

# *The Feasibility of an Islamic Economic System in a Modern Economy*

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## ABSTRACT

*This paper examines the feasibility of an Islamic economic system in a modern economy. The contemporary economic system is sophisticated and very complex. Islam established the foundations of its economic system in the seventh century AC and its principles are deemed straight-forward and simple. So the question arises: How can such a straight-forward and simple system handle the complicated problems of a modern economy? This is exactly what I intend to answer here using the problems of poverty and inequity as an illustration.*

*Instead of talking about the problems in the world, however, I will discuss them in the context of the US, simply because this country is the most affluent, technologically the most advanced, and it has all the means at its disposal to eliminate at least the blight of poverty from its economy, although it chronically suffers from it. I will first show the nature of the problems in terms of poverty, hunger, homelessness, lack of medical care, and inequity in the distribution of income and wealth, in stark contradiction to the affluence of the country. Then I will demonstrate how the application of the Islamic principles could, within a very short time, solve these problems without at all stifling the prosperity of the society.*

*This conclusion, however, should not be misconstrued that Islam cannot deal with the problems of developing countries. During the early days of Islam, Islamic principles worked miraculously to solve these and other problems with the least amount of resources.*

## INTRODUCTION

**T**HE THEME OF THIS BOOK is the Muslim contributions to civilization. The contribution to economic progress made by the Islamic economic system is an important logical candidate for discussion here, for economic prosperity is one of the prerequisites for achieving scientific development. Given the constraint on space, however, I will limit myself to one important aspect of these contributions – economic justice and human development. I hope that this restricted presentation hopefully will help to clarify the content of my message to readers and so will offer an appreciation of the Islamic economic system in general.

Before delving into the subject, however, I need to describe the fundamental principle of the overall Islamic system, for Islam is not just a religion but a complete way of life and its economic system is only an integral part of the whole. Therefore, this discussion is divided into three stages. First, I will describe the basic Islamic principle of establishing and administering a system – social, economic, or political – and compare it with the basic tenets of contemporary systems. Next, I will deal with the concept of economic progress, distinguishing between growth and development and showing their implications for justice and human development.

The fundamental characteristics of an Islamic economic system will then be listed and their implications examined. Next, I will talk about the problems of poverty and inequity in the United States of America. Finally, I will show how easily the application of Islamic principles can solve these problems without having any adverse effects on economic progress.

## FUNDAMENTAL PRINCIPLE OF THE ISLAMIC SYSTEM

The preconditions for the functioning of any system and, more so, for it to make any contribution to civilization, are social and political stability and economic prosperity. There are two alternative ways to achieve these preconditions: imposing participation by coercion or inducing voluntary participation by winning the hearts and minds of the people.

The establishment of an elaborate and complex legal system and the use of strong-arm tactics for its implementation, coupled with a harsh punishment for non-compliance, is the systematic way of forcing participation. In this category, capitalism and communism (socialism) are the

two systems dominant in the contemporary world of ideas and practices. The Islamic system provides an alternative that functions and prospers with the dedicated voluntary participation of the members of society.

The fundamental difference between these two systems is their philosophy of how human life should be viewed and treated. The former – both capitalism and communism – consider human life to consist only of a body and a mind. The soul is completely removed from the system, leaving, supposedly, just the individual lives of the people, or its existence and role go completely unrecognized. Since the soul is of no value in society, the economy, and politics, people generally find very little use for it in their individual lives either. The members of this society thus gear themselves toward achieving only material possessions and power and their enjoyment, having little or no moral guidance and no consideration for the needs of the soul. In the absence of any ideal higher than material possessions and power, the Darwinian principle of the survival of the fittest then becomes the sole guiding principle for individuals in their competitive pursuit for material success in life. Under these circumstances, the trampling of the weak by the strong and the concomitant frictions and tensions are logical outcomes. Thus, these materialistic societies find no other option but to institute an elaborate legal system with stringent punishment for its violation and they depend solely on this legal system to maintain stability and insure prosperity. In the absence of any moral code of behavior required for the elevation of the soul (spiritual development), however, individuals generally abide by the law only when there is fear of getting caught. Otherwise, breaking the law for gaining material possessions and power is a common occurrence under these systems.

It is no wonder that although these societies achieve extraordinary material progress, yet they face similarly extraordinary social problems. This contention is illustrated by the high rate of economic growth achieved by state ownership and control in a communist system or by the allocation of most of the resources to a small group of people in a capitalist system to generate the engine of growth with simultaneously enormous costs to society. Society is forced to pay in the form of the loss of individual freedom in a communist system, the creation of extreme inequity in both systems, and generation of chronic poverty in a capitalistic system. While the harsh competition for insatiable material progress leads to intense conflicts of interests, the inequity and poverty generated create

the dissatisfaction resulting from the awareness of relative and absolute deprivation. The logical outcome again is a variety of difficult problems for the society to tackle. Society thus responds by enacting more laws, thus complicating the system further and making punishments for non-compliance harsher.

How harsh and stringent the legal system has become to maintain the stability of the social-political-economic system in such a situation can be illustrated by the extent of incarceration in the United States. In the early twenty-first century about seven million people are currently in prison, on probation, and on parole; that is approximately 3 percent of the total population. This method of punishment, however, cannot be said to have reduced crime to any significant extent, although it keeps the system functioning. Nevertheless, it costs \$70 billion a year to keep about two million individuals behind bars at the rate of \$35,000 per inmate. Note that this is only a fraction of the total cost of running the criminal justice system.

In contrast, Islam maintains social and political stability and attains economic prosperity by establishing an equitable and just system by the dedicated voluntary participation of the members of society. This is achieved, however, not by the threat of law, but by training individual members of society and helping them to develop the best possible human character. In this respect, Islam treats human life, unlike contemporary Western thinking, as consisting of three components – body, mind, and soul. All these three aspects are given equal importance in Islamic philosophy and practice for successful development of a personality with the best of human qualities, and therefore, ultimately, for the efficient functioning of the system. The importance of this balanced development of human life may be understood better by the fact that without the soul (spirit), the body is a piece of dead meat and the mind (represented by the functioning of the brain) is similarly decomposed and non-functioning. The soul, however, does not die: when an individual dies, the soul simply leaves the body and exists as a spirit somewhere in God's universe. While the body and the mind relate to the material aspects of human living, the soul provides the human spirit and thus relates to the spiritual side of human life. Both material and spiritual components comprise the full and complete human life, and therefore, the balanced development of both aspects of life is essential for successful human living.

This balanced development of human personality plays a very important role in the Islamic system in establishing and maintaining social and political stability and achieving economic prosperity, in essence, laying the foundation of Islamic civilization. Islam requires its followers to believe that life on this earth is temporary, that real life starts after death and is infinite, that the individual's deeds in this life will determine the quality of his/her life in the Hereafter, that there is a Day of Judgment after death when the rewards for good deeds and punishment for evil deeds will be handed out by God. More importantly, individuals are accountable to God for their own deeds, God is keeping a complete and perfect record of everything we think, say, and do, and this record will be produced before us at the time of judgment (think of it as a surveillance camera, though far better than ours). This aspect of Islamic faith almost completely removes the need for legal monitoring for the members of society are not only dedicated voluntary participants, they are also self-monitored. Thus, while the spiritual elevation of individual human life introduces self-monitoring of individuals' own behavior following the universal moral code of conduct, physical and mental development facilitates unimpeded material progress leading to the growth of civilization.

There are two important benefits that are derived from this process. First, self-monitoring eliminates, or at least, reduces the need for instituting an elaborate and complex legal system along with its very expensive monitoring system; second, it motivates every member of society to participate voluntarily in personal and community development. While the first frees huge amounts of society's resources – both human and material – for utilization in developmental activities, the second leads to economic development or more appropriately, human development. The latter aspect eliminates the social conflicts and tensions caused by the dissatisfaction stemming from extreme inequity and poverty endemic in contemporary systems. This again minimizes the amount of resources needed for conflict resolution and the administration of justice in the systems devoid of any role for the spiritual aspect of human living. The resources saved can be used for human development.

#### RELEVANCE OF ECONOMIC DEVELOPMENT

Economists have for a long time used the concepts of “economic growth” and “economic development” interchangeably. It was only in the late

1960s that they began to distinguish between them,<sup>1</sup> unfortunately only to return in the 1980s to emphasizing the importance of economic growth for prosperity and applying the policy of growth the world over. The only remnant of the recognition remains in the form of the human development index constructed and published annually by the United Nations Development Program.<sup>2</sup> Islam, however, recognized the importance of economic development for human development and applied the policy and achieved extraordinary results in the seventh century AC.

At this point, the meanings of growth and development need to be explained. Economic growth refers to the increase in per capita income accompanied by improvements in technology and changes in the structure of the economy from primary to manufacturing and technology-based production. In contrast, economic development means creating an environment for the realization of human personality to its maximum potential for every individual in society. Thus, economic development implies affording the members of society the opportunity to realize their human development to their fullest potential. In essence, development includes growth and adds a human content to it. Growth measures economic progress as the increase in societal income (wealth) without considering who is enjoying this wealth. On the other hand, development takes into account the implications of rising wealth for the general population concerning food security, nutritional standards, healthcare, longevity, education, etc.

Achieving economic prosperity by the state mandate under communism and by the allocation of most of the resources to a small business class under capitalism is a policy of economic growth. It is a fast way to attaining economic prosperity and technological progress. However, it takes place at a huge cost to humanity in the form of poverty, hunger, malnutrition, homelessness, unemployment, lack of medical care, lack of education, etc. The extreme inequity generated causes dissatisfaction and a lack of respect for the law, resulting in the incarceration of a large number of people. Furthermore, it is not only costly to society in lost productivity owing to workers' dissatisfaction and increased expenditure in the administration of the law, but also makes the system inherently unstable. The contributions by the system to civilization therefore face the constant threat of being lost. The disintegration of the erstwhile USSR illustrates the consequences of this instability.

The Islamic policy of economic development internalizes the policy of human development along with increasing societal wealth. This simply means that every member of society is afforded the opportunity to participate in the generation of wealth and to share equitably in the prosperity gained. Thus, economic development establishes a just and equitable system. Under this system, the economic prosperity and technological progress achieved are steady and their contributions to civilization are stable and less likely to be lost as a result of inherent forces of destruction.

This type of economic and human development is based on the Islamic policy of ensuring the dedicated voluntary participation of all by winning their hearts and minds. The just and equitable basis of prosperity produces steady and stable contributions to civilization, which are more or less permanent, unless external forces threaten to destroy them.

#### ISLAMIC ECONOMIC SYSTEM

An economic system is distinguished by the type of ownership and use of property, the nature of the exchange mechanism, the method of allocation of resources and distribution of income and wealth, and the role of society in modifying the outcomes. The contrast between the capitalist and the communist systems is clear and well known. The features of the Islamic system, however, need a detailed description, for the system is new to the modern world and it overlaps both capitalism and communism.

The ownership of property is a critical factor determining the nature of a system and needs to be addressed first. In Islam, God has created everything in the universe and therefore, God owns everything, including humans. The humans, as vicegerents of God on earth, are given the trusteeship of everything else – the right to use and preserve everything else for their welfare. This right to use, however, comes with duties and responsibilities. Unlike both capitalism and communism, Islam grants humans the right to use, not the right to own. The substantive difference being that the right to own grants the right to use in any way that the owner wishes, whereas the right to use puts restrictions and obligations defined by the owner. God, in Islam, has imposed elaborate restrictions on the use of resources and attached important obligations to that right. Islam, thus, introduces moderation into this important institution of private property and frees the society and its members from the tyranny of ownership of resources by either private individuals or the state. This right to use in

Islam, however, is granted to private individuals as in capitalism, not to the collective authority of the society as in communism. Society, however, is given the responsibility of insuring that the individual members discharge their duties and fulfill their obligations in using the resources. Therefore, although Islam grants individuals the right to use resources, it also insures their appropriate utilization by imposing duties and responsibilities on this right, and entrusts society with the authority to enforce them. Islam is thus a moderate blend of an individual's right to freedom, and the social authority's duty to regulate it, that is, a blend of capitalism and socialism.

Given the private right to use resources, the Islamic system functions by the operation of the market. Free private enterprise is at the heart of an Islamic economy, for it encourages initiative and drive, facilitates innovations, and rewards productivity. God declares in the Qur'an, "He it is Who created for you all that is in the earth" (2:29). The Qur'an enjoins, "When the prayer is ended, disperse in the land and seek of God's bounty" (62:10). These verses categorically suggest that the earth is for humans to explore and utilize. The Qur'an further says, "God has made subservient to you whatever is in the heavens and whatever is in the earth and granted you His bounties both manifest and hidden" (31:20). These verses ascertain the place of material well-being in Muslim life. In fact, Islam sets no limit on how much an individual can earn and spend; rather, it sets firm restrictions on how an individual earns and spends his/her income. The permissible and forbidden methods and activities of earning and spending are clearly stated. The Qur'an declares, "Allah has glorified trade and forbidden *Ribā*." (2:275). *Ribā* is a predetermined fixed return on loans, irrespective of whether the borrower makes a profit or a loss. This statement implies that although Islam encourages the productive circulation of income and wealth, it clearly forbids the unproductive accumulation of wealth and exploitative earning of incomes. Hoarding for the purpose of raising prices and gambling are examples of these forbidden activities.

Islam requires self-reliance on the part of every member of the society and discourages dependence on others. Two stories from the life of Prophet Muhammad convincingly illustrate the point. One day a man came to the Prophet for help. The Prophet, instead of giving him a handout, asked him if he had anything at home that he could spare. When

the man told him that he had a few kitchen pots that could be spared, he asked him to bring them to him. After the man brought the pots, the Prophet auctioned them to his Companions, gave some of the money from the sale to the man to buy food for himself and his family, and gave the remaining amount to him to buy an axe for cutting wood from the forest.

On another occasion, the Prophet noticed that a man was staying in the mosque, praying for days and going out only for the calls of nature. He also noticed that another man had been bringing him food everyday. So the Prophet called on the man and asked him why he was staying in the mosque all the time, the name of the man who was bringing him food, if he had a family and children, and who was taking care of them. The man replied that he wanted to worship God all the time, the man was his brother, he had a family and children, and his brother was taking care of them. After hearing all this, the Prophet said, "Your brother is a better worshipper than you are."

These two stories clearly suggest that dependence on others is not an acceptable way of living in Islam for people of ability. Self-reliance is admirable and therefore encouraged. Prophet Muhammad said, "Nobody has ever eaten a better meal than that which he has earned by working with his own hand."<sup>3</sup> The Prophet is also reported to have said, "If God provides anyone of you with an opportunity for earning a livelihood, let him not leave it unexploited until it is exhausted or becomes disagreeable to him."<sup>4</sup> These sayings clearly indicate the importance of economic prosperity in Muslim life. More importantly, the concept of worshiping God in Islam is broad and far-reaching guiding human behavior in this respect: living life on earth by following the commandments of God is a better way of worshiping Him. This insures participation by everyone in income generation and offers them the opportunity to explore their potential, and to make the best possible contribution to society.

In requiring self-reliance and participation in productive activities by every member of society, Islam insures that they enjoy an equal opportunity in acquiring complementary resources with which to work. The first and the most important complementary resource is human capital, that is, knowledge, and Islam makes the acquisition of this resource obligatory for every Muslim man and woman.<sup>5</sup> The importance of learning is also evident from the first injunction revealed by God to Prophet

Muhammad: “Read in the name of your Lord Who created. Created humans from a clot” (96:1-2). In addition to enjoining learning, God is also talking about the science of creation in this very first revelation. This strongly indicates that spiritual knowledge requires a proper understanding of the functioning of the material world. That this knowledge relates to material aspects of living is also evident from the Prophet’s instruction, “If necessary, seek knowledge in China.”<sup>6</sup> Islamic civilization is based on this role of learning in Muslim life, as is testified by the Muslim contributions to civilization as described elsewhere in this book.

In addition, Islam establishes important economic institutions to provide everyone in society with material resources so that nobody is deprived of the opportunity to participate productively. The institution of inheritance is one such institution. Unlike the Western institution of primogeniture, which grants sole ownership of the parent’s estate to the first child only, Islam grants inheritance rights to a large number of the members of the family. The members who are entitled to a share in the estate and their respective shares are clearly defined and predetermined by Islam and nobody has any authority to change them. Even the holder of the estate, unlike the Western system of granting rights to the owner to give his/her estate to whoever he/she desires, does not have the authority or even the right to deprive any member of his/her share by way of writing a will before death.

These injunctions and institutions, in addition to providing complementary resources to almost every member of society for productive participation, eliminate the potential for the concentration of income and wealth, on the one hand, and creation of poverty, on the other. The distribution of the estate among a large number of inheritors after the death of a relative attacks these problems at the root and reduces the potential for the creation of poverty. In addition, it reduces the chances of inefficient utilization of assets by large asset-holders, who might simply rely on unearned income, and it increases the productive efficiency of assets by innovative inheritors. Note that the larger the number of people receiving complementary resources, the greater is the probability of inventions and innovations in the system. Islam, thus, engages the largest possible number of people in production and thereby encourages efficiency, induces inventions and innovations, and facilitates economic prosperity. Most

of all, this prosperity is achieved in a just and equitable process by the increased circulation of productive resources in the system.

Islam, however, recognizes that there will always be some less fortunate people in society, such as those suffering from physical and mental disabilities, victims of natural calamities, the socially displaced, and the demographically and economically handicapped, such as orphans, widows, the elderly, the unemployed, etc. Here Islam deals with the problem at both individual and social levels to insure that, according to the Qur'an, "wealth does not circulate only among your rich" (59:7).

At the individual level, Islam requires the more fortunate to take care of the less fortunate in society. Prophet Muhammad said, "He is not a true Muslim who takes his fill and his neighbor goes to bed hungry."<sup>7</sup> This, however, is not prescribed as showing pity for the less fortunate, but as a way of expressing gratitude to God for making them more fortunate. As vicegerents of God on earth, every individual, including the less fortunate, has been granted a minimum of human dignity by Him. Therefore, this means of giving charity must also be dignified. In essence, God has granted the needy a legitimate share in the wealth of the rich. In this sense, the rich simply perform their obligation to (worship) God by giving a share of their wealth to the needy. Zakah, one of the five pillars of Islam, is one such obligation required of a Muslim. After some deductions, 2.5 percent of accumulated wealth is to be paid as a welfare tax at the end of the year. Although as a proportion of the total accumulated wealth this seems insignificant, I will show that this is a very potent economic instrument in eradicating poverty completely from society with the least impact on the holder of wealth.

Islam actually makes it a social responsibility for the community to eradicate poverty. The existence of poverty in society is considered to be an abominable sin for the community as a whole. The most serious sin in Islam is *kufr*, which means denying the Authority of God. Prophet Muhammad said, "Poverty is a sin worse than *kufr*."<sup>8</sup> This implies that poverty is not tolerated in an Islamic system, or more categorically, a system that tolerates poverty denies the Authority of God, and therefore, is not an Islamic system.

In conclusion this section can be summarized by saying that the Islamic economic system combines the beneficial characteristics of both capitalism and communism, yet is free of their undesirable features. The

application of free enterprise and market mechanisms along with the use of egalitarian principles ensures the system is both efficient and equitable. The absence of ownership rights over resources and of unrestricted authority for their use by both the individual and the state frees society from the tyranny of ownership and use. In this sense, the Islamic system is a balanced middle path – a moderate system devised for the benefit of humanity.

#### POVERTY AND DISTRIBUTION INEQUITY IN THE USA

To illustrate the effectiveness of these simple and straightforward principles of Islam in dealing with the problems of a complex modern economy, the absolute poverty and inequity in the distribution of income and wealth in the United States of America are a useful example. The United States is the most affluent country in the world today and has the most technologically advanced economy. However, the country suffers from a serious problem of chronic absolute poverty – hunger, homelessness, and lack of medical care, in spite of the fact that it has all the means at its disposal to eliminate this blight from its society. At the same time, it has a very high level of inequity in the distribution of income and wealth, which is becoming worse with time.

Absolute poverty is defined as the inability of a family to afford the minimum basic needs of life and therefore, a condition of living below the standard of subsistence. In the United States, an official poverty line is constructed based on this definition and all those falling below this line are defined as absolute poor. This poverty line is calculated as the cost of the least expensive bundle of vegetarian diet providing the minimum nutritional needs, multiplied by a factor of three to include the cost of the other basic needs of life – shelter, clothing, medical care, etc. The poverty line income used by the US government in 1999 was \$8,501 for a single individual, \$10,869 for a family of two, \$13,290 for a family of three, and \$17,029 for a family of four.<sup>9</sup> Based on these thresholds, the estimate shows that 32.4 million people or 11.8 percent of the total US population were in absolute poverty in 1999.<sup>10</sup>

The 1999 census figures also show that 42.6 million people, that is, over 15.5 percent of the total population do not have any form of medical coverage.<sup>11</sup> The Urban Institute (2000)<sup>12</sup> reported over two million homeless people in 1996. This figure continued to rise, and increased by 15 percent

in 2000 over that of 1999, according to the Conference of Mayors.<sup>13</sup> The Tufts University Center on Hunger, Poverty, and Nutrition Policy<sup>14</sup> estimates that 12 million people are chronically hungry, while more than 35 million suffer food insecurity (1997 figures). Note that families which are marginally above the poverty line can fall below the line at any time—hence they are also food insecure along with the poor. A US Department of Agriculture Report<sup>15</sup> shows that one in every ten US households suffers food insecurity.

This condition of poverty has serious adverse effects on human development. Lack of proper nutrition and medical care causes physical and mental debility, stunted growth in children, susceptibility to diseases, and ultimately, premature death. These effects are apparent in the human development index constructed by the United Nations Development Program. The United States has the highest infant and maternal mortality rate and lowest longevity for both males and females in the industrial world, although it has the highest per capita GDP adjusted for purchasing power parity.<sup>16</sup>

Why does the United States have such high levels of poverty and hunger problem? A look at the minimum wage figures can provide an insight into this situation. Assume that the minimum wage is \$5.65 per hour and that an individual works full time, that is, 40 hours per week and 50 weeks per year. The weekly earning will be \$226, assuming that \$26 will be deducted for social security, temporary disability, etc. the weekly take-home pay is \$200. This gives an annual income of \$10,000, which is less than the poverty level income for a family of two. Assume again that a one-bedroom apartment costs \$500 a month that will take away \$6,000 from the yearly income, leaving only \$4,000 for everything else. If food costs \$300 a month, a total of \$3,600 per year, only \$400 is left for the whole year for transportation, clothing, medical care, education, electricity, gas, phone, etc. – an impossible task. Poverty is the inevitable outcome.

How the low wage perpetuates the condition of poverty is clear from the trend in minimum wage over time. The US Department of Labor compiled a list of minimum wage figures for a long period of time.<sup>17</sup> This list shows that the real minimum wage in 1998 dollars, instead of going up, has actually gone down over the years. In 1968, the minimum wage was \$7.49 (in 1998 \$). It fell to \$6.19 in 1977, \$4.40 in 1989, and rose

slightly to \$5.23 in 1997, but is still far below the 1968 figure. This is exactly the reason why hunger has been continually increasing over time. Research by Tufts University Center for Hunger, Poverty, and Nutrition Policy, shows that there were 20 million hungry Americans in 1985, which increased to 30 million in 1992, and 35 million in 1997.

One important aspect of the US economy's health needs to be highlighted here. The problem of poverty and hunger just described prevailed during a period of unprecedented economic prosperity – during the 1990s. The economy was growing steadily at about 4 percent annually with almost no unemployment, zero inflation, and very low interest rates.

Table 7.1: *Households' Share of Income and Wealth in the USA (1989) (percent)*

	Top 20%	Top 1%	Top 5%	Bottom 20%	Bottom 80%	Bottom 95%
Income	55.5	16.4	29.7	3.1	44.5	70.3
Wealth	84.6	40.9	62.8%	-1.4	15.4	37.2
Financial Wealth	93.9	48.1	72.2	-2.3	6.1	27.8

Source: Wolff, *Economics of Poverty*.

Who, then, is enjoying this economic prosperity? The figures in Table 7.1 give a clear answer to this question. These figures relate to 1989, the latest analysis done by Wolff.<sup>18</sup> The top 20 percent of US households enjoy 55.5 percent of the national income, a share greater than that of the bottom 80 percent of households, whereas the bottom 20 percent enjoy a meager 3.1 percent. The distribution of net wealth (assets minus debts) is even worse, the richest 20 percent receiving 84.6 percent (leaving 15.4 percent for the bottom 80 percent of households), whereas the bottom 95 percent receive only 37.2 percent. The shares of the top 1 and 5 percent are 40.9 and 62.8 percent, respectively. Worst is the distribution of financial wealth (financial assets minus financial liabilities), with 93.9 percent going to the richest 20 percent and 27.8 percent to the bottom 95 percent. Here the shares of the top 1 and 5 percent of the households are respectively, 48.1 and 72.2 percent.

Studies also show that this inequity in the distribution of income and

wealth increased further during the 1990s.<sup>19</sup> While the real wage has been decreasing, CEO pay has been skyrocketing – the average yearly CEO pay reached \$5.6 million in 1996, raising the CEO workers pay ratio to 209:1 from 44:1 in the 1960s. In addition, the tax burden has shifted continually from the rich to the middle class during the 1980s and 1990s.<sup>20</sup>

#### ISLAMIC SOLUTION TO POVERTY AND INEQUALITY IN THE UNITED STATES

The most important thrust of the Islamic system is the development of the human personality. Once that has been achieved and put in place, the rest becomes easy, for the injunctions of the permissible and the forbidden are obeyed. The implementation of a policy thus becomes a matter of informing the community about the policy and it is carried out by dedicated and self-monitored members of society.

In the absence of such a system, however, the implementation of an Islamic policy in the United States would have to depend on the existing system of external monitoring. Since personal material well-being is the only consideration in this materialistic secular society, the policy has a greater chance of success if it entails a smaller personal sacrifice than that already in existence. Therefore, I will give a brief description of the Islamic instruments for reducing poverty and inequity, though they might not be easy to use outside a fully-fledged Islamic system. I will then make a strong case for the introduction of the system of Zakah to solve the problems, for it requires a much smaller personal sacrifice and is easy to implement.

The introduction of the Islamic law of inheritance can go a long way in reducing inequity and poverty. Similarly, the application of the laws governing permissible and forbidden activities and the methods of earning and spending wealth can eliminate many sources of the accumulation and concentration of income and wealth and the concomitant generation of poverty. Gambling, the production, trade, and consumption of drugs, hoarding, and speculative manipulation of the market are examples of such activities. It is the consumers' behavior that determines what the market supplies and thereby provides the incentive for these activities. Islam places great emphasis on the consumption behavior of an individual as an economic entity. Correcting individual behavior with respect to the demand for drugs, for example, could eliminate the

problem of drug production and drug dealing. The United States might never have to fight drug wars in other countries and spend huge amounts of resources that could be easily used for fighting poverty at home.

More importantly, the United States will not have to spend huge amount of resources in fighting the drug war at home and in filling its adult correctional institutions with inmates. This will turn millions of American youth into productive resources, which, by itself will reduce poverty markedly, for the families and children of the incarcerated individuals are sentenced to poverty by their incarceration.

All these, however, require Islamic education and the development of Islamic personalities. In their absence, the Islamic institution of charity – both voluntary and obligatory – can play an effective role in eliminating poverty completely and thereby diminishing inequity to a certain extent. The United States already has a tradition of supporting the poor with the welfare system and people make generous voluntary donations. The problem is that the system is designed to support the poor, not to bring them out of poverty, thereby having the undesirable effect of perpetuating the problem. The introduction of Zakah could not only eliminate poverty, but also convert the poor into productive members of society. Moreover, the required payment is so small a percentage of the asset-holders' accumulations that it is not expected to have any adverse effect on the incentive to the productive accumulation and utilization of assets. This measure, coupled with the productive participation of the erstwhile poor, could lead to equitable prosperity, rather than stifling growth, which, it is asserted, can happen with conventional redistribution policies.

The zakah, translated as a welfare tax, is an obligatory wealth tax imposed and collected by society to help the less fortunate and to convert those among them who are physically and mentally able into productive members of society. It is only 2.5 percent of the assets accumulated at the end of the year after some deductions, such as the value of owner-occupied homes and of a small amount of jewelry regularly worn by women. The early Islamic society established by Prophet Muhammad practiced this instrument with great success. Indeed, within a few years of its institution, it was so successful that the system could not find anybody deserving of support. It is worth mentioning that the early Islamic economy was not at all affluent compared with the US economy today.

To see what could happen if the instrument of Zakah were institutio-

nalized, I will quote the figures estimated by Wilhelm<sup>21</sup> and used by Ackerman and Alstott<sup>22</sup> in their proposal for a wealth tax to replace the income tax. Using a household exemption of \$80,000, they show that a 2 percent wealth tax could yield the revenue of \$378 billion per year. Adjusting this figure for 2.5 percent zakah rate, total yearly zakah collection could be \$472.5 billion. Now, by dividing this amount among the 32.4 million poor, American society could pay \$14,583 per year to every individual, which is \$43,750 for a family of three. This calculation shows that society can eliminate poverty completely in just one year. This measure would give the families not just the support, but also enough to invest in education, attain occupational skills, and become productive. In a few years of its implementation, this social help might fully eliminate the need for any external support for these families.

To compare this zakah figure with the welfare expenditure in the country, take the two important programs mainly geared towards the poor: Aid to Families with Children and Food Stamps. Both federal and state governments spent in 1996 a little over \$40 billion on these programs, which is expected to be even smaller now as a result of the workfare reform. In any case, this expenditure is only a small fraction of the total zakah money collection, underlining the important role zakah can play.

This zakah program, in addition to eliminating poverty, would reduce the problem of inequity also. The importance of this measure cannot be ignored, because it would reduce inequity from the bottom up, rather than the conventional method of top down. It is the top down method to which the wealthy in society object and resist; the bottom up method is welcomed and facilitated by everybody in society.

One more point needs mentioning here. The country spends \$70 billion a year to keep about two million incarcerated behind bars. The elimination of poverty by the institution of zakah most probably will reduce the level of incarceration and save resources for productive utilization. This suggests that the zakah program could go a long way not only in solving poverty, but also other problems from which society suffers.

#### CONCLUSIONS

I would like to conclude this chapter by emphasizing that the Islamic economic system is not only feasible in a modern economy, but indeed is

also the answer to its problems. The modern system has become complex and is growing more complex so as to make the issues intractable only because it denies one very important aspect of human life – the soul (spirit). It directs the whole system toward a fierce competition for gaining as many material possessions and as much power as possible. In the Darwinian battle for survival of the fittest, more appropriately, the battle for accession to position of wealth and power for the fittest, in the absence of any kind of moral code of behavior, secular modern society creates many problems with which it is absolutely ill-equipped to deal. The only thing it does is to enact more and more laws with stringent punishment for violation, but to no avail, for the allure of material possessions and power is much too great to keep the aspirants to material success from violating the law.

The Islamic system is simple and straightforward enough for everybody to understand, and its spiritual guidance is persuasive enough to make humanity abide by divine injunctions that are universally beneficial for humanity. In addition, society is geared towards creating and maintaining the environment for both the material and spiritual elevation of everyone in society. If applied, this system could successfully eliminate the problems of the complex modern economy in simple and straightforward ways and could lead to economic development, rather than growth. The institution of zakah illustrates this possibility clearly and well.