

## A Treatise on Socioeconomic Roles of *Zakah*

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### Abstract

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. Capitalism and socialism at the extremes are characterized by the supremacy of self-interest and total state control, respectively. 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, employment and higher productivity (Kahf 1980; Metwally 1983; Khan 1984; Ahmad, 1985; Kuran 2006; Azmi, 2009 and Norulazidah, Ali & Myles, 2010. Additionally, *zakah* acts as an expansionary tool at lower income and discretionary tool at the higher income levels with a view to redistributing income, poverty and provision of public good for the benefit of the poor (Faridi, 1983). The paper argues that in view of the overwhelming empirical evidences in the literature, *zakah* is an effective tool for tackling socioeconomic problems of our modern times. It is recommended that the Muslim Ummah, especially in Muslim majority countries, should establish *zakah* institutions to improve socioeconomic condition of their people.

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

**Jel Codes:** E62, I31, P24, Z12.

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## 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>1</sup>, as well as opening up of more frontiers for effective resource mobilization, and utilization. These culminate into attainment of socioeconomic justice for all and a balanced society.<sup>2</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>3</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 indeed the entire economic system have strong inbuilt mechanisms for stability and control.<sup>4</sup> Thus, the pillars upon which the Islamic economic system of Islam is built 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>5</sup> of Islam and an omnibus instrument of economic stabilization. It is a form of Islamic tax, right of the poor<sup>6</sup>,

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<sup>1</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 is may not (merely) make a circuit between the wealthy among you". Qur'an 59:7.

<sup>2</sup> In an Islamic economic system, the institution of *zakah* incorporates proper balance between the extremes of capitalism and communism (Mawdudi, 1975; and Hairunnizam and Radiah, 2010).

<sup>3</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>4</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>5</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>6</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

which is not only capable of ensuring economic stability, but is chiefly applied as a tool of wealth creation and redistribution, poverty alleviation and a social insecurity antidote. Therefore, an optimum allocation of resources in an Islamic economy requires a balance between the moral and economic imperatives of the society, given its income, and the state of technology. In this regard, Shafi (1979) outlines 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 to have a right to wealth and for the wealthy in the society to discharge their obligation and to share their wealth (Q70:24-25 and 93:10); and to avoid concentration of wealth in the hands of few individuals (Q59:7). Furthermore, Faridi (1983) advances that the 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 the state and the model behavior of an Islamic economic system in the early period as the datum for theoretical projection of the future. These subsume not only the religious but the social as well as the economic aspects of human endeavors. Conceptually, socioeconomic pertains interaction between social and economic factors or indices such: occupational, educational income measures.<sup>7</sup>

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 paper is organized as follows: section one deals with introduction while section two 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.

### **1. 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 economic systems aside being purely materialistic in nature, push the four basic economic questions – what, how and for whom to produce, and who owns and controls the means or factors of production to the unmodulated forces of demand and supply and the machinery of the state, respectively. On the other hand, the Islamic economic system, in addition to the

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deprivation and to punish them". In addition, 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.

<sup>7</sup> The indicators most commonly used as measures of socioeconomic status were derived from Duncan (1961). A Socioeconomic Index for all Occupations, pp. 109-138 in *Occupations and Social Status*, edited by Albert J. Reiss, Jr. New York: Free Press.

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 established 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 the literature. Thus, as the pivot of Islamic fiscal policy, *zakah* promotes utilization of productive resources via empowerment of effective demand. Pioneering work in this regard include: Faridi (1983), Metwally (1983), Salama (1983) and Kahf (1983) in the compendium edited by Ziauddin.

Two strands of arguments in support of positive effect of *zakah* are: firstly, *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). Secondly, *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 causes depletion of idle wealth over time. Early scholars embedded these arguments within a static Keynesian model and came up with the conclusion that an increase in saving will ultimately be complemented by an increase in investment (Kahf 1980, Khan 1984). Similarly, Metwally (1983) and Azmi (2009) stress 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. Furthermore, the demand for investment at a given expected rate of profit would equally be higher.

Though Norulazidah, Ali and Myles (2010) misconstrue *zakah* as purely voluntary payment in their model of overlapping generations, the authors, using the concepts of *warm-glow* (the reward the payer expects from making *zakah* payment and *social custom* (the religious obligation behind contributions to *zakah*) results show that *zakah* could raise the capital-labor

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<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 aspects is missing in the welfare concepts of capitalism and socialism as they are both 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.

<sup>10</sup> Chowdhury (1983) 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.

ratio when it is motivated by the *warm-glow*. However, the *social custom* model could lead to a reduced capital-labor ratio as the rate of *zakah* increases. Earlier, Wahid (1985) applies the 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 and argues that *zakah* will leave employment unaffected.

Expediently, on the basis of different empirical studies: [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], it was projected that the institution of *zakah* serves as a unique philanthropic mechanism is capable of promoting participatory economic growth and development.

## 2. 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 consumption based on a static Keynesian framework – see Kahf, (1983); Metwally, (1983); Khan, (1984); Ahmad, (1985); Darwish and Zain, (1985). Moreover, Iqbal (2002) uses the Keynesian model to prove that although Metwally overestimated the effect of *zakah* on average propensity to consume (APC) and marginal propensity to consume (MPC), the net effect on consumption is still positive. This is in spite of call for moderation in Islam which may somewhat contract consumption. He further adds that aggregate consumption is a crucial component in the determination of level of income and prices and the stability of national income is linked to the stability of the MPC through the interaction of multiplier and accelerator coefficients. Similarly, Mannan (1989) found 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) argues 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 were based on the application a Keynesian model in Malaysia. In this regard, a *hadith* of 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). Meaning, when a wealth holder invests his hoarded wealth to evade a meagre 2.5 percent *zakah* rate, he is in actual fact rendering greater community service than what *zakah* would have achieved. More employment opportunities imply greater stimulus for growth and greater macroeconomic stability (Khan, 1983), Awad, 1985).

On their part, Sarif and Kamri (2009) extol the positive effect of *zakah* on national savings and investment and allocation of resources, stabilization and economic growth. On the effect of *zakah* on national savings, Metwally (1986) posits that though *zakah* may reduce savings when viewed in absolute income sense but increase it in relative sense. Karwai (2012) emphasizes the role of *zakah* 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> and coupled with the prohibition of *riba*<sup>12</sup> and hoarding<sup>13</sup> in the economy, both savings<sup>14</sup> and investment will steadily flow.

Unenviably, inflation, uncertainty, business-cycles, booms and recessions are inextricably features of a capitalist economy. Routinely, economic management invariably involve measure aimed at containing inflationary and deflationary pressures. Eloquently, Rab (2006) describes devaluation of currency as a deliberate attempt to create inflation to siphon real value of goods and services.<sup>15</sup> The author further argues that devaluation policy constitutes the worst fraud against humanity which breeds concentration of wealth, segregation of labor, underemployment and poverty. Therefore, *zakah* collection and disbursement act as automatic force that stabilize the economy. However, Islamic economists like Khan (1983) opines *zakah* expenditure is inflationary in nature in view of higher MPC among its beneficiaries, especially the *fuqara* and *masakin*. Meaning, unplanned distribution of *zakah* during period of rising prices could be counterproductive to the poor because of imminent inflation. Therefore, some economists proposed budget surplus during period of rising prices and budget deficit during deflationary period thus the need for optimal *zakah* distribution mix among the different beneficiaries.<sup>16</sup> Ultimately, *zakah* dampens both inflationary and deflationary pressures on the economy and prevents the economy from drifting into wanton recession.

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<sup>11</sup> Tax rates in the Capitalist economies are obscenely high. For instance, tax rate in Scandinavian countries and other parts of Europe reaches as high as 48 percent. 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 was 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 speaks on how the Almighty Allah distributes His bounties 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 at 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 time, Imam Shafi'i, however, favors equal division among the

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.<sup>17</sup> 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 is used in purchasing equities. On the other hand, an increase in the ratio during contractionary period will produce favorable expansionary effect since higher consumption oriented disbursement of *zakah* 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. The author further supports introduction of *Zakah* equity certificates and distribution of dividends the beneficiaries to promote production and dampen business-cycles.

### 3. Zakah as Instrument of Distributive Justice and Social Security

The inability of interest-based 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 achieve maximum effect on poverty<sup>18</sup>, provided it is allocated on the basis of the poverty rate<sup>19</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).

In spite of this, it is pertinent to emphasize that seeking for life sustenance is a religious duty on every abled individual in the Islamic state and that one should not unnecessarily constitute

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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.

<sup>17</sup> For instance, historians reported that when inflationary pressures appeared in the days of the Caliph Umar Ibn Khattab (RA) following receipt of *kharaaj* from the conquered lands in cash, the Caliph astutely instructed 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.

<sup>18</sup> This is evident in view of the fact that six out of the eight heads of expenditure on whom *zakah* revenue can be spent on have correlation with poverty in one way or another.

<sup>19</sup> El-Din (1986) summarizes the views of the classical schools of thought as: according to 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.

a burden on others.<sup>20</sup> 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>21</sup> Sadly (1990) emphasizes that when the Islamic mechanism of functional distribution of income through just factor pricing is implemented, distribution of income is expected to be more equal. When this is supported by the redistributive role of *zakah* as a compulsory transfer payment, income distribution will be more equal (Awad, 1989). Social justice, quest for sustainable security and equitable redistribution of income could be achieved through *Zakah*, *waqf* and interest-free loan systems (Ahmed, 2007; Cizacka, 2000; Raimi et al., 2013).

Thus, as a subset of public finance, distributive justice in Islam 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. 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 when the lump sum transfer discourages one from seeking for work.<sup>22</sup> Alternatively, some scholars favor the exhaustive expenditure approach through provision public goods 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 recipients and enhances future financial returns in terms of increased earnings.<sup>23</sup> Scholars interpret spending on social infrastructure projects as synonymous to spending in the '*fi sabeelillah*' (cause of Allah). Despite concerns by

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<sup>20</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 from seeking livelihood through hard work and say O God! Give me sustenance', for the sky will not rain gold and silver*.

<sup>21</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>22</sup> Shehatah (1989) argues that *zakah* will not affect work effort especially when it is given to able-bodied persons.

<sup>23</sup> In addition, Sadeq (1990) argues that *zakah* can raise the standard of living of the poor through improved healthcare and skills acquisition programmes and ultimately contributes to economic growth.

some scholars on *free-rider problem*, Imtiaz, Mandan, Niaz and Deria (1989) state that provided the problem can be minimized or when those not entitled to *zakah* can be made to pay, such infrastructure should be provided.

More broadly, the views of Allama Syed Rashid Riza and Sheikh Mohamoud Shaltout on what constitutes in the *cause of Allah* include public welfare expedients (goods) that may not only pertain to an individual and benefit of which does not accrue to an individual alone. Sheikh Hasanain Makhoulouf, *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 annual GNP. By way of 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 annual GNP constitutes 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) argue that the goals of distribution of *Zakah* therefore are; to decrease inequality, establish human rights, remove social injustice and empowerment of the poor people. The failure of the "Trickle Down" economic model in contemporary economics is very glaring as adjudged by poor economic conditions, especially of less developed countries. Evidence, for instance, shows 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, 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 which no doubt could come through *zakah*.

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-Muslims as well.

#### 4. 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 analyzes the allocative, stabilization and distributional functions of *zakah* on individual livelihood and at the level 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 people (needy and poor) with higher MPC, without impeding investments, raises overall productivity and improves wellbeing of the society. Secondly, as the economy grows and prosper, the challenge of maintaining economic stability emerges. The paper discovers within the context of Islamic economic broader principles: absence of *riba*, *profit and loss sharing* arrangement, *zakah* doubles as an effective economic stabilization instrument: an expansionary tool to provide income to those at the lower level, and a discretionary tool to those at higher income level. Furthermore, 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 Islamic principles of justice, fairness and equity, *zakah* plays the role of modern public finance: provision of social security, fighting inequality in the distribution of wealth, alleviating poverty, provision of socioeconomic infrastructure, promotion of mutual harmony and social cohesion, in the society (Awan, 1980; and Mawdudi, 1988).

In conclusion, *zakah* in an 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 promoting distributive justice and social security. Its proper application through efficient system of collection and distribution is capable of solving the challenges of our modern times. Accordingly, this paper calls the establishment of more *zakah* institutions and reinvigoration of existing ones in Muslim countries, especially in Nigeria and sensitization of *zakah* payers to be alive to their religious obligation.

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<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 ordered a beggar's name, despite being a Jew, to be included those entitled to a stipends from the Islamic treasury.

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