

Summary of 8.14 " Prohibitions of Riba (Interest) III/ Distribution"

In the 14th program we started by highlighting a few points pertaining to the previous discussion on interest and interest dealings which have been forbidden by Islam. We indicated that the prohibition of interest dealings in Islam doesn't necessarily mean prohibition of saving or investment and we have seen that there are many Islamically acceptable alternatives to dealing with interest that include investments, in a variety of ways. This includes partnerships, opening one's own business, buying common stocks from the market in permissible areas. The main point that was clarified was that there is an important principle in Islamic law that is called *al ghulm bi al ghurm* which means if one is exposed to profit they should be exposed to loss and if one can get small profit they can also get larger profit depending on the actual performance rather than any prearranged percentage. We also touched briefly on the function of a banking system under an Islamic economy. Banking is not canceled just because interest is not permissible but rather the function and role of a bank changes to a investment and mutual fund type of thing but not in the same way as they operate today.

Finally, there was a brief discussion on the question of consumption loans and government debt. Then we moved to the last issue of economic system which has to do with distribution. We said that in the matter of distribution the basic rule is that the government should not interfere in determining prices artificially and that the normal forces of supply and demand should determine the price unless there is a basic disequilibrium or exploitation in the market where the government may interfere to make sure that the basic needs of the people are met without undue exploitation. Also we addressed what happens if a person withholds basic food items that are needed by people and whether he can be forced to sell it. Again we said that if an emergency arises he may be forced to sell but not at an arbitrary price but at a fair and equitable price. After-all the Prophet has said that the person who deliberately withholds or monopolizes the market is cursed. This falls under both economic and moral teachings of Islam.

8.15 ﷻ ﷻ ﷻ Zakah and Distributive Justice

Host: What is the view of Islam on the use of a middle-person or broker?

Jamal Badawi:

In principle there is no problem with this. If a person has a function as a middle-person and is getting paid for it there is nothing wrong with it. There is one thing that Islam restricts which is people acting as middle-persons in order to exploit people's lack of knowledge and information. To put it in economic terms Islam insists on the free flow of information between buyer and seller. An example of this was reported in Bukhari that the Prophet (PBUH) tried to put a stop where a seller is on his way to sell his products and someone intercepts him before he reaches the market offering to buy it at a price and takes it and sells it at a much higher price. This was forbidden because the idea here is that the seller should come to the market first, find out what the going rate is for his goods and then determine how much he wants to sell it for. Otherwise any act of helping people with free flow of information is not restricted. In today's complex economy one can not do away with all middle persons but they can be reduced and provide open information.

Host: How does Islam attempt to achieve justice both in terms of distribution of commodities as well as in distribution of income?

Jamal Badawi:

The most important means is Zakah which I translate as Institutionalized Charity. Second, there is voluntary charity. Third, there is the possibility of additional taxes beyond the minimum required Institutionalized Charity. It could also be achieved through the law of inheritance which are basically some of the major means of achieving social justice and more equitable distribution of income in society. This not only covers equitable distribution of commodities but equitable distribution of income.

Host: What is the meaning of the term Zakah?

Jamal Badawi:

In the series about The Pillars of Islam in the seventh program we dealt with Zakah as a basic Pillar of Islam so we will refer to some of the material we covered there. Zakah is one of the Five Pillars of Islam which has been mentioned in the Quran in conjunction with prayers which is one of the most important requirements for Muslims. There are more than 80 verses in the Quran that mention it. It is mentioned that those who pay Zakah are rewarded by God and those who do not are punished by God. In the Quran in (24:56), (2:24), (9:34), and (51:15-19) we find vivid pictures showing Zakah as an institution in a truly Islamic Society. Zakah means purification and growth. It is purification because it helps purify one's self from selfishness and miserliness and it results in blessings. The blessings are not just spiritual but also growth and economic blessing. I am trying to emphasize that aside from any other aspect of Zakah it has to first be based on Faith in God, Love of God, the feeling of responsibility as the trustee of God on

earth and that whatever property we have is a trust given to us and we have to dispense of it in ways which are pleasing and acceptable to Him. Zakah or Institutionalized Charity is partly spiritual but it is not only spiritual which would make it like any religion which calls people to be charitable. Zakah in Islam is unique as it is a combination of the spiritual ethical aspect as well as the meticulous organization and institutionalization aspects which are social, political and economic.

Host: Why is Zakah more comprehensive than charity in other teachings?

Jamal Badawi:

A good reference that deals with this is a doctoral dissertation by Dr. Yusuf Al Qaradawi which appears in a two volume work which is one of the most comprehensive works on Zakah which is called Fiqh al-Zakah or understanding of Zakah. In this reference one can easily point out the social aspect of Zakah. In a way Zakah can be regarded as a sort of social insurance against involuntary unemployment, against the inability to work, against certain disasters or unfortunate events that may take place. This would give a feeling of brotherhood, solidarity in society which would reduce jealousy, would reduce class struggle, it makes members of society feel that they belong and enriches the feeling of belonging so that not too many people feel anti society and anti social and who might be driven to crime. In a way it is psychological also because it trains the individual to have feelings of social concern and to stop the apathy that is destroying societies today. It makes the person feel a part of the system. It is not like other pension systems because in many of those schemes it depends on how much one contributed and whether or not one contributed. In the Islamic system regardless of ones contribution one is entitled to this social security. Second, it could be regarded as a political system because Zakah can be regarded as a mechanism which joins the various segments of society and the various groups within society with the view of serving their interest and concern. Perhaps one of the most important elements of Zakah is economical. First of all the system of Zakah in Islam

is one of the important means of fighting one of the greatest enemies of mankind poverty which is an international problem. It tries to fight poverty without killing the individual initiative as it recognizes that people can have differences in their capabilities and talents. Islam doesn't insist on superficial and full equality where everyone must give the same amount. In the mean time it tries to work to reduce the gaps between rich and poor so that it allows for initiative but also looks after the needs of those who are in need. A second economic aspect is that Zakah being a regular annual determined thing provides for a stable source of income for the State to meet certain expenses and needs. A third aspect which is not as clear but is very important because of its economic implications is that by its very nature the system of Zakah forces the individual to invest his money and discourages hoarding of money. Zakah is imposed every year and if money is not invested one will keep paying the required charity on it till they lose it. This in a way provides strong inducement to use it and not withhold it from circulation. As we have indicated in previous programs many economists believe that this is essential for the health of the economy because if people keep wealth from being used then we get depression and many economic problems. When people invest their money this provides jobs and general prosperity in the economy. No wonder that we find many who study the system of Zakah in Islam (both Muslims and non-Muslims) conclude that the system of Zakah is quite unique and has never been preceded before by any other law or religious teaching in its comprehensiveness.

Host: Could you clarify the main difference between Zakah and Charity?

Jamal Badawi:

The reason that Zakah is mixed up with taxes is due to the fact that even though they have differences they also have some similarities between the two. There are at least three similarities. Both Zakah and taxes are compulsory. Second, both are collected by a given authority; i.e. government. Third, both are collected from members of society and are not collected because a specific service was received but is from members of society who are part of the total social solidarity. There are definitely basic and fundamental differences between Zakah and taxes. First of all, as indicated earlier the very term Zakah means blessing and purification and should be paid essentially as a matter of worship. This makes it quite different

from taxes, because if one feels that you are paying your fair share and you are doing it out of your obligation towards God you don't try to find ways to evade it like with taxes. We find an interesting example that was narrated in Ahmad and Al Tabarani Al Kabir when some individuals came to the Prophet Muhammad (PBUH) and he was not aware that they gained wealth and they said "We have this additional wealth and we would like to purify it, so please tell us how to pay Zakah on it?" This happens because Zakah is not something that the State imposes and people know that they do this out of worship and obedience to God. A second basic difference is that when we talk about taxes it is dependent on the government which is determined by the need of the country or by the whims of those in power. In the case of Zakah the Quran itself, which is the word of God, establishes the principles of it and the teachings of the Prophet determines a specific percentage of Zakah which nobody has the right to change. Zakah has to have a separate budget as it is directed to certain specified purposes as are specified in the Quran (there are eight categories) and is not automatically used by the State for other expenditures. A third difference is that the system of Zakah is much more stable and constant because of the lack of argument about the rate. We should add that an interesting feature of the system of Zakah in Islam is that it is money collected from those who are able to afford it and goes to the poor. In the system of taxation it is usually imposed on everybody and a big burden falls on the middle class and the poor. Taxes are sometimes a reverse role as those who are wealthy can get many tax breaks if they know how to play the game and in a way the poor finance the rich. In Islam Zakah is strictly taken from those who are able to in order to help those who are in need.

Host: Is Zakah based on capital or on income?

Jamal Badawi:

We can not say that the system of Zakah is an income tax because not every item of one's income is subject to Zakah. For example the part of one's income that is used for basic needs such as food, clothing, housing and transportation is not subject to Zakah. Zakah is primarily imposed on your net worth but avoids taxes which are imposed on capital. Many people say if you impose taxes on capital then you are discouraging people from saving or investing. This is not the case in Islam for three reasons. One, Zakah in Islam is imposed on property which is potentially growing. To clarify there is no Zakah due on the jewelry that a woman keeps for her personal use because this is something that doesn't give additional wealth but is there for her use. There is no Zakah on one's professional tools. There is no Zakah on one's principle residence or car. Even if you are a merchant you pay Zakah on articles of trade not on fixed

assets. Second, it is very modest and reasonable and is most commonly 2.5% and there is a minimum which is exempt and is usually estimated at about 85 grams of gold or the equivalent in money. I should add that there may be certain types of Zakah which are imposed on income that comes from agriculture or self employment. It is not exclusively an income or capital based tax.

Host: With today's economy there is no way that the government expenditures can be financed with only 2.5%, how do we respond to the skeptics?

Jamal Badawi:

First of all, the tax rates in Western economy of 25%-30% we are talking about income tax which is imposed on the income. In Islam Zakah is imposed on the net worth which is much more than and income that someone gets in a particular year. If for example a person has five or six high rises that he rents out he will pay Zakah on his net worth not just on the income. Historically speaking as we mentioned in a previous program during the rein of Omar bin Abdul Aziz near the end of the first century of Hijrah Zakah from North Africa was collected and there weren't enough poor people to claim it, which is why he instructed the local ruler to buy slaves and set them free. Historically, this did happen and I am sure that even today if we just took the Muslim world and Muslims are true their faith and everybody pays the 2.5% on their net worth I am sure not a single person would be left hungry or in need.

However, we are not saying that Zakah is the exclusive source of income for a government as there is money that can be collected on the produce of the land, Jiziah (the equivalent of Zakah which non-Muslims pay which allows them to share in the overall cost of running the State), property that no one claims or inherits and if need be there can be additional taxes beyond

Zakah.

Host: Is the 2.5% flexible and if so what is the basis for it?

Jamal Badawi:

Zakah is a stable thing and no one has the right to change it because it was given in revelation. If we open the door for Zakah to be flexible every government can exploit that and we would get unjust rulers who play around with it. This 2.5% is very reasonable, permanent and not excessive. In the meantime we find that Islam allowed a just government if there is a need for it and if the amount of Zakah is not enough. First, they have to start from Zakah and if it is not enough then they can move to other things. There are a number of evidences in the Quran that speak about paying Zakah and about being charitable which we find in (2:177). The Prophet (PBUH) said as is narrated in Al Tirmithi that in your property there is a claim beyond the amount of Zakah and this is a very sound and strong tradition. There are also additional texts that indicate that Zakah is not the bare minimum. At the same time there must be a genuine need for the additional funds beyond Zakah and the burden should be distributed in an equitable way and it should be spent wisely and done after the approval and consent of the people.