

# The Challenge of Poverty and the Poverty of Islamic Economics\*

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## Abstract

*In the past half century Islamic economics was eclipsed by Islamic finance movement. Gradually Islamic economics has taken a back seat without any economy to back it up empirically. Although Islamic finance emerged as an offshoot of Islamic economics and with the blessing and advocacy from Islamic economists, prevailing patterns of Islamic finance are markedly delinked from any broader developmental goals. Can Islamic economics step up to the challenge of poverty, or is Islamic economics itself suffering from poverty of substance? Those are the questions dealt with in this exploratory paper.*

## Introduction

Since the debut of *An Inquiry into the Nature and Causes of the Wealth of Nation* by Adam Smith,<sup>2</sup> a part of the world has experienced an unprecedented growth and prosperity. The economics of wealth accumulation seems to have steadily unfolded offering better standard of living to the majority of this part of the world. Smith's was an ambitious work, the impact of which Smith might not have fully realized. However, for much of the rest of the world, including the Muslim world, the benefit of Smith's contribution was limited, although it was due to no fault or limitation of Smith's works.

In 1968, from Nobel Laureate Gunnar Myrdal came another ambitious work titled *Asian Drama: An Inquiry into the Poverty of Nations*.<sup>3</sup> Instead of inquiring into the causes of wealth, Myrdal was inquiring into the causes of poverty. Although in comparison with Smith not as much time has passed in case of Myrdal, so far the challenge of poverty worldwide has endured. Muslim world owns a significant share of global poverty. While there are lessons to be learnt from the experience and knowledge-base of the developed world to alleviate Muslim world's pervasive poverty, the rise of the Islamic economics as part of a revivalist ethos of the twentieth century came with the promise to transform at least the Muslim world.

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<sup>2</sup> Smith, A. (1976) *An Inquiry into the Nature and Causes of the Wealth of Nations*, Oxford University Press.

<sup>3</sup> Myrdal, Gunnar. (1968) *Asian Drama: An Inquiry into the Poverty of Nations*, Pantheon, New York, 3 Vols.

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### **The Challenge of Poverty in the Muslim World**

According to the UN Millennium Development Goals (2005),<sup>4</sup> “the poor are defined as individuals living in households with command over no more than \$1 per day per person valued at international prices.”<sup>5</sup> This is example of an absolute poverty line, while most countries define their own absolute poverty lines as well. Globally, the number of people meeting this definition of extreme poverty was 980 million people in 2004.<sup>6</sup> It requires no elaboration that the Muslim world has a large part of that pool of people in poverty.

Islam being a universalist religion meant for the entire humanity<sup>7</sup> its agenda or solution regarding poverty is not limited to Muslims, but it embraces the rest of the world. However, in the contemporary context, that might be too ambitious. Indeed, we must evaluate the potential of Islamic economics to alleviate the challenge of poverty in the Muslim world rather than aim to embrace the bigger, global Islamic directive.

### **Background for the contemporary Islamic economics**

As a discipline Islamic economics needs to be placed in the context of the post-colonial Islamic resurgence, when the Muslim World was seeking its independence from colonial powers. Quite understandably, Islam was pivotal in the reawakening the Muslim World and galvanizing the popular support toward achieving political independence.

The same period in twentieth century also experienced a new ethos of Islamic resurgence led by a number of major Islamic movements that transcended national borders. These movements articulated and presented Islam as a complete code of life and within that context Muslims were reminded that it is religiously important to recognize that Islam has complete guidance and solution of all the social problems and not only they must seek such solutions from within Islam as a holistic source, but also Islam’s comprehensive guidance is superior to any other solution from the world-shelf.

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<sup>4</sup> The United Nations (n.d.). The UN Millennium Development Goals, retrieved on February 18, 2008, from UN web site, <http://www.un.org/millenniumgoals/>

<sup>5</sup> The United Nations, 2005.

<sup>6</sup> The United Nations (2007). The Millennium Development Goals Report, retrieved on February 18, 2008, from web site, <http://www.un.org/millenniumgoals/pdf/mdg2007.pdf>. Also see The United Nations (2005). *Handbook of Poverty Statistics*, draft, retrieved on February 18, 2008, from UN web site, <http://unstats.un.org/unsd/methods/poverty/PortalEGMJune.htm>.

<sup>7</sup> Qur’an: 3/Ale Imran/110.

The Islamization paradigm emerged to reorganize the Muslim society to place its political, economic, social, educational and all other aspects of life on the foundation of Islam. Such a grand project envisioned Islam in politics, in economy, in education, in culture and so on. 1970s saw a new impetus through petro-dollars, where an alliance of the ruling class of the oil-rich countries, particularly Saudi Arabia, and the Islamic movements around the world was forged. While the ruling class of the oil-rich countries was smart in using the alliance to project an Islamic veneer for the identity and legitimacy of these ruling dynasties, the class was also very careful not to let Islamic movements overpower its strategic interest in the Muslim world.

Thus, under a clear compromise, Islamic movements in many countries started participating in the political process to move their respective countries toward an Islamic orientation, without ever politically criticizing their petro-dollar patrons. An interesting case is Sayyid Abul 'Ala Maududi, the trailblazing founder and leader of Jamaat-e-Islami, who was a key figure in pushing Pakistan Movement toward an Islamic identity and aspiration. In one of his books *Khilafat wa mulukiyat* (Caliphate and Monarchy) he made a serious case that Islam and monarchy are incompatible. He even viewed the transition of the Rightly Guided Caliphate to the monarchy of Muawiya as a "counter-revolution" against the original revolution of the Prophet Muhammad. Yet, when he was given death sentence in Pakistan for allegedly inciting violence in the context of anti-Qadiani movement, he was welcomed to Saudi Arabia as a royal guest and ultimately he became the first recipient of the King Faisal Award for distinguished service to the Muslim World. The acceptance of the award remained a stain on his otherwise major contribution in the Islamic resurgence of the modern times.<sup>8</sup>

Jamaat-e-Islami was joined by another Islamic movement *Ikhwan al-Muslimoon*, founded by Hasan al-Banna in Egypt. These two movements in particular laid the intellectual foundation of the Islamization of knowledge program,<sup>9</sup> the scope of which included Islamic economics and finance.<sup>10</sup>

The initial development involved making a polemical case for the role of Islam in economy. It was argued that there are important prohibitions in Islam that Muslims must adhere to and there are also important collective goals that they must aspire to achieve. In this discourse the early Islamic economists of 1970s presented Islam as a superior and indispensable alternative to all other 'isms.

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<sup>8</sup> Farooq, Mohammad Omar. (May 16, 2004). "Maulana Maududi and the King Faisal Prize," *NABIC-L*, retrieved on May 12, 2008, <http://groups.yahoo.com/group/nabic-l/message/2929>.

<sup>9</sup> Al-Faruqi, Ismail. (1987). *Islamization of Knowledge General Principles and Work Plan*, International Institute of Islamic Thought, Herndon, Virginia.

<sup>10</sup> Hasan, Zubayr. (1998). "Islamization of Knowledge in Economics: Issues and Agenda," *IJUM Journal of Economics and Management* 1/6, pp. 1-40.

To make a comparison between Islam and other 'isms like Capitalism, Socialism, Communism and Fascism is something more than a mere putting old wine in a new bottle. The challenge of time Islam faces today points us the need for such analysis which can point out where Islamism excels the others in meeting certain goals.<sup>11</sup>

Islamic economics was conceived in the early part of the twentieth century as an antidote to socialism and capitalism—an Islamic response to what was perceived as God-less western ideologies. The emphasis was on justice. Freedom from colonial rule and all that it meant in terms of exploitation and oppression was to be accompanied by a return to Islam that stood for elimination of poverty and reduction in inequalities in the distribution of income and wealth. Islam would help securing these goals without socialistic regimentation depriving people of their freedoms and robbing them of their properties. Islamic economy would not allow labor to be exploited by capitalists and the environment to be despoiled by greedy profit seekers.<sup>12</sup>

Islamic economics also emerged as a vehement critique of the western colonial domination to which Muslims in general and Islamic economists in particular attributed the existing maladies primarily to the Western impact on the Muslim World.

By the late nineteenth century, much of the Islamic world had become western colonies, subject to economic exploitation and an imposed foreign rule, and were little more than prestige counters to be shown off or even traded at western-dominated diplomatic gatherings.<sup>13</sup>

Even without rejecting the Western heritage and relevance altogether, Muslim critiques commonly recognize the adversarial role the West has played against the colonized parts of the Muslim World.

The bearers of the new discourse neither reject nor accept the West uncritically. Ironically, total rejection, just like total acceptance, presupposes the West as a silent point of reference. What the bearers of the new Islamic discourse reject, in effect, are both the presumed centrality and universalism of the West, as well as its imperialism, which is closely linked to its claim of centrality. They reject the practices of spoilage, pillage and repression, that

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<sup>11</sup> Mannan, M. A. (1980) *Islamic Economics: Theory and Practice*, Sh. Muhammad Ashraf, Lahore, Pakistan, p. 57.

<sup>12</sup> Siddiqi, Mohammad Nejatullah (2006). "Shariah, Economics and the Progress of Islamic Finance: The Role of Shariah Experts," Paper presented at Seventh Harvard Forum on Islamic Finance, April 21, 2006, Cambridge, MA, Retrieved on July 24, 2008 from [http://www.siddiqi.com/mns/Role\\_of\\_Shariah\\_Experts.htm](http://www.siddiqi.com/mns/Role_of_Shariah_Experts.htm).

<sup>13</sup> Brown, Gary (16 Oct., 2001). "Mutual Misperceptions: The Historical Context of Muslim-Western Relations," Parliament of Australia Issues Brief 7, <http://www.aph.gov.au/library/pubs/cib/2001-02/02cib07.htm>.

were perpetrated by Western colonialism in the past and that take at present 'globalized' new forms that are no less brutal.<sup>14</sup>

The advocacy for Islamic economics and re-orienting the economies of the Muslim world on the basis of Islamic ideals and parameters were not merely on the basis of Islamic theological imperative. It was also based on the assessment that the economic teachings of Islam provided a superior alternative in addressing poverty and deprivation as well as achieving development and prosperity. However, notably, the emphasis was quite commonly on economic justice and general welfare of the society.

Muslim jurists have unanimously held the view that the welfare of the people and relief of their hardships is the basic objective of the Shariah.<sup>15</sup>

In the economic field, this implies achievement of economic well-being by removing all sufferings of starvation, poverty and other hardships through the satisfaction of all basic needs and provision of the items of permitted material comforts to lead a life of honour suitable for the vicegerent of Allah. The urgency of economic growth can be perceived from the present conditions of starvation, poverty, illiteracy and malnutrition in many Muslim countries.<sup>16</sup>

### **Poverty Alleviation and Islamic economics discourse**

One reason why the works of Adam Smith and of Gunnar Myrdal were juxtaposed in the introduction of this paper is because while Smith's was an inquiry into the "wealth of nations," Myrdal's was into "poverty of nations." The distinction of focus is relevant because Islam's economic teachings are more focused on alleviation of poverty than achieving affluence.

Islam values prosperity and happiness. It teaches the believers to aspire for bounties in both the worlds.

Eat and drink of the sustenance provided by Allah, and do no evil or mischief on the (face of the) earth.<sup>17</sup>

Our Lord! Give us good in this world and good in the Hereafter, and defend us from the torment of the Fire!<sup>18</sup>

However, Islam does not encourage affluence and extravagance that exist in the midst of widespread poverty, deprivation and inequality. Indeed, Islam does not want

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<sup>14</sup> Elmessiri, A. (2003) "Towards A New Islamic Discourse: Re-capturing the Islamic Paradigm," Islamonline, retrieved March 24, 2008 from <http://www.islamonline.net/english/Contemporary/2003/07/article04c.shtml>.

<sup>15</sup> Chapra, M. Umer. (1983). *Monetary Policy In An Islamic Economy*, Institute of Policy Studies, Islamabad, Pakistan, pp. 27-68; p. 35.

<sup>16</sup> Sadeq, AHM. (1990). *Economic Development in Islam*, Pelanduk Publications, Malaysia.

<sup>17</sup> Qur'an: 2/al-Baqarah/60.

<sup>18</sup> Qur'an: 2/al-Baqarah/201.

people to view or treat this world as the Paradise.<sup>19</sup> Any level of affluence and prosperity that is widely shared with the desired distributive effects is alright, but Islam's message is decidedly focused on removal of poverty, deprivation and inequity. It also teaches the believers to seek refuge in God from the afflictions of poverty.<sup>20</sup>

### **Poverty Alleviation: Our fuzzy historical narrative**

When it comes to history, we have a simplistic approach and attitude that borders on romanticization. Based on generally uncritical acceptance of our historical narrative, we have an entrenched tendency to regard poverty as something of our past. The narrative runs like the following.

Based on the Qur'anic revelation and the Prophetic leadership, a caring Islamic society was established. The Islamic state founded by the Prophet brought in reforms in people's attitude and institutional policies and frameworks to help those in poverty. Within the period of Hadrat Umar's rule poverty was addressed. The measure of this success with poverty was cited as qualified zakat payers used to roam the streets to find qualified zakat recipients, but were unsuccessful. There may have been some lapse in this accomplishment, as the caliphate turned into monarchy (an anathema to Islam), but during the rule of Hadrat Umar ibn Abdul Aziz (682-720 AD, whole period also known as a continuation of *Khilafat-e-Rashida*) poverty was eliminated again and the same kind of scenario – roaming zakat payers not finding eligible zakat recipients – was observed.<sup>21</sup>

Between such periods when poverty was eliminated and later reemergence of widespread poverty in the Muslim world, we neither have a historical account of what happened nor any analysis – theoretical or empirical - in this context. Indeed, there is hardly any analytical work explaining what kind of economic policies, framework and institutions led to this remarkable success. Was there any systematic program of poverty alleviation? Was there anything from the production side to help people overcome poverty and deprivation on a sustainable basis, or was it achieved exclusively or primarily through redistribution measures? If it is the latter, how much of it was impacted by the bulging resources in the public treasury (*bait al-mal*) from conquests and how much was it due to *zakat* as a poverty alleviation tool? If it was

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<sup>19</sup> The Prophet said: "The world is prison for the believers and paradise for the disbelievers." *Sahih Muslim*, trans. Abdul Hamid Siddiqi, Vol. 4, #7058, Sh. Muhammad Ashraf, Lahore, Pakistan, 1982.

The Prophet said: "Do not try too much to acquire property or else you will be absorbed by being too enamored with the world." *Sunan at-Tirmizi* (Arabic), Vol. 4, #2335.

<sup>20</sup> *Sahih al-Bukhari*, Tr. M. Muhsin Khan (Madinah, Saudi Arabia, n.d.) Vol. 8, #388.

<sup>21</sup> Al-Qaradawi, Yusuf. (1999). *Fiqh-uz-Zakah*, Trans. by Monzer Kahf, Vol. II, Scientific Publishing Center, King AbdulAziz University, Jeddah, Saudi Arabia, p. 46, citing Ibn 'Abd al-Hakam, *Sirat 'Umar bin 'Abd al 'Aziz* Damascus: Dar al Fikr print, p. 59.

the former, then we have little to benefit from that early experience to formulate any coherent and systematic program of poverty alleviation. Unfortunately, we do not have any relevant historical account or analysis to answer these questions, even though we have a tendency to readily draw a connection between *zakat* and poverty alleviation to the extent that often *zakat* is presented as a panacea for the problem of poverty.

Such romanticized historical impressions have another important implication. Believing that poverty was eliminated in the early periods of Muslim history, we do not view the root of the problem and challenges as internal. Instead, some blame exclusively or primarily the western colonial hegemony as the cause of economic devastation in the Muslim world. Some also blame ideologies or systems other than Islam (Capitalism, socialism, feudalism – all ‘isms’) for our maladies. Thus, the simple and straightforward solution that is often articulated is that we simply reject altogether the western and other thoughts outside the sphere of Islam and Muslims and try to establish Islamic welfare state to solve our economic problems.

### **Islam’s position regarding poverty**

Islam takes the issue of poverty quite seriously to the extent that it is acknowledged in the words of the Prophet seeking refuge from poverty (*faqr*) juxtaposing it with another thing he sought refuge from: *kufir* (disbelief).<sup>22</sup> Whether “poverty leads to *kufir*” or not as it is often cited, poor Muslims around the world are subject to Christian missionaries for aggressive proselytization and sometime desperate Muslims’ succumbing and converting is well documented. It is well known from Islamic history that during the earliest period of the mission of the Prophet, poverty was considerable during the early Makkan period,<sup>23</sup> and that it was mostly those from the poor, weak and disadvantaged segments of the Makkan society who responded to the call of Islam.<sup>24</sup>

The theme of the poor, weak and disadvantage is consistently emphasized in the Qur’an.

Not only did the Qur’an provide guidance for dealing with the poor; it also dominated much of the thought and behavior concerned with economic

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<sup>22</sup> *Sunan Abu Dawood*, Tr. by Ahmad Hasan, Kitab Bhavan, New Delhi, India, 1990, Vol. 3, #5071.

<sup>23</sup> “Poverty was clearly of considerable, even central, importance for early Islam itself.” Bonner, M. (2005) “Poverty and Economics in the Qur’an,” *The Journal of Interdisciplinary History* 35/3, 391-406; p. 392.

<sup>24</sup> Adi bin Hatim (r) narrates that the Rasulullah (s) said to me: “Beware! I know what is keeping you from embracing Islam. You are distracted by the thought that the people who are believing in this man (i.e., the Prophet) and *following him are the weak, the oppressed, and the poor*, and that the ‘big’ people of Arabia did not believe him and instead threw him aside and are not accepting him.” [*Musnad Ahmad*, Vol. 4, #19397]

activity. Indeed, poverty and economic activity were closely tied in early Islam. A kind of ‘economy of poverty’ prevailed in Islamic theory and practice.<sup>25</sup>

The Qur’an identifies two highways in the journey of life: one is a steep one leading to salvation. At the same time, the Qur’an deplores it that most people neglect this steep path (*aqaba*); instead, they choose the path of ease and convenience.

And (have) shown him the two highways?  
 But he hath made no haste on the path that is steep (*aqaba*).  
 And what will explain to thee the path that is steep?  
 (It is:) freeing the bondman (slave);  
 Or the giving of food in a day of privation  
 To the orphan with claims of relationship,  
 Or to the indigent (down) in the dust.  
 Then will he be of those who believe, and enjoin patience, (constancy and self-restraint), and enjoin deeds of kindness and compassion.<sup>26</sup>

The Qur’an, the Prophetic narration and legacy, as well as the period of the Rightly-Guided Caliphs show a remarkable sensitivity to the issues of the poor and disadvantaged. However, despite such sensitivities and awareness and the periodic progress in reducing poverty, especially as reflected during the time of Umar I and Umar II, poverty as a challenge requiring systematic solution is not as prominent a theme or issue in general in subsequent Islamic discourses. Of course, no other source is as explicit and staunch as the Qur’an on this matter.

There is a disparity, however, between the Qur’an and those [other] narratives. Whereas the poor—however defined—are the objects of urgent and repeated concern in the Qur’an, in the narratives, especially the books of sira and maghazi, they mostly are not, with a few exceptions. This difference in outlook on the poor is not merely an accident. As Hawting has recently argued regarding pre-Islamic<sup>27</sup> Arabian idolatry, the concerns of the Qur’an often genuinely diverge from those of the enormous body of narrative and exegetical materials that surround it.<sup>28</sup>

### **Poverty as a neglected challenge**

Is it possible that we simply lack the passion and dedication to marshal our collective ability to eradicate poverty unlike our passionate reaction and emotion, when

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<sup>25</sup> Bonner, 2005, p. 392.

<sup>26</sup> Qur’an: 90/al-Balad/10-17.

<sup>27</sup> The expression ‘pre-Islamic’ appears in this essay only in quotations from others. When various authors use ‘pre-Islamic’, they basically mean before the period when Muhammad became a prophet. Thus, it could be described as pre-Muhammad or pre-Qur’an. From the Islamic view-point, there is no ‘pre-Islamic’ period in human history, as Islam began with Adam and Eve and continued through the prophets all the way to the last Prophet and Messenger, Muhammad, as confirmed in the Qur’an. See 42/ash-Shura/13.

<sup>28</sup> Bonner, 2005, p. 393.

someone draws a cartoon or caricature pertaining to Islam or the Noble Prophet or writes a malevolent novel against Islam and its noblest personalities and symbols? While it is regularly repeated that Islam is against injustice, exploitation, deprivation and suffering and that historically Muslims have shown remarkable success in dealing with poverty, and linking this success primarily with the institution of *zakat*, the reality is that except some limited periods, poverty has been widespread in the Muslim world throughout history and rarely it has been dealt with as part of a systematic campaign of poverty alleviation.

The above observations may surprise many, since our *impression* about poverty as well as the role of *zakat* seems to be based on a romanticized reading of our history. Before we delve into the historical aspects of the issue, it is worthwhile to note that the emergence of Islamic economics and finance has been explained (and even advocated) due to Islam's challenge against injustice, exploitation, inequality and deprivation, and the basis for this advocacy is presented with reference to prohibition of *riba* and institution of *zakat* as one of the mandatory religious obligation. However, except for its level of rhetoric, contemporary Islamic finance and banking that has been experiencing phenomenal growth has become primarily a prohibition-driven industry with a legalistic bent, and almost delinked from real economic challenges affecting the majority of the Muslim world.

Even the field of Islamic economics has not quite picked up and focused on the challenge of poverty. Indeed, if the contemporary literature is any indication, poverty as an independent theme seems to have been ignored. For example, as much as the issue of development and growth are mentioned in the pertinent Islamic literature, focused attention to or studies of poverty is rather absent.

Khurshid Ahmad's [ed., 1980] book includes a rather comprehensive bibliography of Islamic economics, finance and banking. The bibliography, *Muslim Economic Thinking: A Survey of Contemporary Literature*, by M. Nejatullah Siddiqi<sup>29</sup> includes 700 entries under 51 subcategories over 115 pages, and poverty is not one of those categories. The same is true about Khan's book [221 pages] on annotated sources for Islamic economics.<sup>30</sup>

Indeed, Islamic economics is torn between those who seem to desire simply to 'Islamize' the current body of economic knowledge that is primarily western and dominated by Classical-Neoclassical-Keynesian thoughts and those who want to reject the conventional economics altogether. The priority of the first group seems to be creating an alternative paradigm in economics that takes the same conventional analytical framework and utilize it to develop something that would be consistent

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<sup>29</sup> Ahmad, Khurshid. (1980, ed.) *Studies in Islamic Economics*, The Islamic Foundation, Leicester, UK, pp. 271-272.

<sup>30</sup> Khan, Muhammad Akram. (1983) *Islamic Economics: Annotated Sources in English and Urdu*, Islamic Foundation, Leicester, UK. See Classification System, pp. 17-23.

with the *fiqhi* considerations of Islam. Again, poverty is not the focus of this dominant strand of Islamic economics and finance. One harsh critic of this mainstream Islamic economics and finance identifies this imitative approach as following:

[t]he authors replicate this current attitude among Islamic economists and financial experts towards an imitative Islamization of the Western praxis. The authors ask Islamic economic and financial experts to resort to Western methods of study and references in this area. They alert the reader to Western trends in economic theories relating to the study of interest rate, business cycle and long- and short- term volatility caused by the relationship between interest rate and monetary policy. The paper while undertaking a brief but succinct introduction to classical, neoclassical, Keynesian and neo-institutionalism views on the theme of interest rate and economic activity wants that Islamic economists and financial experts should emulate the quantitative methods being used in the Western economic tradition. The authors start off their article by stating, 'Rather than develop in isolation from Western literature, Islamic scholars would do well to exploit the wealth of supportive arguments found in Western literature.'<sup>31</sup>

While it is true that the current Islamic economics and finance has a serious and even imitative bias toward the conventional economics, the critic himself, Masudul Alam Choudhury, a proponent of Islamic political economy based on a *Tawhidi* paradigm, advocates a complete rejection of conventional western economics, especially that of neoclassical orientation. Unfortunately, he is also enamored with the mathematization of his *Tawhidi* paradigm,<sup>32</sup> without acknowledging or realizing that the standardized mainstream modern economics became divorced from the real world partly due to its pursuit of rigor and precision of the world of advanced mathematics.<sup>33</sup> Thus, even as a critic of the mainstream Islamic economics, Choudhury focused his works more on the theory, epistemology and advanced mathematical modeling than on the challenge of poverty and mapping out of relevant paths to solutions. Lest it is misunderstood, all such authors do *talk* about poverty in the sense that if we have Islamic economics, whatever they consider *proper* Islamic economics, poverty would be taken care of. Without constructing any new economics in terms of theories and models, the microcredit movement of Grameen Bank, acknowledging its limitations, has shown *a* path to addressing poverty. Alternatively, without any new economics, right before

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<sup>31</sup> Choudhury, Masudul Alam, (2005). "Islamic economics and finance: Where do they stand?" *The Islamic quarterly*, 49/4, pp. 247-280, citing Humayun Dar and John Presley April-June 1999), "Islamic Finance: A Western Perspective," *International Journal of Islamic Financial Services*, 1/1, pp. 3-11.

<sup>32</sup> Ibid.

<sup>33</sup> Dennis, Ken. (1995). "A Logical Critique of Mathematical Formalism in Economics," *Journal of Economic Methodology*, 2/2, pp. 181-99; Beed, Clive and Owen Kane. (1991). "What is the Critique of the Mathematization of Economics," *Kyklos*, 44/4; Nobel Lecture by Frederich Von Hayek, December 11, 1974, retrieved on May 28, 2008, from [http://nobelprize.org/nobel\\_prizes/economics/laureates/1974/hayek-lecture.html](http://nobelprize.org/nobel_prizes/economics/laureates/1974/hayek-lecture.html).

our own eyes several East Asian countries experienced their own economic transformation, reducing the incidence of poverty and enhancing the living standard of their populations. In contrast, the edifice of Islamic economics and finance, in all its variations, is focused on constructing a new paradigm, which is worthy and relevant, but taking up the challenge of poverty head-on is not central to their approach.

This lack of a poverty-related focus is not a contemporary phenomenon. Islamic works in general and Islamic economics-oriented literature in particular have not taken up poverty as a challenge that requires a systematic and direct attention. More importantly, our legacy of Islamic scholarship also seems to have not focused on poverty as such an issue. Indeed, the chroniclers of our history seem to have turned the history into annals of the elites and the powerful, not even adequately recording the conditions of the poor and the disadvantaged segments.

Adam Sabra in his study of poverty and charity in the medieval Muslim societies observed:

Despite the path-breaking work of a few scholars such as Claude Cahen, Ira Lapidus, and Sa'id 'Abd al-Fattah 'Ashur, we know remarkably little about the development of these societies before the twentieth century. This ignorance can be traced to two sources. On the one hand, the agenda of scholars of Islamic history has centered on the study of elites, that is, rulers and scholars. While there are many good reasons to study the role of elites in society, one often wonders what sort of society produced such elites. Another hindrance to the development of social history has been the absence, or perceived absence, of source material. ...

If social history has received little attention from scholars of the medieval Middle East, the study of poverty has received almost none, at least until recently. While Ira Lapidus included a chapter on the 'common people' in his *Muslim Cities in the Middle Ages*, and a few other scholars such as William Brinner and Eliyahu Ashtor have written articles of interest, the study of poverty as a subject in its own right is only beginning. Furthermore, despite the substantial literature generated on the subject of pious endowments, the role of charity in medieval Muslim societies has not been studied."<sup>34</sup>

Indeed, the scanty works on poverty studies in the Muslim world, on which Sabra had to rely for his own research work, are almost all by non-Muslims. This is particularly due to the urban focus of the previous historians. Also, notably, such lack of historical accounts of poverty in the medieval Muslim societies is in sharp contrast with the available accounts of other societies of the world.

One characteristic feature of medieval Islamic societies is the emphasis on the role of the city, to the detriment of the countryside. Our sources are overwhelmingly urban in origin and in the subject matter they treat. ...

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<sup>34</sup> Sabra, Adam Abdelhamid. (2000). *Poverty and Charity in Medieval Islam: Mamluk Egypt, 1250-1517*, (Cambridge University Press, p. 1.

The situation is a clear contrast with the importance of rural institutions of charity and with the evidence for rural poverty available to the historian of early medieval Europe and medieval China.<sup>35</sup>

Such paucity of focus on poverty is understandable in the historical context of a fundamental shift in early Muslim societies, which is also known as the “counter-revolution” reflected in the shift from a representative, accountable, participatory and constitutional governance (*khilafah*) to hereditary monarchy and dictatorship.<sup>36</sup> While the period of the Rightly Guided Caliphs (*khulafa-i-raashidoon*) was extraordinarily exemplary in terms of the public commitment to justice, egalitarianism and especially the empowerment of the poor and disadvantaged, by the time that period came to an end, within 50 or so years after the Prophet Muhammad, the power and control had shifted to individuals and clans/groups, who monopolized power, authority as well as resources, where, with some minor exceptions,<sup>37</sup> the governance gradually became elitist, exploitative and insensitive to the conditions of the mass. That’s why the period of the Second Umar (Umar ibn Abdul Aziz), lasting only three years or so, became another period of remarkable change to restore the populist, egalitarian foundation of Islamic governance, both politically and economically. However, he was soon poisoned to death and once again, and in a more lasting manner, the forces of counter-revolution prevailed. It is not the legacy of the Prophet and the Rightly Guided Caliphs, committed to the cause of justice, egalitarianism and welfare of the common people, but the legacy of this counter-revolution that shaped the subsequent history of the Muslim world and it still continues to shape today.

It should further be noted that the achievement during the early Islamic periods not to be able to find eligible *zakat* recipients must be understood in the context of the resources used for redistribution. Much of the resources that helped minimize the impact of poverty came from conquests and booties therefrom. While such distribution of booties reflects the government’s sincere and illustrious Islamic commitment to share the public resources toward the upliftment of the common people, this did not constitute any meaningful and sustainable poverty alleviation or eradication approach or strategy for two reasons. First, relevant anti-poverty programs must help the poor to increase their productive capacity leading to long-

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<sup>35</sup> Sabra, op. cit., p. 169.

<sup>36</sup> Farooq, Mohammad. (April/May 2002) “Islam and Democracy: Perceptions and Misperceptions,” *The Message International*.

<sup>37</sup> Murat Cizackca is quite generous in his assessment of the states in the Muslim world in providing for the masses. Cizackca, Murat (1999). “State as the Producer and the Alleviator of Poverty in the Islamic World,” paper presented at the CROP Conference, in Amman, Jordan, 1999. Throughout history, the governments in the Muslim world had played a positive role in trying to provide the basic needs for the masses. Comparatively speaking, their record might be significantly better than their counterparts in the non-Muslim lands. However, any dissatisfaction with the performance of the Muslim governments in this paper should be taken in the context of the standards of achievement set by the Prophet and the Rightly Guided Caliphs and the ideals the Qur’an and the Prophetic legacy call upon us to rise to.

term income earning opportunity. The redistribution programs during those periods did not serve that role. Secondly, the resources from redistribution coming not from increased and shared productive capacity, but from conquests cannot be a model of contemporary relevance. The Prophet did leave with us profoundly practical examples to help people become economically self-reliant, as exemplified in his guidance to a poor person to acquire an axe to gather wood and sell for income,<sup>38</sup> unfortunately, such examples were not taken meaningfully to systematically develop relevant programs.

As it is well known, Ibn Khaldun was a trailblazer in systematic study of social phenomenon, but essentially his approach and contribution were ignored, if not rejected, by the subsequent Muslim scholars. The West picked up the contribution of Ibn Khaldun and recognized him as the father of sociology. It is no surprise that Muslim scholars have not even attempted to understand the phenomenon of poverty in a problem-solving manner. Indeed, that understanding of any problem is a prerequisite to identifying its solution is not a common-sense precept that has been recognized and appreciated by our scholars and intellectuals, as reflected in the paucity of poverty-focused works.

Thus, we do not have any account of why poverty exists, or how widespread is poverty, or what alleviates or exacerbates poverty. *Asian Drama*, Myrdal's major work on the nature and causes of poverty, coincides with the emergence of contemporary Islamic economics. However, no Islamic economist to date has produced a similar work to understand the nature and causes of poverty in the Muslim world and beyond, as if either others' works were sufficient, or more likely that they are under the impression that they already know and understand the problem.

In 1943 the notorious Bengal famine claimed three million lives. A witness to that famine, Nobel Laureate in economics, Amartya Sen devoted his life to understand the problem. His work *Poverty and Famines: An Essay on Entitlement and Deprivation* was published in 1981.<sup>39</sup> In this book he demonstrated that the real culprit behind famine is not a lack of food, but built-in mechanisms for food distribution. No such work has been attempted by Islamic economists, not even applied, comparative works based on Sen's contribution to better understand the Muslim world, a vast part of which lives in poverty and is vulnerable to famine, sometimes chronically.

In the 70s two American anthropologist couples took residence in a remote rural area of Bangladesh for two years. As part of the research they studied the problem of food

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<sup>38</sup> Sunan Abu Dawood, #1637.

<sup>39</sup> Sen, Amartya (1981). *Poverty and Famines: An Essay on Entitlement and Deprivation*, Oxford University Press. Also, see Quesada, C. (2001) "Amartya Sen and the Thousand Faces of Poverty," Inter-American Development Bank, December 5, 2001. <http://www.globalpolicy.org/socecon/develop/2001/1205sen.htm>.

shortage as insiders - living in the community the way the community did. Their sociological study based on field experience is a remarkable narrative with a deep human sensitivity. Their work, published as a brief paperback *Needless Hunger*,<sup>40</sup> drives the point home that there is not a problem of food shortage in terms of production, but there is a serious and fundamental problem of distribution. They also found that the foreign aid pouring into the country had a detrimental effect as it actually consolidates the very elite who keep the majority, the poor, powerless and hungry.

Islamic economists have not taken up any such study to probe into the nature and causes of poverty and deprivation. This also reflects a profound shortcoming of Islamic economics in terms of empirical foundation that is rooted in the social reality.<sup>41</sup> Without any investigation or field study, they have a ready-made solution: *zakat* and charity. It is not uncommon to hear the argument that institute the *zakat* program effectively and the poverty will disappear just like it did during the period of Hadrat Umar and Umar Ibn Abdul Aziz.<sup>42</sup> Unfortunately, this also involves serious oversimplifications, some of which verge on myths.

First, the difficulty in finding eligible *zakat*-recipients during some brief early periods was not due to *zakat*. Rather, it was due to the conquests that made the *bait al-mal* or public treasury quite robust to undertake significant redistribution programs. Contrary to popular perception we do not have adequate information as to the proportion of collections for the public treasury that came from *zakat*.

[N]o period under study are the figures for the collection of *Zakat* available, nor can they be worked out. ... The total collection of *Zakat* cannot be determined for any period up to the end of the Umayyad rule. The historians and geographers have given valuable statistical details about the later period but they cannot be made a point of analogy, interpolation or extrapolation for want of information about as many factors as the changes in population, religion, land tenancy system, and other sources of income and the per-head average holding of wealth liable to *Zakat*.<sup>43</sup>

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<sup>40</sup> Hartman, Betsy and Boyce, James (1979). *Needless Hunger: Voices from a Bangladeshi Village*, Food First.

<sup>41</sup> Farooq, Mohammad Omar (forthcoming, 2008), *Toward Our Reformation: From Legalism to Value-Oriented Islamic Law and Jurisprudence*, International Institute of Islamic Thought, Herndon, Virginia; see the Chapter "Islamic Law (Fiqh) and the Neglected Empirical Foundation."

<sup>42</sup> Shirazi, Nasim Shah (2006). "Providing for the Resource Shortfall for Poverty Elimination through the Institution of Zakat in Low Income Muslim Countries," *IJUM Journal of Economics and Management* 14/1, pp. 1-28.

<sup>43</sup> Zaman, SM Hassanuz (1981). *Economic Functions of an Islamic State: The Early Experience* Islamic Foundation, Leicester, UK, pp. 182-183, 186. While the current research lends support to Zaman's assessment that socio-economic reality of the earliest centuries has

Thus, *zakat* might not be a panacea to reclaim the environment where we will roam in the streets again and would not find an eligible *zakat* recipient. Indeed, there is noticeable lack of early works that provide us with any consistent and adequate account and guidance about administration of *zakat*.

There has never existed a single source that offers an authoritative account of how *zakat* should be paid or disbursed. Accordingly, the system has never been applied consistently over either time or space. A source of immense controversy from the start, the application of *zakat* underwent transformations even during the Prophet Muhammad's own lifetime. Also, during Islam's first few centuries the application was never uniform. In view of this historical record, the current diversity in implementation is hardly surprising. Nor is it puzzling that the contemporary literature on *zakat* is riddled with inconsistencies and ambiguities.<sup>44</sup>

Secondly, it is commonly argued from the Islamic economic perspective that we need to have an Islamic State and governance, where *zakat* collection and distribution would be public sector task. However, historical studies of *zakat* indicate that except for early periods of Muslims, *zakat* has been organized privately or on a non-governmental basis.

[A]lthough *zakat* was initially collected and distributed at the state level, in later centuries, individuals often distributed their own *zakat* to those they considered deserving. In this respect, the payment of *zakat* came to resemble the way maintenance was provided by individuals toward their dependents with little intervention of the state.<sup>45</sup>

The Qur'an is silent on the enforcement of the *zakat* obligation and the disbursement of *zakat* funds. As such, it rules out neither the decentralized and voluntary system of the earliest Islamic years nor the centralized and obligatory system of the Prophet's final decade. This lack of specificity complicated the resolution of the disputes that turned deadly after the Prophet.<sup>46</sup>

[O]ver time the task for poor relief was left increasingly to pious foundations (*awqaf*) established by private individuals. Especially in the Ottoman Empire,

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not been adequately documented, there is a genuine need for fresh research into our history and scouring our historical records to have a better understanding of the pertinent issues in the particular context of Islamic experience.

<sup>44</sup> Kuran, Timur (2003). "Islamic Redistribution through Zakat: Historical Record and Modern Realities," in Bonner, M, Ener, M, and Singer A. (eds.). *Poverty and Charity in Middle Eastern Contexts*, SUNY Press, pp. 275-293; pp. 275-276.

<sup>45</sup> Mattson, Ingrid (2003). "Status-Based Definitions of Need in Early Islamic Zakat and Maintenance Laws," in Bonner, M, Ener, M, and Singer A. (eds.). *Poverty and Charity in Middle Eastern Contexts*, SUNY Press, pp. 31-52; p. 48.

<sup>46</sup> Kuran, op. cit., p. 278.

but also in earlier states, massively endowed soup kitchens, hostels, and schools made far greater contributions to poverty alleviation than any zakat-based transfer schemes. ... [O]ne can read major works on the economic history of these states without encountering a single reference to zakat. ... As for the paucity of sources, it reflects the lack of official commitment to enforcing the zakat duty. Although minor exceptions may be found, evidently the standard pattern was for the state to leave decisions regarding zakat transfers to the individuals.<sup>47</sup>

Since contemporary ideas in Islamic economics generally emphasize the requirement that zakat administration (collection and distribution) must be a centralized, public task, it needs to be recognized that there is no past consensus in this regard. The overwhelming practice was that it was not a public sector, centralized activity. Thus, if the Muslim world seeks to centralize zakat once again, there needs to be a new consensus.

Third, it is a common perception that *zakat* is meant for poverty alleviation. However, a closer study of *zakat* from the perspective of Qur'an indicates that it is more for "purification" of the resources of the qualified *zakat* payers than for any specific goal-oriented purpose. Indeed, this is one of the important reasons why the role of *zakat* has been more like palliative and it has never evolved into an instrument of systematic alleviation or eradication of poverty. It should not be a surprise then that most *zakat* payers are content with payment of *zakat*, without ever thinking about where it went or how it was utilized or whether it made any meaningful and sustainable impact on the life of the recipients.

The jurists who shaped Islamic law during Islam's initial few centuries touched, of course, on such questions as to how poverty should be defined, who qualifies as needy, and the extent of a poor person's zakat entitlement. But their answers did not create a consensus capable of channeling zakat resources toward the poor. Nor did they generate a widely felt obligation for wealthy individuals to seek out the poorest Muslims. In practice, as the Marcus study of Aleppo shows, voluntary zakat transfers could flow toward the most visible poor rather than toward the neediest. The rich could offer assistance to their own servants or to the beggars in their own neighborhoods and, without giving any thought to the challenges of overcoming the causes of need, consider their zakat duty fulfilled. This possibility explains, in part, why the Islamic world has never produced a major organized movement aimed at eliminating poverty.<sup>48</sup>

Fourth, corollary to the previous point, *zakat* is not exclusively meant for the poor. Indeed, only three of the eight categories strictly relate to the poor and needy. The other five (those who are engaged in zakat collection, those whose hearts need to be won over, those who are in debt, the wayfarer, and those who are in the path of

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<sup>47</sup> Ibid, p. 282.

<sup>48</sup> Ibid, p. 283.

Allah) may or may not have anything to do with poverty. There is also no consensus that the poor or needy has priority over other categories, especially if at any particular time all the possible categories effectively require attention.

[T]he Qur'an says nothing specific about the division of resources among these [eight] categories. In principle, therefore, some narrow segment of society could claim the majority of all zakat funds. Another potential source of disagreement lay in the criteria for assigning people to one category or another. Any warrior could demand assistance under the pretext that he was fighting for Islam. Likewise, even the wealthiest traveler could make a case for having the state treasury cover his expenses.

A disbursement rule that seems to have emerged under the fourth caliph Ali prohibited the use of one year's zakat revenues in some subsequent year. Subsequently, at the end of the second Islamic century, the view emerged that each year's zakat fund must be divided equally among the eight designated categories of expenditure.<sup>49</sup>

Obviously, equal distribution among eight categories would seriously limit the potential for using *zakat* for poverty alleviation, especially of the 'structurally poor' (discussed below).

Furthermore, how much *zakat* is to be allocated to the first two categories, *al-fuqara* and *al-masakin*, is not a settled issue either.

That there were significant consequences resulting from favoring one of the definitions over the other becomes obvious when we see how jurists decided the amount of charity that the poor were to be given. In general, those who defined poverty as need did not place a monetary limit on this amount, since needs vary among individuals. On the other hand, jurists who defined poverty in absolute financial terms generally allowed no more than a specified amount of zakat to be given to any one individual. The majority of Sunni schools—the Malikis, Shafi'is, and Hanbalis—took the former position, while the Hanafis took the later position.<sup>50</sup>

Given all these anomalies, what is the practical experience from implementing zakat programs in our contemporary time? Timur Kuran cites some examples of zakat program in Malaysia and it is quite an eye-opener.

Malaysia's federal structure assigns the administration of zakat to an office at the state level. In each state, collected funds are forwarded to the zakat office for disbursement. Here is how the zakat office in Alor Setar, the capital of Kedah, allocated its proceeds in 1970, according to its own official report: of the total, 53 percent went toward 'commendable measures' (which generally means religious education), 6 percent to people making a pilgrimage to Mecca, 2 percent to converts, and 22 percent as commissions to the zakat

<sup>49</sup> Kuran, op. cit., p. 278, referring to Snouck Hurgronje, "La Zakat," p. 164.

<sup>50</sup> Mattson, op. cit., p. 33.

collectors and central administration, *leaving a mere 15 percent for the poor*. Figures from the early 1980s show that disbursements to the poor ranged between 11 and 13 percent, with zakat officials and various religious causes claiming much of the rest. In Perlis, likewise, about 12 percent of the annual zakat revenue was going to the poor, the lion's share being set aside for zakat officials, the faculty and students of Islamic schools, and pilgrims. The amounts given to the indigent were minuscule. Those included in the list of recipients received between U.S. \$3 and \$19 a year--for many, less than the cost of traveling to the zakat office to collect the money.<sup>51</sup>

Even more importantly, the way many early jurists viewed *zakat* eligibility might be considered rather loose if the real incidence of poverty has to be addressed. For example, would a person owning a home and even a slave be considered poor and needy and thus *zakat*-eligible?

It is reported that Malik Ibn Anas (93/711-179/796), the eponym of the school, when asked if a man with a house and a slave can be given zakat replied, 'Houses vary. If it is a house whose value would not yield a surplus if it were sold so that with its price he could buy another house and still have a surplus that he could live on, then it is my opinion that he is given (zakat) and should not sell his house.' If there would be enough of a surplus, however, Malik said that such a man is not to be given zakat. It is same if he owns slave.<sup>52</sup>

This leads to an interesting anomaly. One of the *zakat*-eligible categories is slave and those in bondage, and *zakat* can be used to help them earn their freedom. However, if the slave-owners could also be needy and thus *zakat*-eligible, then *zakat* can be used for freeing the slaves and at the same time helping the slave-owner to keep the slave!

Fifthly, as strange as it may sound, there is no solid consensus on who is poor and needy, particularly the first two categories, the *fuqara* and the *masakin*.

Because al-*fuqara*' and al-*masakin* are both listed in [the] same verse, most early Muslim scholars believed that these must represent two different kinds of poor people. Resorting to various *hadith* ... and customary expressions of the Arabs led to numerous definitions—many of them completely contradictory.<sup>53</sup>

In an illuminating work, Ingrid Mattson, an Islamic scholar and the first female president of Islamic Society of North America, explains: "To enforce ... laws in a

<sup>51</sup> Kuran, Timur. (2004). *Islam and Mammon: The Economic Predicaments of Islamism*, Princeton University Press, Princeton, NJ, p. 25.

<sup>52</sup> Ibid, p. 38, referring to Sahnun ibn Sa'id al-Tanukhi (n.d.), *al-mudawwana al-kubra lil-Imam Malik*, 7 vols. , Dar Sadir, Beirut , 1: 295.

<sup>53</sup> Mattson, op. cit., p. 32. A more contemporary work dealing with classical zakat laws and applications in our time can be found in Yusuf al-Qaradawi's *Fiqh al-Zakat*, 2 vols., Al-Resalah Publishers, Beirut, 1977.

consistent and systematic manner, Muslim jurists needed to find workable definitions of *need* and *poverty*.”<sup>54</sup> Her conclusion includes this startling aspect: “In the earlier period ... absolute definitions of need seemed to disfavor the poor; in the later period relative definitions of need seemed to reinforce rather rigid status designations even more.”<sup>55</sup> How those definitions could *disfavor* the poor is a complex issue in itself that cannot be explored within the scope of this paper. However, if her observations are based on valid research, they raise more questions than answers. For those who harbor the conviction that we have ready-made, all-worked-out solutions in regard to *zakat* might find her following observation unsettling:

[L]ack of documentary evidence for actual practices and social change makes it impossible to draw firm conclusions on the basis of different legal theories. However, I conclude that at the very least a careful study of religious and legal texts needs to be conducted before arguments about the possible social or economic implications of the norms found within these texts can be made.<sup>56</sup>

An important implication of the above points is that if we are serious about addressing poverty, then we may have to approach afresh the issue of what is poverty line threshold.

Lastly, *zakat* may not be helpful or relevant to all the poor. Mattson makes a distinction between the structurally poor (those born into poverty) and incidental poor (those fallen from better conditions) and makes the case that traditional status-based approach to defining need and poverty might be less effective in addressing the challenges related to the structurally poor.

[I]f such status-based definitions of need are dominant, to the extent that those born into poverty (the ‘structurally poor’) are neglected, this discourse will contribute to reinforcing the material gap between the rich and poor. Such definitions can result in a system of charity in which those who are born wealthy are maintained in this position, while those who are born poor are not considered deserving of more resources to help them attain higher standard of living.<sup>57</sup>

Unless the issue of poverty and the ways to combat it are approached not necessarily in light of the earlier rigid and orthodox framework but afresh in light of the principles, values and norms of Islam, *Zakat* and other charities might be more suitable for alleviating the ‘incidental poor.’ Solving the problem of structural

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<sup>54</sup> Ibid, p. 31.

<sup>55</sup> Ibid, p. 47.

<sup>56</sup> Ibid, p. 48.

<sup>57</sup> Ibid, p. 48.

poverty requires much more than *zakat* and other charities; it needs broad-based economic development.

In making such an observation, I am not assuming that dispensing charity is the best way to diminish structural poverty. Indeed, it is likely that the structurally poor are better served by political stability and an economy based on vigorous trade—both of which were strongly advocated by Muslim jurists of the classical period. It is also possible that charity is most effective when it is directed toward the incidental poor: the elderly, widows, orphans, and others who have ‘fallen’ from more secure financial circumstances for a variety of reasons.<sup>58</sup>

Moreover, modern economies have changed fundamentally since the seventh century Arabia, which was primarily based on agriculture and trade. However, in any modern economy service sector becomes an important, if not the dominant sector. The traditional base to collect *zakat* that focuses on assets instead of income as well (net income, to be more specific) may leave many well-to-do people outside the scope of the base for collection of *zakat*, rendering *zakat*’s potential as a poverty-fighting tool significantly limited and ineffective.

Although none says that contemporary forms of wealth are exempt, one is hard-pressed to find details concerning stocks, bonds, vacation homes, collectibles, retirement accounts, or savings for a child’s education, to mention just a few of those that now carry major significance. Likewise, for all the specifics they provide on agricultural income, they avoid commentary on income derived from the industrial and service sectors—neither of which is negligible in any contemporary economy.<sup>59</sup>

Shirazi’s empirical work to determine the gap between resources needed for poverty alleviation and the resources potentially available from *zakat* is illuminating. Based on several scenarios and definitions of *zakaatable* sources, Shirazi finds that most poor countries do not have adequate domestic *zakat* resources to address the problem of poverty. His study suggests that global redistribution of *zakat* resources might be needed. Unfortunately, let alone the practical impediments to such suggestion, *fiqhi* positions, as usual, are widely divergent on the scope of such non-local distribution.<sup>60</sup>

It is not that contemporary discourses about *zakat* do not deal with these modern issues and complexities. But as soon as one delves into the details about *zakat* rules, especially applied to the modern context and derived in the classical tradition, one has the rude awakening to the widespread and substantive anomalies in such rules, from one school, scholar, community or organization to another. Shaikh Yusuf al-Qaradawi quite conscientiously and candidly explains the reality:

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<sup>58</sup> Mattson, op. cit, p. 48.

<sup>59</sup> Kuran, op. cit, p. 286.

<sup>60</sup> Shirazi, op. cit, p. 17, fn#13.

Muslim jurists differ on many details of *zakah*. Each has his own opinion and arguments, and there are sometimes contradictions among their interpretations, which leaves the majority of people in chaos and confusion about what opinion to choose.<sup>61</sup>

Since this paper is not about *zakah*, there are many more issues pertaining to it that need further examination when, from the perspective of Islamic economics, we strongly, directly or even exclusively link *zakah* as a solution to poverty. With no clear understanding of poverty as a socio-economic phenomenon, and with *zakah* (and other charities) advocated as the panacea for poverty where so little is definitive about *zakah*, we should not be surprised that poverty seems to have become an indelible feature of our collective existence. *Zakat* definitely has and can play a role in poverty alleviation, but it requires a fresh approach starting not from the end of *zakah*, but from the end of poverty as a problem and then mapping out a solution path in light of the principles, values and norms of the Qur'an and the Prophetic legacy.

### Conclusion

Even though the discourse of Islamic economics deals with the issue of poverty, but as presented in this paper, it deals so in a peripheral, marginal and superficial way. Islamic economics does not identify poverty as its primary focus. Rather, it has emerged as a counterpart to the conventional economics, attempting to define the axioms as well as analytical-policy framework.

Even though from the earliest days of the Prophet, pursuit of justice and strong empathy toward the poor and the disadvantaged have been a hallmark principle and, even though financed primarily through the booties from the conquest, the early history shows an exemplary commitment and effort to help the poor through redistribution programs, gradually the issue of poverty became a peripheral issue. No systematic program to confront poverty evolved throughout history.

While rhetorically one finds pious statements and articulations about anti-poverty stance in general literature on Islam and Islamic economics in particular, there is a tendency toward reductionism that if *riba* is eliminated and *zakah* is properly instituted, the poverty problem would be addressed.

Unfortunately, in regard to the challenge of poverty, Islamic economics itself suffers from conceptual poverty. As economics is not separate from the larger socio-political reality, Islamic economics cannot be either. That's why Islamic economics emerged as part of the revivalist movements in the Muslim world aspiring total Islamic change, including that at the level of state, politics and governance. However, without any meaningful achievement at that level, Islamic economics gradually has become a purely intellectual field, eclipsed by its own offshoot, Islamic finance and disconnected with broader economic development. As Mohammad Nejatullah Siddiqi, one of the pioneering elders among the Islamic economists, acknowledges and laments: "Consider the current focus of Islamic economists on Islamic finance

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<sup>61</sup> Al-Qaradawi, op. cit., Vol. I, p. xx.

and dearth of Islamic economic literature on poverty removal, inequality and development.”<sup>62</sup>

While Islamic finance has become very successful and is experiencing explosive growth, it is essentially a prohibition-driven industry, where the products and services are presented as *shariah*-compliant, but mainly in a legalistic sense. It is widely acknowledged that such prohibition-driven industry still has little to do with the real-sector economic problems and issues, including that of poverty.<sup>63</sup> The search for the “missing links” between Islamic finance and broader economic development is continuing.<sup>64</sup> The importance of this ‘missing link’ assumes greater importance, where the relevant fields are delinked from maqasid al-Islam and where Islamic finance as a field is marching ahead without parallel progress in social sciences in general and economics in particular from the Islamic perspective. Quite conscientiously, some leading Islamic economists are urging others to wake up to this “intellectual paralysis.”

The record of Islamic economic research so far has not been very promising. Islamic economists hardly did any better than those without any learning of social dynamics, specializing only in traditional Islamic sciences developed more than a thousand years ago. Hopes of getting better results by bringing the two expertise together by housing them in the same institution and/or seating them around the same conference table have not been very encouraging. The result is a kind of intellectual paralysis. What is worse is the exploitation of this situation by a section of the market to offer conventional goods in superficial Islamic wrappings in the name of Islam.<sup>65</sup>

Thus, it is not surprising that Islamic finance industry is growing, but without the desired impact on the socio-economic realities affecting the majority of the Muslims who live in poverty. Indeed, not only that poverty alleviation or eradication is not the focus of Islamic economics or finance so far, but, being prohibition-driven, it has neither come up yet with any creative ways to deal with the challenges of poverty nor has it meaningfully benefited from the contemporary experience in confronting poverty. Thus, the general attitude of the promoters of Islamic economics and finance toward Grameen-bank type microcredit projects has been either outright rejection or

<sup>62</sup> Siddiqi, Mohammad Nejatullah (2008). "Obstacles to Islamic Economics Research," Paper presented at the Seventh International Conference on Islamic Economics, Islamic Economics Research Center, KAAU, Jeddah, April 1-3, Retrieved on July 30, 2008 from [http://www.siddiqi.com/mns/OBSTACLES\\_TO\\_ISLAMIC\\_ECONOMICS\\_RESEARCH.htm](http://www.siddiqi.com/mns/OBSTACLES_TO_ISLAMIC_ECONOMICS_RESEARCH.htm)

<sup>63</sup> El-Gamal, Mahmoud. (May 23, 2007). “Incoherent Pietism and Sharia Arbitrage,” *Financial Times*; The News, “Islamic Finance can alleviate poverty in the Muslim World,” November 8, 2007, retrieved on May 13, 2008 from <http://www.thenews.com.pk/print1.asp?id=79419>.

<sup>64</sup> Ibrahim, Badr El Din A. (2006). "The 'missing links' between Islamic development objectives and the current practice of Islamic banking – the experience of the Sudanese Islamic banks (SIBs)," *Humanomics*, 22/2, pp. 55-66.

<sup>65</sup> Siddiqi, 2008, op. cit.

neglect to recognize its contributions, because Grameen bank is based on interest, which is considered *riba* as part of the *riba*-interest equation.<sup>66</sup> Recently, Islamic finance industry is also taking interest in microcredit projects, some Islamic economists<sup>67</sup> are making a strong case for Islamic finance industry to take closer interest in microfinance to deal with poverty, but it still remains peripheral to its overall commercial framework of *shariah*-arbitrage.<sup>68</sup> Also, there is some recognition that *zakat* has to be linked to the problem of 'structurally poor' and has to go beyond the traditional approach to utilize *zakat* as a band-aid for primarily incidental poor.

*Zakat* and income from *waqf* can be integrated into the microfinancing system to benefit the poorest beneficiaries. *Zakat* given to the poor can be used for consumption, asset building, and production purposes to complement funds of Islamic MFIs. These complementary funds can either be given as grants or interest free loans (*qard-hasan*) according to the needs of the beneficiary.<sup>69</sup>

Yes, they *can* be integrated, and there are welcome ideas and efforts to do so, but it does not mean that the effort is serious and adequate on the part of the Islamic finance industry to go in that direction in a systematic manner.<sup>70</sup> Indeed, let alone the praxis of Islamic Financial institutions, even the field of Islamic economic research is yet to rescue itself from its lop-sided priority. Siddiqi notes "the anomaly of Islamic economic research relegating poverty removal to the backburner and bringing investing rich peoples' surpluses for making them richer to the fore."<sup>71</sup> Furthermore, the issue of using *qard hasan*, generally understood or interpreted as interest-free loan, presents some anomalous conceptual and *fiqhi* challenges<sup>72</sup>.

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<sup>66</sup> Farooq, Mohammad (December 2007). "The Riba-Interest Equation and Islam: Reexamination of the Traditional Arguments" *Global Journal of Finance and Economics*.

<sup>67</sup> Ahmed, H. (2004) "The Frontiers of Islamic Banking: A Synthesis of Social Role and Microfinance," *The European Journal of Management and Public Policy*, [http://info.worldbank.org/etools/docs/library/240136/paper\\_IBs&Microfinance\(Dr.%20Habib\).pdf](http://info.worldbank.org/etools/docs/library/240136/paper_IBs&Microfinance(Dr.%20Habib).pdf).

<sup>68</sup> El-Gamal, Mahmoud. (2007). "Mutuality as an antidote to rent-seeking *Shariah* arbitrage in Islamic finance," *Thunderbird International Business Review*, 49/2, pp. 187–202.

<sup>69</sup> Ibid.

<sup>70</sup> Ahmed, H. (March 2002). "Financing Microenterprises: An Analytical Study of Islamic Microfinance Institutions," *Islamic Economic Studies*, 9/2, pp. 27-64; Ferro, Nicoletta. (June 2005). "'Value Through Diversity: Microfinance and Islamic Finance and Global Banking," FEEM Working Paper No. 87.05; Mhammed, Aliyu Dahinu and Hasan, Zubair. (April 2008). "Microfinance in Nigeria and the prospects of introducing its Islamic version there in the light of selected Muslim countries' experience," MPRA Paper No. 8127, Retrieved on July 18, 2008 from <http://mpr.a.uni-muenchen.de/8127>; Dusuki, A. W. (2008). "Banking for the poor: the role of Islamic banking in microfinance initiatives," *Humonomics*, 24/1, pp. 49-66.

<sup>71</sup> Siddiqi, April 2008, op. cit.

<sup>72</sup> Farooq, Mohammad Omar. (2008), "Qard Hasan, Wadiah/Amanah, and Bank Deposits: Applications and Misapplications of Some Concepts in Islamic Banking," paper presented at Eighth Harvard Islamic Finance Forum, Harvard University, Cambridge, MA, April 19-20.

Anyone studying Islam and the Qur'an cannot but be struck by its strong emphasis on and commitment to addressing injustices in the society and empowering the weak and the disadvantaged. Islamic economics may not have or need for mathematical sophistication, theoretical elegance or robust analytical apparatus, but to be relevant to the core values and concerns of Islam, it needs to focus on confronting poverty head on, intellectually and practically. This would require studying the problem of poverty in the Muslim world and beyond in terms of its nature, extent and causes. Then, taking poverty as a focus, solutions have to be mapped out and then tried. No perfect solution is available on a revealed basis. However, beginning with a focus on poverty, equipped with a meaningful and dynamic understanding of poverty, and trying out mapped out solution, our learning curve gradually can help make a serious dent to the challenge of poverty. Otherwise, Islamic economics as an intellectual field and Islamic finance as a practical field can grow and prosper, but the challenge of poverty would continue unabated and that would be the poverty of Islamic economics.