

Redistributive Justice in a Developed Economy: An Islamic Perspective

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This article presents a selective review of recent literature on the relationship between redistribution on the one hand and efficiency and growth on the other. Experimental economics have given rise to fairness models and justice models, where self-interest no longer runs supreme but still serves as one of the alternative hypothesis regarding human Behaviour. The traditional trade off between equity and efficiency is finally giving way to a positive relationship between two variables in several important areas. The positive relationship between redistribution, efficiency and growth now has some solid grounds both theoretically and empirically.

The new models introduce Behavioural hypotheses that bring the Islamic values of solidarity, fraternity and reciprocity to the forefront of economic theory. The study explains that Islam has a viable strategy towards redistribution that combines both direct and indirect methods into a policy combination that is qualified to uproot poverty gradually and steadily.

Theoretically, zakāh proceeds are expected to play significant role in eradication of poverty. However, actual Practise falls short of this expectation. One reason may be the attachment of policy makers in Muslim countries to narrow interpretations of the scope of zakātable assets. It may be advisable to develop a system of zakāh collection where both official and non-government channels can be effectively exploited. We propose for further consideration a government agency that competes with a network of NGO's in collecting zakāh. Proceeds may be channelled through Islamic banks to the poor in the form financing micro projects that would eventually become the property of the poor. This must be done under strict rules of transparency and close monitoring.

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1. Introduction

Economics gave its utmost attention to distribution, in the sense of determining the share of each factor of production through the processes of market exchange, but gave little attention to redistribution in the sense of reaching a certain level of social justice and equity.

Income and wealth are generated and distributed by numerous economic, political and social activities that can broadly be classified into market and non-market activities.

Market activities are direct voluntary exchanges of goods and services. They generate a certain "distribution," which may be modified by a redistribution done by non-market processes.

In a capitalist system, free market activities and the resulting distribution of income and wealth are deemed just, and redistribution is viewed as an exception to be minimized. The socialist system in contrast deems most market activities as exploitative, and the distribution they generate as basically unjust. Redistribution, by political authority is the basic means to achieve justice under socialism.

Shari'ah considers income and wealth generated by Shari'ah compatible, i.e. *halal* or lawful, market exchanges to be wholesome and acceptable distribution. However, there is one serious reservation: being *halal* does not mean, from Shari'ah point of view, being free of obligations towards others, especially in relation to promoting social welfare. Thus, Shari'ah instituted several rules and schemes for redistribution, *zakah* being the most prominent. Those rules and schemes embody the Islamic concept of justice and its strategy of implementing it through redistribution.

This paper attempts to present a careful survey of the Islamic approach to social justice. It draws on the results of prior research in this area by ourselves and by many other scholars, Muslim and non-Muslims, economists and non-economists.

Questions of distribution have always been important and still are. Even in today's very prosperous world, we see widespread abject poverty and inequality. According to the UNDP Human Development Report, 2004, there are 1100 million people living under \$1 a day, 432 millions of them live in South Asia and 323 million in Sub-Saharan Africa. Out of those, there are 831 million undernourished individuals mostly living in South and East Asia.

Such statistics and much more indicate that the degree of deprivation is horrifying. Redistribution must therefore be addressed with serious and effective policy tools.

Traditionally, economics has treated efficiency and equity as separable. The theoretical basis for their separation is the Second Fundamental Theorem of Welfare Economics, which holds that any Pareto efficient outcome can be

implemented as a competitive equilibrium given the appropriate lump sum taxes and transfers.¹

Redistribution gained increasing interest among economists during the 1980's and 1990's. Several new contributions advancing new hypotheses have changed the economists' perception of the subject. Muslims, meanwhile, take pride in the redistributive system that is embodied by Islam, as it increasingly appear to be the best vehicle for social justice. The new contributions came from three directions. The first emanates from experimental economics and the associated theories of fairness. The second is a further application to the relationship between redistribution and efficiency. The third is based on a reassessment of the relationship between equity and growth.

2. Fairness and Justice Theories

We can think of at least two important reasons for seeking a descriptively accurate theory of impartial justice. First, social scientists must consider how justice, alone or in tandem with other goals (such as self-interest or reciprocity), affects the phenomena they study.

Second, the study of impartial justice consciously aims at separating the effects of unbiased, biased justice and other motives. Impartial justice provides a standard to evaluate and reconcile conflicting interests.

Justice is taken to refer to both distributive as well as procedural justice. Justice in economics mostly refers to material wealth, the chief concern of most economists. There are four elements of justice; each inspired a group of theoretical analysis.

A. Equality and Need

This element covers theories that incorporate a concern for the well-being of the least well-off members of society including egalitarianism, social contract theories and Marxism. They inspire the Need Principle, which calls for the equal satisfaction of basic needs.

B. Utilitarianism and Welfare Economics

This element comprises utilitarianism, Pareto Principles and the absence of envy concept, which have grown out of consequentialist ethics, or the tradition in philosophy and economics that emphasizes consequences and end-states. They are most closely associated with the Efficiency Principle, which advocates maximizing surplus.

¹ (Furman and Stiglitz, 1998)

C. Equity and Desert

This element includes equity theory, desert theory, and Robert Nozick's theory. Together they inform the Equity Principle, which is based on proportionality and individual responsibility.

D. The Context Family

This comprises a group of writings that deal with the dependence of justice evaluation on the context, such as the choice of persons and variables, framing effects, and issues of process. Such writings do not generate a distributive principle but rather discuss the ideas of their authors. (Elster, 1992; Frey and Stutzer, 2001a, b; Kahneman, Knetsch, and Thaler, 1986; Walzer, 1983; and Young, 1994).

2.1 Fairness Models

Economic theory assumes that all people are solely motivated by self-interest. Experimental economics suggests that many people are strongly motivated by other-regarding preferences and are concerned about fairness and reciprocity.² The persistence of non-competitive wage premia, the incompleteness of contracts, the allocation of property rights, the conditions for successful collective action and the optimal design of institutions are some of the puzzling problems that could not be explained by theories based on self-interest. Alternatively, they could be explained by theories of fairness.

Self-interest models can provide accurate predictions in competitive markets with standardized goods. However, they could lead to misleading predictions in markets with a small number of traders or informational frictions, in firms and organizations, and under incompletely specified and enforceable contracts. The newly developed fairness models show why in certain environments the self-interest model is so successful and why in others it is refuted, thereby providing insights into non-clearing markets or the widespread use of incomplete contracts.

In the 1980s, experimental economists started to study bilateral bargaining games and interactions in small groups in controlled laboratory settings.³ The Ultimatum Game led many people to realize that the self-interest hypothesis is problematic.⁴ In addition, the Gift Exchange Game, the Trust Game, the Dictator Game and Public Good Games all played an important role in weakening the exclusive reliance on the self-interest hypothesis.

² Adam Smith (1759), Gary Becker (1974), Kenneth Arrow (1981), Paul Samuelson (1993) and Amartya Sen (1995), accepted that people care for the well-being of others. Obviously, this may have significant theoretical implications. Mainstream economics has not yet adjusted for that (Fehr and Schmidt, 2000). See (Fehr and Schmidt, 2000).

³ (Roth, Malouf and Murningham 1981, Güth, Schmittberger and Schwarze 1982).

⁴ (Güth, Schmittberger and Schwarze, 1982).

For decades, economists believed that fairness motives would not matter much. They considered fair Behaviour as a temporary deviation from self-interest. Under such relatively weak condition, experimental markets quickly converge to the competitive equilibrium. This has been interpreted as a confirmation of the self-interest hypothesis. However, the newly developed fairness models show convergence to standard competitive predictions can occur even if the fairness agents' motive is very strong.

Fairness models demonstrate unambiguously that many people are not only maximizing their own material payoffs, but that they are also concerned about social comparisons, fairness and the desire to reciprocate.⁵ However, this does not imply that they will always behave fairly, for this depends on the strategic environment in which they interact and their beliefs about the fairness of their opponents.⁶

Fairness matters much more in the case of incomplete contracts, whose execution extend over time. Labour markets are a good example.

Of particular interest to Islamic economics is the allocation of property rights in investment ventures. Under the assumption of self-interest, joint ownership cannot be optimal. This stands at odds with the existence of successful jointly owned companies, partnerships or joint ventures. Reciprocal fairness could work as an enforcement mechanism to induce more investment under joint ownership than under self-interest. In addition, fairness models suggest that joint ownership may do better than exclusive ownership because it offers wider scope for reciprocal Behaviour.

We can also learn from fairness models that redistribution is important and is not contrary to efficiency as defined in a perfectly competitive model. In fact, redistribution could be a requirement for reaching such efficiency or Pareto optimality. This raises the question of what relationship exists between redistribution and efficiency.

2.2 Justice Models

Justice models include contractarian models as well as models of impartiality, solidarity and priority. Justice models allow individuals to rank policies while standing behind “a veil of ignorance” where everyone is in the same informational position, they see all possible outcomes as possibly happening to them, but no one knows which group he will be in.⁷

⁵ (Smith, 1962; Davis and Holt, 1993).

⁶ See (Fehr and Schmidt, 2000).

⁷ (Rawls, 1971; Phelan, 2002).

2.2.1 Contractarian Models of Redistribution

Contractarian models start with a society that enjoys neither the voluntary respect for property rights nor the enforcement of contracts.⁸ In such prisoner's dilemma, individuals tend to overinvest in Defence and aggression, and underinvest in productive activities.⁹ Credibly enforced property rights are a means to overcome this dilemma.

Conventional contractarian models begin with a set of property rights, and allow individual activities to define a primary distribution of income. The State carries on redistributive policies in order to bring the primary distribution closer to the desired level. A contractarian theory of justice views such redistribution as insurance against risks, which cannot be privately insured.¹⁰ In the insurance theory of redistribution, initially equal individuals agree on redistribution in order to avoid the adverse consequences of becoming unequal.

Conventional models have been accused of three conceptual weaknesses. First, the insurance argument requires risk aversion of individuals in the initial situation behind the veil of ignorance. Economists tend to evaluate social policies in terms of ex post efficiency. Given a population of two groups A and B, and two alternative social policies P1 and P2, economists are willing to call P1 "inferior to" P2 if both groups prefer P2 but they are silent on policy ranking if A prefers P1 and B, P2.

One way to rank policies is to step back behind "a veil of ignorance" where no one knows which group anyone will be in. Behind the veil, everyone is in the same informational position. Individuals see all possible outcomes as possibly happening to them. This common perspective gives a way to rank social policies. P1 would be better than P2 if and only if it is better from the behind-the-veil perspective, i.e., it maximizes welfare from that perspective (Rawls, 1971; Phelan, 2002). However, the initial situation is merely a normative contrivance that reflects intuitive ideas of fairness and justice. Assuming that risk aversion is a reasonable justification of fairness cannot be accepted *à priori*.

Second, real individuals are not bound by contracts signed by hypothetical individuals in an initial situation. Hence, there is an inconsistency between the idea of legitimation underlying contractarian theories and the concept of a veil of ignorance. The theory has no obligatory power.

Third, the enforcement of constitutional rules cannot be presupposed in the absence of an enforcement agency, as they could be abolished by the most

⁸ (Bush and Mayer 1974).

⁹ (Hirshleifer 1995).

¹⁰ Rawls's theory of justice (1971) as well as Harsanyi's theories of utilitarianism (1953,1955) are examples for this line of argumentation.

powerful groups in society. Self-enforcement of rules cannot simply be presupposed.

Contractarian theories that avoid such weaknesses can be divided into two groups: positive theories that attempt to explain the emergence of institutions and normative theories that attempt to justify their legitimacy.

Most notably, Bos and Kolmar model,¹¹ legitimizes redistribution because individuals are different in the initial situation. They initially know that they differ with respect to their productivities. Redistribution of factors of production is a means to exploit these differences. Individuals who give up factors of production have a legitimate claim for compensation. The model contains rules of redistribution that serve as an institutional substitute for direct payments. Therefore, redistribution is legitimized neither by insurance motives nor by private charity, but follows from the principle of reciprocity in trade.

2.2.2 Models of Impartiality, Solidarity and Priority¹²

Dworkin, Harsanyi and Rawls have employed the veil of ignorance in different forms as a tool to enforce impartiality as a basis to determine how the worldly distribution of resources or wealth should be.¹³ Some political philosophers argue that justice requires that priority be given to the worse off. To Rawls, differences in amounts of primary goods accruing to people are morally permissible only if they maximize the level of primary goods accruing to the worst off; this is the extreme form of priority.

Prioritarianism has been coined to indicate that the worse off should be given priority over the better off with respect to redistribution, but not necessarily the extreme priority that characterizes maximin (the difference principle).¹⁴ Prioritarianism can be visualized as a social welfare function with strictly convex upper contour sets, bounded by maximin on one side, and utilitarianism on the other.¹⁵

Lately, the veil of ignorance has been shown to be inconsistent with prioritarianism as it will often recommend wealth distributions that give priority to the better off.¹⁶ Justice is seen to require impartiality (the redistribution rule that implements justice must be impartial. To insure impartiality, some propose to add solidarity, which implies fraternity or reciprocity.

¹¹ Bos, Dieter and Martin Kolmar (2000).

¹²(Moreno-Ternero and Roemer 2004).

¹³ (Dworkin, 1981a,b; Harsanyi 1953 and Rawls, 1971).

¹⁴ (Parfit, 1997).

¹⁵ (Roemer (2004).

¹⁶ (Moreno-Ternero and Roemer, 2004).

Justice requires impartiality, which, as far as justice is concerned, is properly modelled by veil-of-ignorance thought experiments. However, veil-of-ignorance thought experiments in general recommend antiprioritarian allocations. To remedy this, a second principle must be added to impartiality to characterize justice. Moreno-Tertero and Roemer add solidarity and suggest that fraternity or reciprocity can also be employed.

It is interesting to note that such values as justice, solidarity, fraternity and reciprocity are on the top of the list of the moral values Islam strives to cultivate.

3. Redistribution and Efficiency

A concern for equity has long been an important aspect of economic analysis. Most policy analysis done by economists, however, has focused on efficiency rather than equity, dealing with such issues as the cost of government regulations, the deadweight loss of taxation or the Labour supply effects of government transfers.

Most economists take for granted the idea that equity and efficiency cannot be achieved together; that greater equity must come at the inevitable cost of a loss of efficiency. Policy discussions centred on the equity versus efficiency argument since post-Second World War period. By the late 1960's, conflict between efficiency and equity was generally accepted.

Arthur Okun, in the late 1970's described the "leaky bucket experiment" in a dollar transferred from a richer to a poorer individual, leads to less than a dollar increase in income for the recipient, because of: Administrative costs of redistribution, changes in work effort, changes in savings and investment Behaviour induced, and changes in attitudes.¹⁷

Lately, some economists have identified circumstances under which equity and efficiency may not trade off against each other, policies that promote greater equity with little effect on efficiency, policies where equity and efficiency complement each.¹⁸

Rebecca Blank suggests three cases when redistribution needs not cause efficiency loss. The first case is when there is no individual agency. This happens when an individual has no capacity for response as in the case of disabled individuals, the elderly or children and in cases where jobs, wages and housing opportunities are limited by race, gender or ethnic background. Additional income to those groups will not cause an offsetting change in Labour supply.¹⁹ One exception is when it affects the Behaviour of other family members. For instance,

¹⁷ (Okun, 1975).

¹⁸ (Blank, 2002).

¹⁹ (Blank, 2002; Piketty, 1995).

if supporting the elderly induces fewer children to support their parents, or if guaranteeing college scholarships leads parents to work and save less. Empirically, such effects are relatively small.²⁰ In short, an individual must be both without agency and socially isolated for transfers to involve no efficiency losses. This is an argument for providing higher degrees of support to orphans as well as those with no family.²¹ Again, we are impressed by the priority that Islam gives to caring for the orphan.

The second case is associated with redistributive programs that combine income transfers with Behavioural requirements, e.g., the welfare-to-work programs that reduce the costs.²² In such case, redistribution, when combined with strong work requirements can lead to higher Labour supply and income to the poor.

Both first and second cases provide redistribution with minimum efficiency costs, while keeping aggregate income constant. The third case occurs when transfers subsidize the provision of services that function as investments; that is, they change Behaviour or opportunities in a way to increase future income.

Traditionally, economists would argue that cash transfers produce more benefits than do in-kind transfers. However, in-kind transfers that have long-term investment properties can be preferable to cash transfers. Examples of this include transfers that provide health assistance that reduces future health problems, like public campaigns to immunize children, human capital expenditures to subsidize child care, education, job training of disadvantaged adults or teens. This argues for Focussing subsidies on services that provide ongoing future income gains and less on policies that simply provide one-period benefits.

Jiandong Ju takes another approach to redistribution. He introduces a theorem on specific cases when redistribution leads to more efficiency. Redistributing more income to consumers who spend relatively more on goods that have larger price elasticities of supply leads to higher output of such goods at the expense of spending on goods with low price elasticities of supply. The increase in the output of the former goods would be more than compensate the decrease in the output of the latter goods. Consumers' surplus would increase leading to a potential Pareto improvement.²³ The Pareto optimum potential is reached only when the marginal aggregate consumers' surplus is equalized over all consumers. In a perfectly competitive economy, if the rich spends relatively more on goods with relatively

²⁰ (Cox and Jakubson, 1995); Schoen, 1997).

²¹ (Blank, 2002).

²² Working-family tax credits programs enacted in the U.S. and the UK in recent years belong to this group. Earned Income Tax Credit (EITC) in the U.S., which provides supplements to the earnings of low-wage workers in low-income families has been credited with increasing labor supply of the poor.

²³ (Ju, 2002).

inelastic supply and the poor spend relatively more on goods with relatively elastic supply, redistributing more to the poor will improve aggregate efficiency.

According to this approach, at a given level of income distribution, the perfectly competitive market is Pareto efficient at the individual level. Income redistribution adjusts aggregate demands and raises aggregate supplies. This in turn increases consumers' surplus, bringing potential improvement. In other words, redistribution can improve efficiency at the aggregate level.

4. Redistribution and Growth

Since the 1990's, economists have been preoccupied with the sources of productivity growth as the major long-run determinant of per capita income growth. They focused on the static effects of economic policy, the so-called size-of-the-pie effects or the policy effect on long-run economic growth.

Sources of productivity growth, including new investment, human capital formation, new technology and product innovation are driven by investment, innovation, education and trade. A new hypothesis adds social factors, including income and wealth distribution, social policy regarding health, education, Labour market regulation and income support programs as major determinants of productivity growth. The new hypothesis runs against the traditional efficiency-equity trade off.²⁴

4.1 Property Rights

Some economists suggests that income inequality fuels social discontent and creates political instability.²⁵ This in turn discourages investment and hinders economic growth. When income disparity is significant, some citizens will become wealth takers rather than wealth makers, reducing growth benefits of technological improvements. Others suggest that economic growth will be dampened when property rights are not secure.²⁶ Palda builds a model of an economy in which each individual faces a choice: to earn his living as a wealth maker, or to live by taking of others' wealth. Equilibrium prevails when no maker has an incentive to switch to the profession of taking, and vice versa.

At a critical level of property rights, the economy experiences a "takeoff" in which growth shocks amplify themselves. Government protection of property rights will enhance the incomes of makers, and entice takers to become producers.

²⁴ Harris, Richard G. (2002).

²⁵ Alesina and Rodrik (1994) and Alesina and Perotti (1996).

²⁶ Olson (1982), and Scully (1988, 1991).

Income redistribution would boost growth beyond the critical level of property rights. Otherwise, redistribution may encourage economic stagnation.

4.2 Growth and Equity

In a dynamic setup, the trade-off between equity and efficiency takes the form of a trade-off between equity and growth.

Chou and Talmain confirm that wealth redistribution can enhance growth while making everybody better off. They postulate a connection between wealth distribution and growth, through Labour supply in a setup without capital market imperfection. The social rate of return on investment exceeds the private rate, due to monopolistic competition in the product market. This wedge causes growth to exhibit positive externalities. Because of such externalities, even the provider of a wealth transfer can be better off.²⁸ They use a standard endogenous growth model with heterogeneous households' initial asset holdings.²⁹ Once an endogenous Labour supply is introduced, growth starts to be influenced by redistribution.

Initial wealth determines households' permanent income, which in turn determines their Labour supply, and ultimately the growth rate. The effect of redistribution on the rate of growth depends on the shape of the Labour Engel curve (the static supply of Labour as a function of static income). When the Labour Engel curve is concave, redistributing wealth from the rich to the poor increases growth. Growth is maximized when wealth is equally distributed among the households. The rich suffer a loss of wealth, but benefits from increased growth. The opposite is true when the Labour curve is convex.

Growth exhibits positive externalities, raising the real wage of all households. The welfare of each individual depends, via growth, on the wealth of others. Growth appears to exhibit the characteristics of a public good a la Musgrave. Obviously, such a model has room for Pareto improving redistribution.

The model can be extended to a two-sector model, where one of the sectors uses Labour to produce a homogeneous good. The Labour Engel curve would be replaced by the homogeneous good Engel curve. If it is concave, some redistribution would raise growth and be Pareto improving.

4.3 Empirical Studies

In the post-World War period many East Asian economies had relatively low levels of inequality³⁰ and grew at unprecedented rates. In contrast, many Latin

²⁷ Palda, Filip (1999).

²⁸ Chou and Talmain (1996).

²⁹ Grossman and Helpman (1991).

³⁰ Relative to countries of comparable income levels.

American countries had significantly higher levels of inequality and grew at a fraction of the average East Asian rate.

Economists have attempted to measure the relationship between inequality and growth³¹ by adding inequality as an independent variable to some variant of Barro's cross-country growth regression.³² They generally found a negative and just-significant coefficient on inequality, indicating a negative impact on growth.³³

In many of those models, the negative relationship depends on exogenous factors (aggregate wealth, political institutions, or the level of development). Many of them predict multiple equilibria, i.e., under certain initial conditions, inequality could have a positive effect on economic growth.

Several recent papers have developed models predicting a positive relationship between inequality and growth. However, they received less attention because all recent empirical work has reported a negative relationship between these variables.³⁴

There are, however, three potential problems with this empirical work. First, many of the estimates of a significant negative effect of inequality on growth are not robust.³⁵ Second, all of empirical studies suffer from two problems: measurement error either random or systematic in inequality and omitted-variable bias.³⁶ A third problem is that empirical work does not directly address the important policy question of how a change in a country's level of inequality will affect growth within that country.

Recently, economists addressed the above problems by using more consistent data to control for any measurement error and panel estimation to control for any time-invariant omitted variables.³⁷ A generalized method of moments technique was used for estimation.³⁸ Results suggest that in the short and medium term, an

³¹ Alesina and Perotti (1994), Alesina and Rodrik (1994), Birdsall et al. (1995), Clarke (1995), Deininger and Squire (1998), Persson and Tabellini (1994).

³² Barro and Sala-i-Martin (1995).

³³ Benabou (1996b) and Perotti (1996).

³⁴ Benabou (1996a), Galor and Tsiddon (1997a, b) and Saint-Paul and Verdier (1993).

³⁵ During sensitivity analysis (e., g., when additional explanatory variables or regional dummy variables are included) the coefficient on inequality often becomes insignificant, but remains negative (Deininger and Squire, 1998).

³⁶ Random measurement error could lead to an attenuation bias and reduce the significance of results. Systematic measurement error could lead to either a positive or negative bias, depending on the correlation between the measurement error and the other variables in the regression. Omitted-variable bias could be equally problematic, although it is impossible to predict the direction of this bias in a multivariate context.

³⁷ Forbes, Kristin J. A (2000).

³⁸ Manuel Arellano and Stephen R. Bond (1991).

increase in a country's level of income inequality has a strong positive correlation with subsequent economic growth.

The sharp contrast between this significant positive relationship and the negative relationship reported in the cross-country literature, is due to data quality, period length, and estimation techniques. Sensitivity analysis confirms that the positive relationship is highly robust to many permutations of the original sample and model. The one caveat is that these results may not apply to very poor countries, since inequality data for these nations are still limited.

5. Redistribution in Islam

5.1 Moral Bases, Significance and Limitations

Let us now take a brief look at the moral bases for redistribution as seen by some of the schools of thought reviewed above. We follow a sympathetic methodology that tries to discover from a Shari'ah point of view the merits of each view.

5.1.1 Utilitarianism

The Utilitarian motto "Promoting the Greatest Good for the Greatest Number of people", as a social decision criterion, is Shari'ah Compatible. Needless to say "good" or "utility" is taken to be within the limits of *halāl*. In fact, the improvement of the human lot and the increase in human utility is perhaps the major economic goal of Shari'ah.³⁹

Utilitarianism, when combined with the assumption of diminishing marginal utility of income, produces the result that maximum utility in society is achieved by complete equality. However, complete equality runs the risk of complete destruction of incentives, i.e. Killing the goose that lays the golden eggs. So, sensible Utilitarians call for more not complete equality.

Shari'ah of course never calls for complete equality as a general goal, and explicitly states that inequalities are part of the test of life.⁴⁰ Nonetheless, Shari'ah did commend, not ordain, complete equality in emergencies, as in a life threatening food shortage. Such emergencies are random and non-repetitive, so the negative incentive effect of complete equality does not apply here.

5.1.2 Atonement for Sins as Basis of Redistribution

It seems strange that this basis is relevant to both the libertarian stance and its polar opposite: Marxism. Libertarians focus on the process by which distribution is generated rather than the outcome or resulting distribution. If the process (say market activities) were fair, no interference would be justified, for the outcomes are

³⁹ (The Qur'an, 17:70).

⁴⁰ (the Qur'an, 6:165).

justified. The implication is that prior sin is the basis for redistribution, and to libertarians' capitalists are not sinners! Nevertheless, Marx said they were. To him their original sin is exploitation of workers, and the only possible atonement is for the tools of sinning (means of production) to be confiscated and redistributed to workers.

We have indicated earlier in the Introduction, Islam's position on this. It is interesting to note Islamic Sharī'ah and earlier religious traditions, did accept atonement for sins as one basis for some redistributions. This is explicitly stated in several verses of the Holy Qur'ān and the traditions of the Prophet (pbuh).⁴¹ One consequence of this is to reduce or eliminate the disincentive effect of redistribution on the givers, as they feel that by giving they are also helping themselves .

5.1.3 Redistribution as a Concession to the Disadvantaged

Rawls' result focuses on the welfare of the least advantaged. This is welcome morally and resonates with the Prophet's (PBH) injunction "Seek for me the weak, for sustenance () and succour is bestowed on you because of [your caring for] the weak". This result is also intellectually admirable as it snatches a concession to redistribution from the jaws of selfishness that is assumed in all participants in Rawls' hypothetical game.

5.1.4 Exchange as an Islamic Basis for Redistribution

Redistribution is based squarely on Islam's worldview. God alone is the Creator and true owner of everything. Individual income and wealth are truly a trust and a test from God, even when it is seemingly earned with one's expert knowledge or the "sweat of one's brow." This is because one's own body, mind and faculties are themselves gifts from God. So are the natural resources, free or scarce, that man works with to produce wealth.

As a token of gratefulness, it is a duty of the well to do, accountable before God on the Day of Judgement, to moderately share with the needy and to help support public duties. Failure to do so individually and collectively has been described in the Qur'ān as transgression () and a corollary to disbelief in God and the Day of Judgement.⁴² Rejecting Qaroon's argument that wealth acquired for good reason (such as superior knowledge) absolves its owner from obligations, the Qur'ān puts forward a different justification: "...And do good unto others as God has done good unto thee."⁴³

⁴¹ See for instance the Qur'an 9:103.

⁴² (the Qur'an, 36:47, 68:16-31, 74:44, 89:17-18).

⁴³ (Al Qassass, 28:77-8).

Redistribution, though seemingly a one-way transfer, is often expressed in Sharī'ah as an exchange. Gratefulness now, atonement for sins, and reward in the hereafter, are for sure not market exchanges, but are exchanges nonetheless between each believer and God. When this point of view is internalized by economic agents, their motive for redistribution is stronger and their disincentives weaker.

5.2 Significance and limitations

Islamic Sharī'ah emphasis on distributive justice, surprisingly evident from earliest Makkan Surahs, is a culmination of earlier Divine revelations, only more comprehensive, realistic and clear. Distribution ranks quite high in Sharī'ah hierarchy of values, and is an explicit Qur'ānic criterion for evaluating an economic system.[as evident in Qur'ān 69:34, 89:18]. Refusal to share with the needy is considered transgression " ."⁴⁴

In Sharī'ah, redistribution is intended to serve three goals:

- Combating poverty, or need Fulfilment. This is the primary goal of redistribution in Islam and is one expression of the Divine verdict to Honour the children of Adam.⁴⁵
- Payment of *zakāh* and other charities is a purification to the donor.
- Reduction of inequality, is a secondary goal of redistribution. Islam is probably the only religion which has explicitly stated this goal and given it clear institutional backing⁴⁶ through transfers from the public treasury in addition to the payment of *zakāh*.

There are three significant constraints on redistribution that are often present and may be called redistribution dilemmas. They must always be considered in any feasible scheme for redistribution:

- Resources available for redistribution are never enough, because they are given free; there is always an excess demand for them.
- Redistribution could have a potential negative impact on work incentives on both donors and recipients. This may reduce future output (the size-of-the-cake problem. Economists traditionally emphasize this.
- The Qur'ān calls attention to another potential negative impact of redistribution on social cohesion and goodwill that is caused by: (1)

⁴⁴ (Al Qalam, 68:16-31].

⁴⁵ Al-Israa 17:70 : "We have dignified Adam's offspring"

⁴⁶ (Surah Al Hashr 59:7).

abuse of receivers by donors in words or deeds,⁴⁷ or (2) excessive redistribution. Both may create animosity and ill will.⁴⁸

We should keep the above constraints in mind while reviewing below how Shari'ah handles them in its redistribution strategy.

5.3 Strategy

Utmost Concern with Redistribution:

This is especially true of the first objective for redistribution, which is combating poverty. Shari'ah installed four major safety nets to relieve those who cannot fully support themselves of poverty: (a) intra-family maintenance, (b) *zakāh*, (c) public treasury () and (d) ad hoc taxation, in that order. A lower level safety net such as (c) is activated only when a higher-level one such as (a) or (b) is insufficient or inapplicable. This concern is also manifested in the multiplicity and comprehensiveness of the redistributive measures used.

Moral and Religious Suasion:

Islamic teachings inform and educate people to the moral superiority, rationality and justice of sharing with the needy some of the bounties that God granted to the wealthy as a trust and a test. When people are convinced of the fairness of redistribution measures and objectives, the negative impact on incentives, and evasion are both minimized. Otherwise, enforcement costs eat up a large chunk of transfer payments.

Realism

Shari'ah recognizes as legitimate, the selfish motives (preference of self over others, insatiable love for property and wealth) and tries to deflect rather than stifle them. Repeated reminders are made in the Qur'an and Sunnah that life on earth is transient, and that givers will be amply compensated in the Hereafter.

Moderation

Mandatory transfers are moderate. (For instance, *zakāh* is a flat rate of 2.5% on liquid and productive wealth), and needy relatives and the local poor have priority, thus reducing giver's disincentives. Heroic philanthropy even to worthy causes is generally not required. The Qur'an explicitly states that excessive mandatory transfers were not ordained for they would have uncovered latent animosities.⁴⁹

Increasing and Managing the Supply of Redistributable Resources

This is achieved by inducing people through faith, reward in the life hereafter, training and the authority of the state, to increase the grant of assistance. In fact, all

⁴⁷ (Surah 2: 263-4).

⁴⁸ (Surah 47:36-37).

⁴⁹ (The Quran, 47:36-37).

schemes of redistribution in Sharī‘ah have as their objective either to increase or to manage the supply of distributable resources.

Decreasing and Managing the Demand for Redistributable Resources

There are numerous texts of Sharī‘ah, which make it obligatory for the individual to become self-sufficient through his own efforts and to make his family independent from assistance from others, especially through seeking *zakāh* and charity (). The best known of these texts are the words of the Prophet (PBH) about *zakāh*: “There is no share in it for the wealthy or the able-bodied,” and “The hand that gives is better than one that is extended.” It was a part of the pledge () to the Prophet (PBH) of some of the Companions that they would not ask others for anything. He also described charity as “the filth of the people” to be shunned unless there is no way to avoid it.

The management of assistance is a matter of great importance. We have in the Tradition examples of objective and clear determination of the circumstances under which an individual is permitted to ask others for assistance.⁵⁰

Multiplicity of Transfer Instruments

Sharī‘ah uses a combination of redistributive tools to maintain flexibility and effectiveness. Multiplicity of instruments brings flexibility into the system, because each instrument has different economic, psychological and social effects.

- i. Voluntary, including *waqf* general charity, temporary donation of usufruct of real assets (), and the like
- ii. Compulsory and permanent, such as *zakāh* and the Islamic inheritance system.
- iii. Compulsory and temporary , such as support of needy relatives.
- iv. Occasional, including sacrifice at the time of pilgrimage, and on breaking the Ramadan fast, marriage, childbirth; atonement for sins, etc. Several of such transfers are not only for the needy but also for friends and Neighbours.

⁵⁰ Muslim narrates from Qabisah that the Prophet (PBH) said:

“Asking (charity) is not permitted to anyone but three: one who is burdened (with a debt) is permitted to ask till he meets it then refrains; one who is struck by a calamity which destroys his wealth is permitted to ask till he finds a support for sustenance, and one who faces dire poverty to the extent that three reliable persons of his clan vouchsafe that so and so is facing poverty. Such a person is permitted to ask till he finds enough sustenance. As for others besides them, O, Qabisah! It is illegal to ask; if one does so, he devours money unlawfully.” (Sahih Muslim, III, Tradition No. 113).

- v. From private wealth as all the above, or from the public treasury which is obliged to be the final safety net for need Fulfilment of individuals after *zakāh* fund is exhausted .
- vi. From private property as all above, or from certain forms of natural wealth that Sharī'ah designated as jointly owned.

Following the Course of Least Resistance

Voluntary transfers are very much encouraged by Sharī'ah because they have no negative side effects on donor's work efforts. Several Islamic instruments share partially this desirable property even though they are mandatory. Examples include (a) Sharī'ah guaranteed free access of all citizens to certain natural resources before private property is established on them, thus achieving distributive objectives in a way that meets little disincentive effects; (b) transfers after death through inheritance system, (c) the priority of the poor on certain non-tax revenues of the public treasury ()

A. Natural Resources

In an Islamic society, all citizens share certain resources, which are not supposed to be placed under private property. The first type that should be owned publicly is infrastructure, , including roads, bridges, land left for animal grazing, sea and river shores. The second kind is natural resources, , including (sea , river, rain and spring) water, pastures (growing in public land), and all mineral wealth (according to the Malikis) and fire fuel, like fire wood and coal. The extraction of such resources can be franchised to private concerns in return for a share. Exclusive reservations on public land to individuals or groups (enclosures) is unlawful, however.

Individuals are allowed to reclaim land, that is not currently owned or used by private or public entities, . Such land can also be franchised by the government to individuals, to reclaim and utilize for a specific period.

B. Indirect Redistribution Policies

Indirect distribution includes a variety of actions that promote wealth sharing among citizens. Those include:

- allowing others to use ones utensils, tools and jewellery for limited periods,

- loaning animals to others to use their services

- mutual permission of certain services and facilities to next-door Neighbours of land and residential housing.

C. Direct Redistribution: *Zakāh*

Transfers to the poor are probably as old as human community life. It is clearly present in Judaism and Christianity and has been mentioned as such in The Holy Qur'ān.⁵¹ Nonetheless, *zakāh* system in Islam has several advanced and unique features that are the more unusual if juxtaposed against prevalent religious thought and Practise at the time of the Prophet (570-632 CE)

Zakāh in Islam is an annual levy for the poor, obligatory on every Muslim who has a minimum of wealth. It has been counted by Prophet Muhammad (pbuh) among the five pillars of Islam.⁵²

Perhaps the first civil war in history to be waged specifically to assert the duty of the rich to pay transfers to the poor is the one that occurred in early Muslim history. Shortly after the Prophet's death, many tribes declared their refusal to pay *zakāh*. Abu Baker the first Caliph simply refused and waged a very risky war against them. That war was not waged by the penniless against the rich, but by the believers, that *zakāh* was a mandatory part of Islam against those denying this fact .

In most religious traditions we know of, religiously ordained charitable giving is expended on religious intermediaries (clergy), establishment and maintenance of places of worship, and on the poor and needy. *Zakāh* in contrast is strictly and explicitly earmarked in the Qur'ān primarily for the poor and secondarily for specific public needs.⁵³ All four schools of *fiqh* agree that *zakāh* may not be spent on building or maintaining mosques.

Islam eliminated religious intermediation completely and empowered each individual Muslim with authority to perform any religious or mundane task (Slaughtering animals for food, leading congregational prayers, performing marriages, preparing a dead person for burial, etc.) The only intermediary performer had been Prophet Muhammad (peace be on him) , as he has to receive Divine revelation and convey it to people. Even here, Shari'ah strictly prohibited the Prophet, his relatives and decedents from taking *zakāh* or charity.

Zakāh proceeds have to be strictly separated from the state treasury, which is not earmarked. In major contrast to debt slavery, which was Practised in many societies at the time, Shari'ah prevented imprisonment of a penniless debtor, and

⁵¹ The Qur'an explicitly quotes Jesus first public utterance while still a baby cuddled in Mary's arms (Peace be on both of them), miraculously announcing to the public: " I am a servant of God, He gave me the Book, made me a Prophet, blessed me wherever I may be, and enjoined me to pray and to [pay] Zakat throughout my life." See also The Qur'an, 19: 30-31, and 98:5.

⁵² "To establish prayer and pay Zakat..." is an phrase repeated numerous times in the Quran.

⁵³ (Surah 9:60).

the Qur'ān designated those in bondage and in debt as two of the eight types of recipients of *zakāh*.

Zakāh collection and disbursement are state functions in Islam, as implied by the Qur'ān and actually Practised during the Prophet's time and the four Caliphs after him. The state may wish to delegate to property owners the right to estimate their own *zakāh* dues and dispense them in whole or in part (as was done by the third Caliph Othman Ibn 'Affan). A Muslim is held responsible to God to pay his/her *zakāh* dues in full whether or not the state collects it.

Zakāh is a complete and unique system of redistribution. Its importance to Muslims is reflected in its being one of the pillars of Islam, whose denial would be tantamount to apostasy.

Zakāh System

1. The system of *zakāh* contains the following elements:
2. At the end of each year, a certain percentage is collected from all wealth including real and financial assets. The percentage is set either as a ratio to the asset value (like cash, jewellery, animal wealth) or its yield (buildings, except used by *zakāh* payers for their own residence, factories, titles to real assets).
3. The government sets two wealth limits. The first is considered the sufficiency line () which would be enough to provide for a satisfactory standard of living. The second is called the subsistence line (), which would be sufficient to provide an individual with his basic needs. Both limits would be set in light of the general economic conditions in the country as well as generally accepted conventions.
4. *Zakāh* would be levied on wealth over and above the sufficiency line, otherwise known to *fiqh* scholars as *niṣāb*.
5. Obviously, this requires a yearly account of the possessions of every Muslim to be used as a basis for *zakāh* calculation.
6. *Zakāh* can be collected either privately or by government, as will be detailed later on.
7. *Zakāh* proceeds are allocated with first priority given to the poor (), according to two principles: wealth maintenance and income maintenance.

Zakāh and Social Justice

The modern application of *zakāh* has drawn new opinions from scholars. Kahf quotes several of those who propose varying degrees of reform.⁵⁴ Sheikh Mustafa

⁵⁴ (Kahf, No Date 4).

Al-Zarqa called in 1984 for a review of certain aspects of the modern application of *zakāh*. He points out that the modern economic structure gave rise to new kinds of wealth not present when *zakāh* was originally decreed. He concludes that the texts of Qur'ān and *Hādīth* related to *zakāh* require a new interpretation and *ijtihād* in light of changing circumstances.⁵⁵ Sheikh Al-Zarqa concludes that all new types of wealth must be subjected to *zakāh* to keep consistency and justice in modern application.

Some economists proposed an all-inclusive system of *zakāh* where all wealth are included and where *zakāh* rates can be determined through the political process.⁵⁶ Others stress the need to review the *zakāh* system, especially that the way it is applied in Malaysia place most of its burden on Padi producers while property owners and high-salaried people escape it completely.⁵⁷ Others call for levying *zakāh* on all fixed assets used for business purposes.⁵⁸ Others call for a revamp of the concept of *niṣāb* and radical change in the coverage of *zakāh*.⁵⁹ Others call for nullifying the exemption of business fixed assets from *zakāh*.⁶⁰ Finally, Kahf quotes Al-Qaradawi proposing to impose *zakāh* on salaries and professional income.⁶¹

The list of scholars calling for new *ijtihād* for the modern application of *zakāh* is long and includes several distinguished names from both *fiqh* and Islamic economics. The main drive behind most comments in this regard is that the balance of justice has been tilted in Favour of owners of new kinds of wealth and against owners of traditional wealth. This also mars the measure of consistency in applying such an important economic tool.

As to the nature of *zakāh*, several quotations and Practises from Prophetic traditions clearly indicate its redistributive nature. It is a tool that aims mainly and most of all at narrowing the differences of wealth among the citizens of the Islamic State. This characterization has the consensus of many scholars.⁶² Yet, *zakāh* Fulfils other objectives too. It discourages keeping wealth idle, as well as holding monetary balances over and above transactions requirements. Such objectives come second to the objective of social justice. The following proposals regarding the scope and rates of *zakāh* present an attempt to pay attention to changing circumstances in modern times, while keeping in mind its main objective.

⁵⁵ Al-Zarqa, Sheikh Mustafa (1984).

⁵⁶ (Raquibuzzaman, 1987).

⁵⁷ (Salleh and Najah, 1980).

⁵⁸ (Al-Misri, 1986).

⁵⁹ (Abu Saud).

⁶⁰ (Al-Amin, 1988).

⁶¹ (Al-Qaradawi, 1973).

⁶² (Kahf, No Date 4).

Scope of Zakatable Assets

One detail we need to discuss is the scope of *zakāh*, or the assets and incomes that should be subject to *zakāh*. We can distinguish between three opinions in this regard.⁶³

The narrow opinion limits *zakatable* assets to agricultural products, livestock, mobile assets purchased for the purpose of resale, gold, silver, short term net receivables and money on hand.

The middle opinion adds earnings on fixed assets as well as on human capital, like wages, salaries and professional income.

The expansive opinion adds fixed asset themselves to the list.

We put forward for serious consideration the following twofold-opinion. First, all assets and incomes beyond the sufficiency line or *niṣāb* must be subjected to *zakāh*. Second, we cannot subject both an asset and its own income to *zakāh* simultaneously. Economists would agree that income on assets is growth by itself. They would also agree that all assets are potentially subject to growth. Therefore, all assets and their incomes satisfy the condition of growth. In addition, *fiqh* scholars provided two opinions regarding ownership. One says that *zakāh* is levied on "ownership ()" while the other says that *zakāh* is levied on property itself, or assets and incomes. The latter opinion justifies levying *zakāh* on public sector properties. Publicly owned assets are owned by all citizens, rich and poor. Their proceeds are also used for the benefits of all, and not exclusively for the poor. The rich have a nominal share in the public sector, which can be estimated and be subjected to *zakāh*. Therefore, we would call to subject all assets or their incomes to *zakāh*.

A further point in this regard is related to monetary assets that include debt and cash. Such assets in an Islamic economy are barren, i.e., they do not earn income.⁶⁴ However, they are potentially growing assets, if turned into income-earning resources. In contrast, all other financial assets are real assets, as they represent titles to shares in real assets. Investment deposits with Islamic banks, e.g., entitle their holders to shares in the return of an investment pool that contains real assets. All marketable *ṣukūk* are of the same nature.

Rates of zakāh

We can therefore classify all assets in an Islamic economy into three categories. The first includes barren but potentially income earning assets. Conventionally, this

⁶³(Kahf, No Date 4).

⁶⁴ Murabaha debt would include the profit margin or the markup of murabahah. But, once the debt instrument is created, it does not earn any further income and becomes a barren monetary asset.

category is limited to monetary assets but we would like to expand it to include jewellery, precious metals and stones as well as artwork. The second category includes the rest of financial assets as well as all real assets. The first category is by consensus subject to 2.5 percent *zakāh* rate. *Zakāh* on the second category requires further explanation. The third category is human capital.

We remember that *zakāh* on products of agricultural land was originally set at 10 percent for rain-fed and 5 percent for irrigated land. Notice here that the difference in tax rate reflects the difference in production techniques and cost. Techniques and costs change from time to time depending on technological changes. We can therefore interpret the *zakāh* rates originally set as an application of the neutrality principle, meaning that *zakāh* payment should not favour the use of rain land to irrigated land and should have allocative neutrality. This intention is further supported by the fact that the *zakāh* rate on mining is 20 percent. In order to keep allocative neutrality, we propose that *zakāh* would be levied on all assets in the second category at 2.5 percent to keep them at par with each other and with assets in the first group. Others call for extending *zakāh* collection to income emanating from such assets.

As to human capital, we can levy *zakāh* on its income only, that is on wages, salaries and professional income. Some call for the application of 2.5 percent rate on such income as soon as received. Others consider such payment provisional until the final account is made at the end of the year. Still others prefer payment of *zakāh* on what is left unspent at the end of the year, implying that *zakāh* would eventually be collected on savings from such income in the form of monetary, financial and real assets.⁶⁵

Zakāh Collection

Some countries establish a system of collecting *zakāh* through government agencies. Some others allow non-government institutions to collect *zakāh*. In addition, individual efforts to collect and distribute *zakāh* could be found in all Muslim countries.

In developing countries, where *shūrā* or democracy is still an infant, or at best an endangered species, people have little recourse to monitoring and controlling government actions. Besides, governments in developing countries maintain low levels of transparency. This could lead citizens to hesitate a lot before paying *zakāh* to government agencies. *Zakāh* evasion would be expected in this case to be as rampant as tax evasion in developing countries.

Zakāh, meanwhile, requires a sophisticated system of collection that would deserve the trust of both *zakāh* payers and receivers. We propose that such a system would include a government agency to which citizens would pay their

⁶⁵ Compare with Kahf, No Date 2.

zakāh on a voluntary basis. In addition, a network of community-based non-government organizations, which would be managed by *zakāh* payers themselves under strict rule transparency, and external auditing would collect *zakāh* on voluntary basis too. Competition would be expected between government and non-government agencies in terms of providing better service to the poor and more transparency to *zakāh* payers.

Such a system would gradually evolve with the development of *shūrā* into either a system that is fully managed by government or by non-government organizations. The system can change gradually from being voluntary into being obligatory, once *zakāh* payers are sufficiently assured of transparency.

In all cases, proceeds must be deposited in Islamic banks, to be provisionally invested, until they are disposed of by banks as income maintenance Cheques to the incapable or as financing of micro projects to be owned and managed by the capable poor. Rules must be set to govern such disposal whose application must be closely monitored.

How to Use Zakāh Proceeds

Zakāh is not a singly-policy system of tax and subsidy. It goes beyond the conventional concept of redistribution. There are two gaps that *zakāh* is designed to fill. The first is maintaining a minimum level of income to those incapable of working, or income maintenance. The second is maintaining a minimum level of wealth or wealth maintenance.

Rebecca Blank model defines such group as without individual agency. Because they have no capacity for response, they are mainly disabled individuals, the elderly or children and as well as the disadvantaged because of race, gender or ethnic discrimination as well as the orphans who are socially isolated by definition. Additional income to those groups will not cause an offsetting change in Labour supply.

We can therefore support this group through direct and outright transfers to provide them with their basic needs. In addition, the provision of services that improve the quality of their human capital sufficiently to make them capable of working should also be included in the income maintenance scheme.

The remaining citizens in the community should be able to work. In other words, they have sufficient human capital but they lack physical capital to make them productive. They need productive assets or more training, which they can use to produce enough income to support themselves as well as their dependents.

However, this group is not expected to understand the life of business and self-employment. If given productive assets, they may sell them and spend their value on consumption. We must therefore manage increasing their wealth in a way that guards against their retrogression into poverty.

One way to do this is to charge Islamic banks to identify micro projects for the poor and finance them with an earmarked portion of *zakāh* proceeds. The poor can own each project only provisionally until the project proves successful and starts to draw a flow of net income that enable the poor to support a reasonable level of consumption and save at least sufficiently to maintain the project. Ownership would remain under probation until a new Behavioural pattern is ascertained so that ownership could be turned permanent.

Impact on Poverty

Numerous studies have estimated potential *zakāh* proceedings in several countries. Estimates range from just under 2 to 8 percent of GDP. Actual proceeds, however, are much lower; they are generally less than 1 percent of GDP.⁶⁶

Table 1: Potential zakāh proceeds

Year	Author	Countries	% to GDP	
			Low	High
1973	Sami Ramadan Sulaiman	Egypt		6.1
1982	Muhammed. Hashim Awad	Sudan	3	6
1971	Muhammad Anas Zarqa	Syria	3	
1986	Monzer Kahf	11 countries	3.2	6.2
	Muqbil Zuqir	Saudi Arabia	2.7	
	Foad Al Omer	Kuwait	2.1	
2004	Mabid Al-Jarhi	Egypt	1.8	8

Obviously, the actual proceeds are disappointingly low. Al-Jarhi's estimate assumes *zakāh* evasion ranging between 10 and 35 percent of the wealth of the rich. Nonetheless, the lower range estimate far exceeds actual collection through official channels of .02 percent of GDP.

Reasons for disappointing performance include strong adherence to the narrow scope of *zakātable* assets in *fiqh* opinions, tendency to avoid *zakāh* payments through official channels, lack of awareness of the general public on the importance of *zakāh* and how it should be calculated and inefficiency on the side of *zakāh*-collecting agencies. Another important reason for low proceeds is that collection is officially confined to part of *zakāh* due. Once those problems are properly addressed, *zakāh* could play a much bigger role in narrowing wealth

⁶⁶ (Kahf, 1999 and Al-Jarhi, 2004).

differences, reducing poverty and enhancing human capital. All such results would finally reflect on better and faster economic development.

6. Conclusions

The economics of redistribution has drastically changed during the last three decades. The ad hoc treatment of equity in welfare economics is no longer acceptable. Meanwhile, the main body of economic theory that is based on the self-interest hypothesis is giving way to alternative hypothesis, including motivation by other-regarding preferences. Experimental economics has finally become in vogue and it is expected to introduce new and interesting developments into economic theory.

Fairness and justice models have proven capable of showing that redistribution can increase efficiency. The traditional equity-efficiency trade-off is becoming valid only as a special case. The positive relationship between equity and efficiency continues to gain theoretical support in the literature.

Models of impartiality, solidarity and priority have shown that Islamic values including justice, solidarity, fraternity and reciprocity are keys to efficiency when included in theoretical analysis. Such models cannot be attacked for being morally loaded, as they are considered within the acceptable limits of positive analysis. This goes a long way to exonerate Islamic economics from value bias. Islamic economists should no longer fear from being criticized by mixing religion with economics.

In this regard, we have always maintained that economics has never been value free. We can now claim that we are introducing the right values into economic analysis, as such values point to shorter and more direct paths to efficiency.

Theory has been able to use the new advances in clarifying the positive relationship between equity and efficiency to explain the positive relationship between equity and growth. This is an important conclusion for developing countries. Such countries can be more successful in their development efforts if they can improve the wealth distribution among their own citizens.

Empirically, the positive relationship between redistribution and growth is both significant and robust. Once data and Modelling problems are corrected for, the old suspicion that redistribution could be inimical to growth is no longer acceptable.

In the field of policy, redistribution is not just tax and transfer. It includes policies that improve the quality of human capital, especially through health and education improvements. A combination of policies is always better than one lonely policy.

Zakāh provides a combination of income maintenance and wealth maintenance policies to improve human capital and supplement it with physical capital so that

the poor becomes productive. Undoubtedly, this improves productivity for the whole economy and accelerates the speed of development.

Theoretically, *zakāh* proceeds appear to be sufficient for carrying out such a job. However, actual practise points to the opposite. The reason lies behind the insistence of policy makers in Muslim countries to apply a narrow scope of *zakātable* assets. In addition, the lack of a complete system of tax collection where both official and non-government channels can be effectively exploited is also a culprit.

Low *zakāh* proceeds can also be blamed for the lack of credible tax collecting system. Our proposals in this regard include establishing a government agency that competes with a network of NGO's in collecting *zakāh*. Proceeds must be given to Islamic banks for use in supporting the poor under strict rules and close monitoring.

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