Sokoto, pp. 155-68.
- Azmi, Sabhuddin (2009). *Islamic Economics: Public Finance in Early Islamic Thought*, Goodword Books, New Delhi, India.
- Balogun, S.U. (1999). "Re-appraisal of the Method of Collection and Distribution of Zakah in Nigeria" in: Bashar, M.A.L and Aminu S.M. (eds.), *Fiqh and Economics*, Sokoto: Usman Danfodio University, pp. 39-47.
- Chapra, Umar M. (1979). The Islamic Welfare State and its Role in the Economy, *The Islamic Foundation*, Leicester, United Kingdom.
- Chowdhury, Nuimuddin (1983). Aggregate Demand and Zakah, *Thoughts on Economics*, vol. 4(9), pp. 1-8.

- Darwish, Ahmad Fad and Zain, Mahmud Siddiq (1985). Comments on Metwally in *Journal of Research in Islamic Economics*, vol. 2(2), pp. 121-130.
- Dogarawa, A.B. (2009). Poverty Alleviation through *Zakah* and Waqf Institutions: A Case for the Muslim Ummah in Ghana. Online at <https://mpr.aub.unimuenchen.de/23191/> *MPRA Paper* No. 23191, posted 10. June 2010 13:38 UTC
- El-Din, S.I. Tag (1986). Allocative and Stabilizing Functions of Zakat in an Islamic Economy, *Paper Presented at the International Seminar on Fiscal Policy and Development Planning in an Islamic State*, Islamabad.
- Faridi, F.R. (1983). A theory of fiscal policy in an Islamic state, A paper published in "*A Fiscal Policy and Resource Allocation in Islam*" edited by Ziauddin Ahmed, Munawar Iqbal, M. Fahim Khan Munawar.
- Faridi, F. R., (1995). "India", (a case study of Zakah Management), in: el-Ashker and Sirajul Haq (eds.), *Institutional Framework of Zakah: Dimensions and Implications*, Jeddah, IRTI, IDB, pp. 231-57.
- Fuadah, et al., (2013). cited in Malik, Bilal Ahmad (2016). Philanthropy in Practice: Role of *Zakah* in the Realization of Justice and Economic Growth, *International Journal of Zakah*, vol. 1(1) 2016 pp. 64-77.
- Hairunnizam Wahid, Radiah Abdul Kader and Ahmad, Sanep (2012). Localization of *Zakah* Distribution, Religiosity, Quality of Life and Attitude Change (perceptions *Zakah* recipients in Malaysia), paper presented at the *13<sup>th</sup> Malaysia Indonesia Conference on Economics, Management and Accounting* 2012 pp. 2-3
- Hassan, Riaz (2007). Giving and Gaining: Philanthropy and Social Justice in Muslim Societies. *Lahore Journal of Policy Studies*, Vol. 1, No. 1, pp. 25-35
- Hoque, Khan and Mohammad (2015). Poverty Alleviation by *Zakah* in a Transitional Economy: A Small Business Entrepreneurial Framework. *Journal of Global Entrepreneurship Research*, Vol. 5, No. 7
- Ibrahim, P. and V. Nirmala (2011). Relevance of Islamic Economic Measures in Achieving Inclusive Growth in Muslim Minority Countries: A Case Study of Kerala, India. 8th International Conference on Islamic Economics and Finance on *Sustainable Growth and Inclusive Economic Development from an Islamic Perspective: Linking Research with Policy*, Qatar, 19-21 December, 2011.
- IMF (2015). cited in Malik, Bilal Ahmad (2016). Philanthropy in Practice: Role of *Zakah* in the Realization of Justice and Economic Growth, *International Journal of Zakah*, vol. 1(1) 2016 pp. 64-77.
- Imtiaz, I. A., M. A. Mandan, M. A. Niaz, and A. H. Deria, (eds.). (1989). *Management of Zakah in Modern Muslim Society*. Jeddah: Islamic Development Bank.
- Iqbal, Munawar (1985). *Economic Activity: An Islamic Perspective* Islamabad, Discussion Paper Series No. 1.
- Iqbal, Munawar (eds.). (2002). *Islamic Institutions and the Elimination of Poverty*. Leicester: The Islamic Foundation
- Karwai, S.A. (2012). *Islamic Economic Development*, in Kawai, S.A., A.G, Harbin, and B.T. Jibril (2012). Ed. *Islamic Economics: A Book of Readings*, Published by the International Institute of Islamic Thought (IIIT), Nigeria Office.
- Kahf, M. (1980). "A Contribution to the Theory of Consumer Behaviour in an Islamic Society", in *Studies in Islamic Economics* by Ahmad, K., Ed. Leicester: The Islamic Foundation.

- Kahf, M. (1983). "Taxation policy in Islamic economy" A paper published in "A fiscal policy and resource allocation in Islam" edited by Ziauddin Ahmed, Munawar Iqbal, M. Fahim Khan Munawar.
- Kahf, M. (1989). *Principles of Socioeconomic Justice in the Contemporary Fiqh of Zakah*, Jeddah: Islamic Research Training Institute, Islamic Development Bank.
- Kahf, M. (1997). Potential Effects of *Zakah* on Government Budget. *IUM Journal of Economics and Management*, 85.
- Kahf, M. (1999). "The Performance of the Institution of *Zakah* in Theory and Practice", Paper Presented at the International Conference on Islamic Economics towards the 21st Century, Kuala Lumpur
- Kahf, M. (1999). "The Principle of Socio-Economic Justice in the Contemporary Fiqh of *Zakah*", at: <http://monzer.kahf.com/papers/english/socioeconomic%20justice>
- Khan, Muhammad Akram (1983). *Islamic Economics: Annotated sources in English and Urdu*, The Islamic Foundation, Leicester UK.
- Khan, M. Fahim (1984). Macro Consumption Function in an Islamic Framework, *Journal of Research in Islamic Economics*, vol. 1(2), pp. 1-24.
- Khan, Muhammad Akram (1994). *An Introduction to Islamic Economics: Islamization of Knowledge Series*, 13, Islamabad, the International Institute of Islamic Thought (IIIT) and the Islamic Research Training Institute (IRTI), Jeddah, Saudi Arabia.
- Khan, Muhammad Akram (1995), "Legal, Administrative, and Financial Control", in: el-Ashker and Sirajul Haq (eds.), *Institutional Framework of Zakah*, Jeddah, IRTI/IDB, pp. 65-102.
- Khan, M. F. (2007). Integrating Faith-based Institutions (*Zakah* and Awqaf) in Poverty Reductions Strategies (PRS). *Islamic Research and Training Institute (IRTI)*, 31.
- Kuran, T. (2006). *Islam and Mammon: The Economics Predicaments of Islamism*, Oxfordshire: Princeton University Press.
- Malik, Bilal Ahmad (2016). Philanthropy in Practice: Role of *Zakah* in the Realization of Justice and Economic Growth, *International Journal of Zakah*, vol. 1(1) 2016 pp. 64-77.
- Mannan, M.A. (1983). *Zakah, Its Disbursement and Inter-poor Distributional Equity*, *Thoughts on Economics*, vol. 4(8), pp. 2-14.
- Mawdudi, Abul A'la (1975). Political Theory of Islam, in *Islam, Its Teachings and Message*, (Eds.) Kurshid Ahmad, Islamic Publication Bureau, Lagos, Nigeria, pp. 147-172.
- Mawdudi, Abul A'la (1988). *May'ashiat-i-Islam*, Islamic Publications, Lahore.
- Metwally, M.M. (1983). "Fiscal policy in an Islamic economy", A paper published in "*A Fiscal Policy and Resource Allocation in Islam*", edited by Ziauddin Ahmed, Munawar Iqbal, M. Fahim Khan Munawar.
- Metwally, M.M. (1986). The Effect of Religious Tax on *Zakah* on Investment in an Islamic Economy, *Humanomics*, vol.2(2), pp. 43-55.
- Mohsin, Magda Ismail A. (2013). Potential of Zakat in Eliminating Reba and Eradicating Poverty in Muslim Countries, *European Journal of Business Management*, Vol. 12(11).
- Norulazidah P.H. Omar Ali, D. H., and Myles, Gareth D. (2010). The Consequences of *Zakah* for Capital Accumulation. *Journal of Public Economic Theory*, 12(4), 837-856. doi:10.1111/j.1467-9779.2010.01476.x
- Sadeq, M. Abdul Hassan (1990). *Economic Development in Islam*, Pelanduk Publication, Kuala Lumpur, Malaysia.

- Qardawi, Y. (1997). “Zakah Role in curing Social and Economic Malaise (Arabic)”, *Economics of Zakah: Book of Reading*, Eds. Monzer Kahf, Islamic Research and Training Institute, Jeddah, Saudi Arabia.
- Qardawi, Y. (1999). *Fiqh az-Zakah* (Arabic), Dar al-Taqwa Ltd, London.
- Rabi, Hifzur (2006). *Economic Justice in Islam: Monetary Justice and the Way out of Interest (Riba)*, Published by A.S. Noordeen, Kuala Lumpur, Malaysia.
- Rahman, M. (2003). *Zakah Calculation: Primarily Based on Fiqh-uz-Zakah* by Yusuf-al-Qardawi, Leicester: The Islamic Foundation.
- Sadly, (1990). In A Survey of the Institutions of Zakat: Issues, Theories and Administration, *Discussion Paper*, Islamic Development Bank (IDB) and Islamic Research and Training Institute (IRTI).
- Salama, A. A. (1983). “Fiscal Policy of an Islamic state” published in *Fiscal Policy and Resource Allocation in Islam* Edited by Ziauddin Ahmed, Munawar Iqbal and M. Fahim Khan International Centre for Research in Islamic Economics King Abdulaziz University, Jeddah And Institute of Policy Studies, Islamabad.
- Sarif, Shaili and Nor ‘Azzah Kamri (2009). A Theoretical Discussion of Zakat for Income Generation and its Fiqh Issues, *Shari’ ah Journal*, Vol. 17 (3), pp. 457-500. <http://www.thefreedictionary.com/receivable>.
- Shirazi and Amin (2006). cited in Malik, Bilal Ahmad (2016). Philanthropy in Practice: Role of *Zakah* in the Realization of Justice and Economic Growth, *International Journal of Zakah*, vol. 1(1) 2016 pp. 64-77.
- Shehatah, Shawki Ismail (1985). "Limitations on the Use of *Zakah* Funds in Financing the Socioeconomic Infrastructure of Society"
- Shehatah, Shawki Ismail (1989). “Limitations on the use of *Zakah* Funds in Financing the Socioeconomic Infrastructure of Society”, Intiazi et al (eds.) *Management of Zakah in Modern Muslim Society*, Islamic Institute of Research and Training, Jeddah, Saudi Arabia
- Siddiqi, S. A. (1979). “*Zakah*”, in *Public Finance in Islam* by Sheik Muhammad Ashraf, Ed., Lahore: Islamic Publications.
- Yakoob, A. (2009). Case for Interest-free Financial Institutions in Kerala. *Unpublished Ph.D. Dissertation*, Kottayam, India: Submitted to M. G. University.
- Yusoff, Wan Sulaiman bin Wan (2008). Modern Approach of *Zakah* as an Economic and Social Instrument for Poverty Alleviation and Stability of Ummah. *Jurnal Ekonomi dan Studi Pembangunan*, Vol. 9, No. 1, pp.
- Ziauddin A., M. Iqbal, M. and F. Khan (1983). *Selected papers presented to the first Seminar* held in Islamabad, King Abdul Aziz University, Jeddah, and Institute of Policy Studies, Islamabad.
- Zarqa, M.A. (1976). Macroeconomic Estimation of Potential *Zakah* Proceeds, and their Relationship to economic Development, Paper submitted to the *Symposium on Islam and Development* (Philadelphia: April 1976);
- Zarqa, M.A. (1997). “Role of *Zakah* in the Economy and in Fiscal Policy (Arabic)”, *Economics of Zakah: Book of Reading*, Kahf (eds.), Islamic Research and Training Institute, Jeddah, Saudi Arabia.