

Economic System of Islam and Contemporary Pakistan

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Abstract

Economics is a fundamental part of every society, similarly, Islam is one of the dominant faith practiced all around the world and a complete code of life. It has given some specific guidelines regarding economics. The article discusses the core concepts of the economic system with reference to Islamic teachings. It covers concepts of Zakat, Riba and general guidelines about economic activity within a state, with reference to Pakistan. The paper has made the Quran and the state of Medina as the point of reference to understand the spirit of the economic system implemented in that milieu. And has tried to understand the contemporary basic economics affecting and influencing common life.

Keywords: *Zakat, Riba, Islamic Economic System, Usury.*

Human beings are called social animals as they live in a society and no society can work without an economic system which cater to every aspect of the daily lives of every member of the society. In short, no society can work without some sort of economic system. When we try to understand the economic system which fulfills the guiding principles of Islam then we first have to understand the spirit of Islam related to economics, i.e., Prevention of consolidation of wealth among a few members of society,

- i. The continuous movement of cash flow among the members of society to prevent inequality,
- ii. Right of family members on a wealth of the deceased as per mentioned relations (Law of Inheritance).

In Quran, it is mentioned that all wealth belongs to Almighty Allah, and those who carry it must spend it as vicegerent of Allah as they will be answerable in the hereafter for the wealth they were bestowed with.

One very important aspect of the Islamic economic system is Zakat. It is said that "Zakat" was obligated on Muslims in the 9th year A.H. But, the mention of Zakat in Meccan Ayahs reveal that the concept of zakat was there and Muslims were persuaded to pay it even before they were ordered to migrate to Medina. In the Holy Torah, the concept of Zakat is also mentioned but the "Masarif" are not mentioned in detail, the way as they are mentioned in the Quran. In Quran, Ayah 60 of Surah Tauba, Allah says,

إِنَّمَا الصَّدَقَتُ لِلْفُقَرَاءِ وَ الْمَسْكِينِ وَ الْعَمِلِينَ عَلَيْهَا وَ الْمُؤَلَّفَةِ قُلُوبُهُمْ وَ فِي
الرِّقَابِ وَ الْغَرَمِينَ وَ فِي سَبِيلِ اللَّهِ وَ ابْنِ السَّبِيلِ قَرِيبَةً مِّنَ اللَّهِ وَ اللَّهُ عَلِيمٌ
حَكِيمٌ

"Zakah expenditures are only for the poor and for the needy and for those employed to collect [zakah] and for bringing hearts together [for Islam] and for freeing captives [or slaves] and for those in debt and for the cause of Allah and for the [stranded] traveler - an obligation [imposed] by Allah. And Allah is Knowing and Wise." (9:60)

In the above mentioned eight expenditure sectors, we can see that Poor and Needy are mentioned separately which establishes the fact that they deserve more allocation i.e., 2/8 share or 25% in the total Zakat collection. The administrative staff is also eligible to be paid from the collection of Zakat. The fourth segment highlights the fact that the amount of Zakat can be paid for Goodwill purposes (by the state).

The fifth segment talks about paying for the release of captives. The sixth segment is about the people who are under some sort of liability and need financial assistance to come out of it. Another segment is allocated to spend in the path of Allah i.e. military expenditure and cost incurred in it. The last segment mentions the

special allocation for those travelers who are far away from their abode. It is the responsibility of the Islamic state to cater to the immediate needs of those people from the funds allocated for zakat.

Important Features of Zakat:

1. The right of collection of Zakat is held only by the STATE. Until the Shahadat of Hazrat Umar (R.A.) it was stated which used to collect zakat and redistributed it. During the time of Hazrat Uthman (R.A.), the vast area came under the rule of Muslims and to avoid the cost of collection of zakat in far-flung areas it was left to the Muslims of far-flung areas to distribute it by themselves as it would have cost more expensive than the amount gain after its collection. Though, Ushr collection was carried out as per established rule.
2. Zakat is collected on a specific amount of wealth which is held for one lunar year.
3. Though, the Zakat on crop yield is applicable as per solar calendar as per the rate of 1/10 of total production.
4. The livestock sector is also liable for zakat. For instance, on every 5 camels, 1 goat, etc.
5. The percentage of zakat on specific Nisab is 2.5% which is customary in nature. It can be increased by the state as per societal needs.
6. Ornaments of gold, silver, and other commodities are also liable under zakat. As per criteria, 7.5 Tola Gold, 52.5 Tola Silver.
7. Zakat can be given to non-Muslims, as well as its example are present during the times of Hazrat Umar (R.A.).

Challenges and Opportunities of Zakat Implementation in Pakistan:

- i. In the modern era, the emergence of metals like Platinum, Palladium Rhodium, etc., which are far more expensive than Gold or silver have no Nisab of Zakat deduction, there is a dire need of some criteria for deducting Zakat from the custodian of these precious metals.

- ii. After the establishment of 4 fiqhs of Islamic Jurisprudence in 9th C.E. There has been no further development in it. For instance, Nisab of Zakat on Gold, Silver, Crop yields and even livestock sector is available but there is no mention of Zakat on industrial output, oil and gas exploration, revenues of Marketing companies, financial sectors, stock exchange, ICT and transport to name a few.
- iii. As per the available mode of sharia, **one is liable to pay zakat on having 5 camels or 10 cows but there are no criteria for having 10 or more Heavy Transport Vehicles**, Light Transport Vehicles goods, buses, Lorries. Currently, transport sector makes 10% of GDP composition of Pakistan same as that of entire livestock sector including fisheries, poultry, horticulture, housing, etc but all these sectors have no criteria for establishing Nisab on these sectors and industries.
- iv. Under the 18th Constitutional Amendment, the subject of Zakat has been devolved to the provinces. Ministry of Religious Affairs and Inter-Faith Harmony has been assigned the task of collection and disbursement of Zakat funds to the Provinces/Federal Areas till next NFC under the CCI approved formula and a total amount of Rs. 8009.77 million was distributed in bulk amongst the Provinces/Federal Areas for FY2018.¹

Table : 15.7 Disbursement of Zakat		(Rs million)
Federal Areas/ Provinces	% Share	Allocated Budget 2017-18
Federal Areas	7% of total Zakat Collection has been distributed amongst federal Areas	
ICT	35.14% of 7%	197.024
Gilgit Baltistan	18.57 % of 7%	104.119
FATA	46.29 % of 7%	259.541
	Total Federal	560.684
Provincial	Share of provinces after deduction of above federal payment is as per their share	
Punjab	57.36 % of 93 %	4272.796
Sindh	23.71 % of 93 %	1766.178
Khyber Pakhtunkhwa	13.82% of 93 %	1029.464
Balochistan	5.11 % of 93 %	380.648
	Total Provincial	7449.086
G. Total		8009.770

Source: Ministry of Religious Affairs and Inter-Faith Harmony

Pakistan Bait-ul-Maal:

- v. PBM is significantly contributing toward poverty alleviation through its various, poorest of the poor focused, services and

providing assistance to widow, orphan, invalid, infirm and other needy persons, as per eligibility criteria approved by Bait-ul-Mal Board. During July 2017 to February 2018, Pakistan Bait-ul-Mal (PBM) has disbursed an amount of Rs. 2,429 million through its core projects/ schemes which is considerably higher than Zakat collection for the same period of the year.²

- vi. Pakistanis donate around Rs554 billion annually, according to a study by research-based advocacy and consultancy group Individual land. Out of this, 72% is donated during Ramazan and Eid holidays and Karachi contributes the most, the study found.³ The amount paid privately to charity is more than 5 times higher than entire Zakat collection by the state institutions which highlights the failure and lack of trust on the entire mechanism of Zakat collection and distribution.

Pakistan is a developing economy but the difference between Have and Have not's in the country is least in the region with Gini Coefficient of 30.7 in comparison to India's 35.2 and Sri Lanka's 39 and Bangladesh 32.1 as per World Bank Human Development Report (2016).⁴ As per Pakistan Economic Survey 2017-2018, Pakistan has a poverty rate of 29.5% while the poverty rate in the commercial hub of the country i.e., Karachi is mere 9%.⁵ This anomaly needs attention, as there are some districts of Pakistan which have a relatively high standard of living, on the other hand, there are some districts; where, there is a dearth of basic necessities of life.

Currently, BISP is actively working in 32 districts of Pakistan with the lowest consumption power and assisting the needy people to meet their basic needs. As per the World Bank report, it is one of the result-oriented successful programs for poverty elimination in the country. Similarly, Bait-ul-Maal is also operational but it does not appear to be as much success since the total amount allocated in Budget 2017-2018 is less than PKR 3 billion which is negligible to the country of 207.77 million.

Currently, there are only 6 countries in the world where zakat collection is carried out by the state, namely, Libya, Malaysia, Pakistan, Saudi Arabia, Yemen, and Sudan. On the other hand, Jordan, Bahrain, Kuwait, Bangladesh, and Lebanon regulate the Zakat collection but does not make it obligatory rather it is of voluntary nature in these countries.

Debate on Riba and Bank Interest:

Allah (SWT) has clearly given commandment of the abolition of Riba as mentioned in Ayah No. 130 of Surah Al-Imran.

يَا أَيُّهَا الَّذِينَ آمَنُوا لَا تَأْكُلُوا الرِّبَا أَضْعَافًا مُضَاعَفَةً وَاتَّقُوا اللَّهَ لَعَلَّكُمْ تُفْلِحُونَ

"O you who have believed, do not consume usury, doubled and multiplied, but fear Allah that you may be successful."

1. The commonly used word for Riba in Urdu is "Sound" which is a Persian word and means "profit" but the meaning of Riba in Arabic is "growth and expansion". If we remain focused on the word used in the Quran and its implementation during the time of Prophet and pious caliph then we have to consider the following factors.
2. The mode of the transaction during 8th century C.E. was mostly based upon a barter system, i.e. Exchange of Commodities. Secondly, the coins of Dirham and Dinar which were also made of metals i.e. Gold and Silver. The entire system of exchange was based upon commodities, in short.
3. There was no concept of inflation during the early days of Islam and for centuries, the price of goods remained constant with no effect on purchasing power.

Since "Riba" means growth/expansion in Arabic, it clearly means any growth in commodity/value upon principal amount is forbidden. Since the commodity cannot be created by artificial means in comparison to FIAT currency.

For example, Wheat production in Pakistan is 26 million Tons for 2017-2018. If a person A gives 1 million Ton of Wheat for any business deal to person B with a condition of 1 million + x amount of wheat or any other commodity after a specific period of time. Then it clearly means that the resultant effect of such transaction will cause movement of wheat or any such commodity among specific hands which will be disastrous for the society. For such growth the Arabic word "Riba" which means growth makes complete sense.

On the other hand, Circulation of money in Pakistan on 27th April 2018, was PKR 4,990,508 million which is far greater than 2,500,000 million in April 2013. If a person A gave person B one

million rupees for 5 years in 2013, today if person B return that amount of 1 million only, it will be disastrous for person A, since the **value of money given in 2013 has lost its worth in 2018-2019 by almost 50%**, in order to sustain that value, inflation-adjusted amount cannot be considered as GROWTH in wealth as we considered in the above example. But, any amount more than inflation can be termed under the category of Riba as that any extra amount over capital and inflation-adjusted money is growing, in the actual sense of the word and should be considered unlawful from Quranic perspective.

Similarly, the value of 1 USD in 2005 was 60 PKR, today the value of the same unit of the dollar is 140(Apr 2019). If a person took a loan of USD 1,000 in 2005 for 14 years. The value of USD 1,000 would not only be changed by 133.33% but also the inflationary pressure on PKR makes the creditor regret giving loan. Rather, it would appear better to hoard gold of the value of USD 1,000 in 2005 which witnessed a modest growth of more than 10% over the period of 13 years. Considering inflation-adjusted money as Riba can be disastrous for any economy as it makes hoarding of commodities like a Gold and silver more profitable investment which does not give any benefit to the economy.

Important Guidelines for the Economic System:

There are other guidelines which every believer has to follow, some of them are as follows.

- i. Allah has forbidden the believers to live beyond their means, and not to do "Israf". Such people are termed as the brother of Iblis.
- ii. Believers are also encouraged to spend in the right manner but not to curb basic necessities of daily life.
- iii. Jizya on non-believers is allowed to be taken with the commitment to protect their lives, and properties and are not liable to fight religious wars for Muslims.
- iv. Islam also stresses to pay wages to salaries/ wages before the sweat of laborer gets dry. As it makes complete sense, due to the time value of money, the longer the duration of payment of dues, lesser its worth be.
- v. Currently, in Pakistan, anyone who presents the receipt of Zakat payment to any government mentioned charitable organization can

claim tax exemption for that amount. Such measures need further debate and more regulation.

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